Management discussion & analysis

Indian economic overview

India retained its position as the sixth-largest economy and the fastest-growing trillion-dollar economy through a major part of the year under review (except in the last quarter of 2018-19). After growing 7.2% in 2017-18, the Indian economy is estimated to have grown 6.8% in 2018-19 as per the Central Statistics Office release, May 2019.

The principal developments during the year under review comprised a sustained increase in per capita income, decline in national inflation, steadying interest rates and weakened consumer sentiment from the second half of the financial year. The weaker sentiment was on account of a large non-banking financial institution announcing its inability to address liabilities. This affected credit expansion, financial markets and consumer sentiment, which in turn resulted in slower GDP growth that declined to 5.8% by the fourth quarter of 2018-19, the slowest growth in a single quarter in years.

In 2018, the country attracted ~US$ 42 billion in FDI inflows as per the World Investment Report 2019. Driven by strong policy reforms, India witnessed a 23-notch jump to a record 77th position in the World Bank's latest report on the 'Ease of Doing Business' that captured the performance of 190 countries.

The commencement of the US-China trade war opened new opportunities for India, particularly in the agro sector. Inflation (including food and energy prices) was estimated at 2.6% on an annual basis, one of the lowest in years and well below the Reserve Bank of India's medium-term target of 4%. The rupee rebounded after touching a low of ₹74.45 to a dollar to close the financial year at ₹69.44. During the fiscal under review, the Indian Government continued to invest deeper in digitisation, renewable energy capacity generation and infrastructure building.

Key government initiatives

The Indian government continued to take initiatives to strengthen the national economy.

Bank recapitalisation scheme

In addition to infusing ₹2.1 lac crore in public sector units, the Indian Government announced a capital infusion of ₹41,000 crore to boost credit for a strong impetus to the economy in FY2018-19. The Budget 2019-20 mandated that the Union Government will infuse ₹70,000 crore to strengthen and enhance their lending capacity. *(Source: Hindu Business Line)*

Expanding infrastructure

India's proposed expenditure of ₹5.97 trillion (US$ 89.7 billion) towards infrastructural development In Union Budget 2018-19 is expected to strengthen the national economy. As of November 2018, total length of road-building projects awarded under Bharatmala Pariyojana (including residual NHDP works) was 6,460 kms for a total cost of ₹1.52 trillion (US$ 21.07 billion). The Government has announced an investment of ₹10,000,000 crore (US$ 1.5 trillion) in infrastructure over the next five years in Budget 2019-20. *(Source: IBEF)*

Ujjwala Yojana and Saubhagya Yojana

With the help of this initiative the Government has transformed the lives of a large number of rural families by dramatically improving the ease of their living by providing electricity and clean cooking facility to all willing rural families. The government stands committed to providing electricity and clean cooking facility to all by 2022.

UDAN

This scheme is directed towards providing air connectivity to smaller Indian cities, in order to enable the inhabitants of smaller cities to avail the option of travelling by air more easily. Several airports are likely to be constructed under this scheme.

The Insolvency and Bankruptcy code (Amendment), Ordinance 2018

Passed in June 2018, the ordinance provides significant relief to home-buyers by recognising their status as financial creditors. The major beneficiary of this ordinance stands to be the MSMEs, since it empowers the Indian Government to provide the MSMEs with a special dispensation under the code. *(Source: PIB)*

Pradhan Mantri Kisan Samman Nidhi

In February 2019, The Indian Government announced the Pradhan Mantri Kisan Samman Nidhi, a scheme promising an annual assured income of ₹6,000 (US$ 84.5) for any farmer owning up to 2 hectares of farmland. The budget for fiscal year 2020 allocated ₹75,000 crore for the scheme, benefiting ~120 million land-owning farmer households. *(Source: PIB)*

Direct Benefit Transfer

The Direct Benefit Transfer initiative re-engineered the cash disbursement process in welfare schemes through simpler and faster flow of information/funds to ensure accurate targeting of beneficiaries, de-duplication and reduction of fraud. In 2018-19 alone, this scheme is estimated to have transferred more than ₹3,00,000 crore and the gains to have accrued since the implementation of the scheme (upto March 2019) has been estimated at ₹1,41,677.56 crore. *(Source: www.dbtbharat.gov.in)*

Indian plywood industry

The Indian plywood market stood at a value of USD 4.4 billion in 2018, having grown at a CAGR of 4.8 percent during 2011-2018. It is expected that the market will reach USD 5.7 billion by 2024. Rising income, increasing urbanisation, rising investment in real estate and western influence are the major growth drivers for this industry. Moreover, introduction of new designs, diversification in product range, expansion of distribution network and availability of exclusive outlets of furniture manufacturers are also responsible for the rise in demand among the customers.

It has been observed that the Indian plywood industry is highly fragmented with ~60-65 percent of the market share controlled by the unorganised sector and the remaining ~40 percent is with the organised sector.

The small and mid-segment factories will have to make more investments to sustain the growing competition because of huge flow of plywood, boards and doors in markets. *(Source: IMARC, Plyreporter)*

Growth drivers

Real estate: The growth in the plywood industry is strongly and positively related with the growth of the real estate. The real estate sector in India is expected to reach USD 1 trillion by the year 2030. It is expected to contribute 13 percent of the country's GDP by 2025. The Government of India has been very supportive of the real estate sector. Various policies have been initiated by the government to create opportunities for growth in this industry. Government's policies such as Pradhan Mantri Awas Yojana (PMAY) which was initiated to ensure housing for all by 2022 is expected to boost revenue for the plywood sector. Under PMAY (Urban), 8.09 million houses have been sanctioned up to May, 2019. On the other hand, the implementation of the RERA is expected to create ways for speedy settlement of housing disputes which should encourage foreign and domestic investments. This is expected to increase the buyers' confidence which in turn is expected to increase the sale of houses. In addition to this, the growth of the retail, hospitality and commercial sector is also expected to boost growth in this industry. Additionally, foreign investments are expected to follow the relaxation of rules for FDI in the real estate sector. Such investments are expected to spur on demand to elevate the commercial real estate market.

Smart Cities: In August 2015 the government of India has approved 100 Smart City projects in India. Urbanisation: Massive urbanisation is also expected to boost the growth of the plywood industry. Presently, around 33% of the overall population in India is settled in urban areas. This number is anticipated to reach 40% by 2030.

Replacement market: The replacement market is also anticipated to enhance the growth of the plywood market. With a higher disposable income people strive for a better standard of living. As of now, the replacement cycle for furniture is 8-10 years but this number is expected to come down to five to seven years. This would ensure that the a steady growth for the replacement market.

Organised segment: For the last five years, the organised segment in the plywood industry grew at a CAGR of 12% outpacing the industry as a whole. This indicates that the organised segment is winning away market share from the unorganised sector. This tendency is expected to continue as consumers are showing a higher preference for branded products. The organised sector is also expected to grow due to increase in advertising, brand awareness and assurance of a better-quality product at a slight premium. Introduction of new designs and a diverse product range of furniture are also expected to increase demand among the consumers.

Online purchases: Currently, purchasing furniture online has become very common. Improved logistics and reduction in shipping costs have encouraged online sales. Together with heavy investments in purchase enablers like strong logistics and high quality selection, these e-tailers have grown rapidly and are poised to grow their share of total furniture market further to ~8% by 2022. *(Source: Red Seer)*

Family nuclearisation: According to the 2011 Census, around 74% of Indian households had five or fewer members. The decline in the number of family members along with an increase in disposable income is expected to increase the demand of furniture in the coming years.

Growing private consumption: Domestic private consumption is responsible for the major portion of India's GDP. India is expected to develop into a US$6-trillion economy from US$1.5 trillion currently, making it the world's third-largest economy by 2030. *(Source: The Hindu)*

Sectoral shift : The industry is undergoing a transformational shift from unorganised to the organised. Willingness to spend on branded plywood among the middle-class is increasingly evident . This implies a greater importance being given to the quality of the product purchased.

Shifting preferences: Since plywood is often a one-time purchase, durability and eco-friendliness encourage a greater willingness to purchase premium products.

Indian decorative laminates industry overview

The Indian decorative laminates industry was pegged at ₹6,000 crore with more than 220 companies producing high-pressure laminates. The high-pressure laminate manufacturing capacity has grown by 19% y-o-y between 2014 and 2018. During FY19, manufacturing capacity stood at 39 million sheets per month whereas production stood at 21 million sheets per month. In 2018-19, the industry witnessed ~12.75% growth in terms of volume but only 5% in terms of value. Consolidation of the high-pressure laminate industry might lead to more than a dozen players to shut down operations or run their plants at less than 30% capacity by end-2019. The Indian laminate industry is certainly growing more in volume, but less in value. Value-wise, growth in the high-pressure laminate industry is actually coming down after having dropped in 2016-17 due to changes in the economic environment in the country. In 2018-19, a further slowing of growth in terms of value was observed across the industry due to a significant drop in the price per sheet and a deceleration in terms of revenue growth for different brands. Given the market trends, behaviours of consumers and the present scenario of the Indian high-pressure laminate sector, capacity addition will lead to a fierce price war in the industry.

(Source: Big Sea Market Research)

Indian furniture industry overview

The Indian furniture market stood at USD 21 billion in 2018 and is expected to cross USD 31 billion by 2024 growing at a CAGR of around 7% during 2019-2024. It has been observed that the furniture sector in India makes a marginal contribution of around 0.5% to the total GDP. It is expected that luxury furniture market will garner USD 27.01 billion by 2020.

The Indian furniture market is segmented into residential and commercial. The residential segment accounted for USD 20.65 billion in 2018. Moreover, it is expected that this market will grow at a CAGR of 14.16 percent between period 2018 and 2023 to achieve a y-o-y growth rate of 15.08% in 2023. The commercial is expected to grow at a CAGR of 11.97 percent between 2018 and 2023. Commercial sector can be further categorised into non-contracting and contracting. The non-contracting segment in India is expected to grow at a CAGR of 13.32% between 2018 and 2023 to achieve a y-o-y growth rate of 14.17% in 2023.

The real estate, the hospitality industries and the construction sector are the major growth drivers of the plywood industry. However other factors that are also positively affecting the growth are increasing government investments in infrastructure development and a rising disposable income for the general population.

It is expected that the home furniture market will see the fastest growth in the next five years, followed by the office and institutional segments. It has been estimated that the Asian market is the largest consumer of furniture with India occupying a major position. The Make in India campaign has been successful in attracting international capital and technological investment which has aided the growth of local production. The furniture and furnishing industry is expected to require 11.3 million skilled workers by 2022. In anticipation of this demand, thee Furniture & Fittings Skill Council has initiated a raft of training programmes and schemes so that the expected quality standard does not get diluted. 50

(Source: Techschi Research; Research and Markets; Businesswire; Wood; World Bank; National Skill Development Council; National Sample Survey Office)

Company overview

In December 2017, the name of the Company has been changed from UV Boards Limited to Uniply Décor Limited. Uniply Industries accounts for 38.06% stake in the Company.

Financial analysis

The financial statements of the Company were prepared in accordance with GAAP (generally accepted accounting principles) and they comply with the accounting standards laid down under the Companies Rules, 2006, as amended, and the relevant provisions of the Companies Act, 2013. The financial statements were prepared under the historical cost convention on an accrual basis. The accounting policies were consistent with those used in the previous years.

Balance Sheet

Net worth increased to ₹287.46 crores as on 31st March 2019 compared to ₹278.52 crores as on 31st March 2018.

Borrowings for FY2018-19 stood at ₹43.54 crores compared to ₹23.19 crores during FY2017-18.

Total non-current assets for FY2018-19 stood at ₹282.18 crores compared to ₹246.60 crores in FY2017-18.

Profit and loss statement

Revenues increased by 69.47 % from ₹97.26 crores in FY2017-18 to ₹164.84 crores in FY2018-19.

EBITDA increased to ₹18.22 crores in FY2018-19 compared to ₹5.52 crores in FY2017-18.

Profit after tax increased 214.44% from ₹2.84 crores in FY2017-18 to ₹8.93 crores in FY2018-19.

Gross profit margin increased by 334 bps from 22.09 % in FY2017-18 to 25.43 % in FY2018-19.

Total expenses for FY2018-19 stood at ₹152,14 crores compared to ₹92.75 crores in FY2017-18.

Depreciation and amortisation stood at ₹1.74 crores in FY2018-19 compared to ₹0.87 crore in FY2017-18.

Working capital management

Current assets as on 31st March 2019 stood at ₹80.57 crores compared to ₹77.38 crores as on 31st March 2018.

Current ratio as on 31st March 2019 stood at 1.22 compared to 1.72 as on 31st March 2018.

Inventories decreased from ₹26.51 crores as on 31st March 2018 compared to ₹20.76 crores as on 31st March 2019.

Short term loans and advances grew to ₹39.39 crore in FY2018-2019 compared to ₹22.78 crore in FY2017-18. Current liabilities stood at ₹66.23 crores as on 31st March 2019 compared to ₹44.92 crores as on 31st March 2018.

Particulars	FY2018-19	FY2017-18
EBIDTA/Turnover	11.74	6.78
EBIDTA/Net interest	4.86	5.31
Debt-equity ratio	0.15	0.08
Return on equity (%)	36.49	11.61
Book value per share (₹)	2	2
Inventory turnover (days)	49	101
Receivables cycle (days)	110	181
Earnings per share (₹)	0.73	0.42

Risk Management

Economic risk: Slowdown in the economy may impact the industry broadly

Mitigation: The Indian economy grew at 6.8% in FY2018-19. However, it is expected that the economy will grow at a higher rate in the coming years.

Industry risk: Slowdown in the downstream sector could impact the growth of the Company.

Mitigation: The country's real estate sector is gradually recovering. This therefore is expected to increase the demand for panel products. Moreover, government initiatives such as Housing for All, PMKSY and Smart City Mission are also expected to increase the demand for panel products.

Quality risk: A reduction in the quality of the products of the Company can have an adverse effects in the growth of the Company.

Mitigation: The Company has been trying to enhance its technology across its manufacturing facilities. It tries to keep up with the current regulations and manufacture better quality products. They also try to maintain strong customer relationships.

Environmental risk: If environmental norms are not strictly followed during the process of manufacturing, it would affect the reputation of the Company negatively.

Mitigation: The Company's products comply with ISO 14001 norms. Therefore it can be said that the Company has an effective environmental management system. Furthermore, the Company also has a CVI certification for 'green products'.

Internal control systems and their adequacy

The Company has an adequate system of internal controls to ensure that transactions are properly authorised, recorded, and reported, apart from safeguarding its assets. An internal financial control system forms the backbone of risk management and governance. The Company has put in place a well-defined and adequate internal controls system commensurate with the size of the Company and the complexity of its operation. These have been operating effectively throughout the year. These controls were routinely tested and certified by external as well as internal auditors covering all offices, factories and key business areas. Cross functional teams in all the factories also play a significant role in the internal control system of production operations. System certification further strengthens these systems.

Human resources

The Company has a favourable work environment that motivates performance, encourage customer oriented focus and innovation while adhering to the highest degree of quality. As a part of human capital development with an aim to enhance operational efficiency, employees of the Company have been regularly provided training and skill upgradation. The Company is committed to nurturing, enhancing and retaining talent through superior learning and organisational development programme. To enhance the engagement, retention and work life balance of the employees, the Company has introduced progressive policies and programs like diverse reward and recognition program and employee interaction programs. During the year under review industrial relations remained cordial through all plants of the Company.

At the close of the financial year under review, there were 397 employees on the payroll of the Company.

Cautionary note

The statements in the 'management discussion and analysis' section describing the Company's objectives, projections, estimates and prediction may be considered as forward looking statements. All statements that address expectations or projections about the future, including but not limited to statements about the Company's strategy for growth, product development, market positioning, expenditures and financial results are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realised. The Company's actual results, performance or achievement may thus differ materially from those projected in such forward-looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent developments, information or events.