

MANAGEMENT DISCUSSION AND ANALYSIS



Image : Vadodara Manufacturing Unit

MARKET OVERVIEW

The year 2017-18 witnessed moderate growth in the Transmission and Distribution market, which is now gradually moving towards a recovery, primarily driven by Government of India's (GOI) growing investments in renewable power generation and investments aimed towards upgradation of country's ageing transmission systems. However, the power sector continues to struggle with stranded power generation capacity, poor industrial demand and high AT&C losses in DISCOMs. All such challenges can be met but require investment and adoption of latest technologies across the value chain of power sector.

Power Grid's Shifting Focus on State Grid Projects

Power Grid, the central transmission utility has been consistently investing its capital expenditure over the last decade in building the EHV-UHV Transmission grid in the country. During the year Power Grid's capex declined significantly due to lack of new super-critical generations and the corresponding decline in demand for EHV evacuation grid. Power Grid is cognizant of the fact that Government of India (GOI's) strong resolve to provide electricity to all will need strengthening of state grids and last mile connectivity. States are also increasing investments in their electricity grids and upgrading old transmission systems as they seek to supply round-the-clock electricity to households and industries. Hence, Power Grid is now also developing State grids in collaboration with states.

Emerging Role of States in Enabling 'Power for All'

As part of a Centre-State joint initiative on 24x7 'Power for All', State governments have committed to ensuring round-the-clock supply to all households from April 2019. Government of India's (GOI)

initiatives such as Integrated Power Development Scheme (IPDS) and Power System Development Fund (PSDF), are encouraging the state utilities across the country to invest in augmenting their distribution and transmission network capacities.

Grid infrastructure in states with high degree of renewable generation is expected to scale up rapidly to keep up with the evacuation demands of Solar and Wind power into the Green Energy Corridor. Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, Kerala, Maharashtra, Uttar Pradesh are some of the key states leading the T&D investments in this area.

Continued Focus on Renewables

As per the Central Electricity Authority's, National Electricity Plan (2017-22), the anticipated shift from conventional to non-conventional renewable energy may result into a slowdown of thermal power projects in the future. This, however, shall be compensated by the ramp-up in solar driven power generation. This is likely to benefit your Company, as the renewable capacity will require integration with national transmission grid while maintaining its stability and robustness. This would further create a demand for Renewable Energy Monitoring and Control Centers (REMCs) along with stability and compensation solutions in various regions of the country.

Growing Energy Needs of Neighboring Countries

Our neighboring countries are growing and so is their need of power. India's Energy security policy is leading to shaping up of the SAARC grid with regional linkages now getting implemented with Bangladesh, Sri-Lanka, Nepal and Bhutan. Increasing investments in SAARC grids is seeing opportunities for HVDC, turnkey products and solutions.



Grid Automation Unit - Pallavaram

Improving Policy and Investment Climate

The Industrial sector is now gradually moving towards recovery, as it witnesses consolidation and resolution of Non-Performing Assets (NPAs) through the Insolvency And Bankruptcy Code, 2016. We expect that bold moves like these are likely to help the industry in reviving the demand and pulling fresh investments in the years to come.

The overall investment climate in the country is also moving in a positive direction, investments across infrastructure and power sector are taking the economy of India to new altitudes. The transmission sector remains to be at the heart of all these new investment activities.

Your Company is closely watching these developments and consistently adopting new strategies to adapt to the changing market conditions.

OPPORTUNITIES

With an ambition to be a five trillion-dollar economy within next 10 years, Indian government is keen to accelerate the growth of economy at a rate of 8-9% moving forward. This will result into rise in demand

of power and hence T&D sector will continue to remain a key lever to achieve this accelerated GDP growth. As on March 2018, India's per capita electricity consumption stays at a very low level of 1110 kWh. Though, on April 28, 2018, India announced 100% electrification of its villages, but close to 31 million homes still await electrification. Ministry of Power is keen to achieve 24x7 electricity access for the people of country and this will lead to big investments in the Power and T&D sector.

Government of India's ambitious capacity ramp up in the solar sector is attracting investments from private developers, NTPC Limited and Solar Energy Corporation of India (SECI). Several states that are rich in renewable resources have launched ambitious projects in solar energy generation and solar evacuation transmission network. Efficient and reliable transmission of this renewable power from supplying states, like Telangana, Karnataka, Andhra Pradesh, Rajasthan, Tamil Nadu to demand centers across the country, will require new technology and grid stability systems. Expansion of this additional power generation capacity will create new opportunities in the form of additional T&D infrastructure in the central as well as in the state grids. Such initiatives are expected to be largely driven by Inter region strengthen scheme.



Stronger Together: Channel Partners Meet

As part of South Asian Region energy challenge, Government of India is also supporting the development of inter-regional grid with neighboring countries like Bangladesh, Sri Lanka, Nepal, Bhutan and Maldives to develop a strong SAARC grid network. Your Company is already present in these markets and is ready to participate in the future growth of these grids.

All the market trends and government initiatives as described here, present an array of growth opportunities for your Company and your Company is well positioned to capture the relevant opportunities timely.

THREATS

The current liquidity situation in the sector coupled with non-resolution of stranded assets of 70 GW are a cause of concern and impacting the pace of investments in supercritical generation. This in turn is impacting investments in extra high voltage (EHV) T&D grids. The low entry barriers for poor technology players in state utility markets will allow short-term players to engage in aggressive and unviable pricing as was previously seen in generation space. The slow revival of industrial demand is stalling opportunities in the market.

State Electricity Board, DISCOMs though relieved by implementation of UDAY schemes, are still struggling to bring in operational efficiencies and are holding back on investments to upgrade the old technology.

Chinese and Korean players continue to be aggressive in the SAARC Grid with aggressive pricing in India, Bangladesh and Sri Lanka. The governments both at central and state levels need to push and support the infrastructure investment and growth. While your Company firmly believes that growth is imminent, yet the pace of turnaround is comparatively slow. Your Company is aware of the adverse circumstances and is prepared to deal with the challenges, as it has done in the last many years.

BUSINESS PROJECTIONS

The overall business environment is expected to moderately improve in the financial year 2018-19. As the country goes for National Elections in 2019, the rate at which orders are being awarded may get impacted for a certain duration. However, the Company continues to have healthy order book of over Rs. 72 Billion as of end of March 2018 and therefore is fairly equipped to sustain these market pressures.



SUPPORT FUNCTIONS

Human Resources

The permanent employee strength of the Company as on March 31, 2018 was 2821.

Industrial Relations : During the year, labor relations at all the Units remained cordial. This has helped your Company to promote a culture of trust and high performance within the employees.

Diversity : Gender diversity has always been important for your Company. Your Company understands the gender sensitivities and hence providing safe and secured working environment for women always remains a top priority. Company always aims to enrich its gender diversity while hiring for open positions. The management promotes a diverse work culture, wherein fair and transparent employment practices are adopted for gender diverse candidates. Your Company has a strong women network in the organization that acts as a platform for exchanging views and supporting women in their career growth. Your Company also has career focused fast-track programs for women in technical roles of engineering and R&D.

Succession planning : Management with the support of Human Resources team keeps a sharp focus on identification of successors for all leadership positions as well as for positions that require crucial skill sets.

Your Company is focused on increasing the overall organizational efficiency and driving accountability. The objective is faster communications and expedited delivery to customers.

Finance

The Finance function continued to lead, drive and enable number of business critical initiatives which led to a better performance of your Company. Strong focus on risk management, cost optimisation and cash generation through intense operational rigour and financial discipline led to an improved working capital management. The Cash focus around receivable and retention collection, generated cash from operating activities of Rs.10,540 million, which helped in reducing the borrowing significantly and the Company ended the year with a positive cash balance of Rs.5,321 million. The Credit Rating Agency ICRA has reaffirmed the long term (AA) and short-term (A1+) ratings indicating a high degree of safety regarding timely servicing of financial obligations. The outlook on long term rating has been retained as "Stable".

Your Company having undergone the changes in the accounting and regulatory requirements with the adoption of Ind-AS , Internal Financial Control (IFC), Internal Controls over Financial Reporting (ICFR), Income Computation and Disclosure Standards (ICDS) etc. Welcomed the decision of the Government to implement Goods and Services Tax (GST) in the current financial year. The adoption and transition w.e.f. July 1, 2017, was carried out with enhancement to

the underlying operational processes and IT systems, which facilitate meeting the requirements of the GST Laws resulting in accurate and timely compliances.

Given the efforts to manage and successfully drive the above changes, the Finance function was recognized for their performance and contribution in the financial year.

Investor Relations

Your Company firmly believes and is committed to keep complete transparency with all its stakeholders. Engaging and maintaining effective communication with all its stakeholders is the key priority. Your Company holds earnings conference calls on quarterly basis with its Investors and Analysts. During these quarterly calls, your Company ensures to keep the stakeholders informed on the Transmission and Distribution (T&D) market developments. The Company also uses this opportunity to share its operational and financial performance. Further, during the conference call all the attendees are given an opportunity to ask questions directly from the top management team that is steering the call.

Your Company is also committed to keep its investors fully informed on major developments by disseminating information through press releases and stock exchange communications. All presentations made and financial results shared with investors and analysis are unfailingly uploaded on its website www.ge.com/in/ge-td-india-limited.

RISK AND INTERNAL CONTROLS

A strong Internal Control framework has been an important part of operations and corporate governance.

The Internal Control process of the Company has been robust and provides reasonable assurance on - reliability of financial information, compliances with laws and regulations in force and realization and optimization of operations. It ensures documentation and evaluation of unit and entity level controls through existing policies and procedures, primarily to identify any significant gaps and define key actions for improvement. Also, a formal system exists for periodic monitoring and reporting of the results of the internal control self-assessments.

During the year the Company's internal reviews identified some weaknesses in carrying out certain testing procedures in respect of certain products. The management has taken corrective steps to strengthen the procedures and is communicating with the relevant stakeholders.

During the year, as per the provisions of Companies Act, 2013, an in-depth exercise for evaluating the adequacy of Internal Controls over Financial reporting was undertaken and their design and operating effectiveness was assessed by the management. It was concluded that as at March 31, 2018, controls were operating effectively.

Further, as part of the statutory audit, the statutory auditors opined that the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such controls were operating effectively as at March 31, 2018.

OUTLOOK

The long-term outlook for transmission and distribution sector remains positive as the bulk power generated in the country needs grid infrastructure for reliable, efficient and stable power supply to the end consumer. The government's bold moves in resolution of NPAs, recovering ailing DISCOMs and change in policy framework towards ease of doing business is a positive move towards ramping up the investments in the infrastructure space. Your Company is overall optimistic that various reforms initiated by Government of India will lead to revival of the economy. Primarily due to increase in capital expenditure in utilities, power generation, industry and infrastructure that follow these reforms. Your Company is fully prepared to address the resulting growth opportunities.

The strong thrust on renewable power generation, evacuation and integration of clean energy has opened new market opportunities within the power sector. Strengthening of sub-transmission network under the Integrated Power Development Scheme (IPDS) and deployment of Power System Development Fund (PSDF) creates new markets for transmission and distribution products.

The Company's management team remains holistically focused on new opportunities and is committed to deliver increased value for its stakeholders.

CAUTIONARY STATEMENT

This management discussion and analysis statement contains, what could be regarded as forward-looking statements and information. These statements include forecasts and estimates as well as the assumptions on which they are based, statements related to projects, objectives and expectations concerning future operations, products and services or future performance. The readers are hereby cautioned and advised that these forward-looking statements are subject to numerous risks and uncertainties that are difficult to foresee and actual outcomes might differ significantly.

For and on behalf of the Board

Sunil Wadhwa

Managing Director

DIN: 00259638

Gaurav M. Negi

Whole-time Director &

Chief Financial Officer

DIN: 02835748

Place : New Delhi

Date : May 23, 2018