MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC SCENARIO

The slowdown in the Indian economy which contracted in F 20 and continued into F 21 is now poised to grow between 8.0 to 9.5% in F 22 as per estimates released by the World Bank and the IMF. However, RBI is forecasting a growth of about 9.5% for the Indian economy following severe second wave of COVID along with other emerging markets. However, growth during F 22 will depend on the pace of vaccination programme, new restrictions on mobility and how quickly the world economy recovers to average GDP growth of 6%.

As economic activity normalises, in India and in key export markets, the current account is expected to return to mild deficits and capital inflows are projected with continued accommodative monetary policy and abundant international liquidity conditions. However, the Covid-19 shock will leave a long-lasting inflexion in India's fiscal trajectory.

With the containment of the spread of COVID in India, certain green shoots are emerging:

- Exports rising 48.3% to $ 32.5 billion compared to June 2020.
- Forex reserves increasing by $ 6.8 billion to $ 6.5 billion.
- GST collections stabilising at over ₹140 crores per month.
- Manufacturing sector has grown to 25% of GDP fro 19%.
- The NSO provisional estimates show a V shaped recovery in H2 of F 22.

INDUSTRY STRUCTURE AND DEVELOPMENT

Mining Sector

The Mining Industry is a strategic sector for any large economy as it contributes to down-stream and up-stream economic activities apart from direct value-add to the economy. However, the Mining industry in India constitutes only 2.5% of the GDP as against 5 - 7% in other major global economies. Hence the increased focus by GOI on accelerated growth in the Mining & Minerals sector.

Coal mining has the highest volumes in mining activity in India. Coal production during F 21 was 706 mn tonnes (previous year 731 million MT) registering a negative growth of 2% of which Coal India produced 596 mn MT against 602 n MT recorded in F 21. Iron ore production shrunk by 18% in F 21 to 190 mn tonnes from previous year production of 235 mn tonnes.

The wide-spread second wave of COVID-19 disrupted operations across industries including the mining sector. Mining output in India is further hit by weakened demand as the COVID-19 pandemic has impacted the global economy. The pandemic has affected the entire value chain including organizations like ours, as companies limit access to offices, mine sites and manufacturing facilities along with restrictions on transportation and logistics.

The recent amendments to the MMDR will long way in removing hurdles in the path of making good on the country's mineral wealth.

As part of the "Atmanirbhar Bharat" mission the Government implemented reforms in the Mining & Minerals Policy. The Government proposes to auction over 500 mineral properties removing the distinction between captive and non-captive mines and rationalizing stamp duty, royalty & cess, etc. To expedite the process the Government of India has amended the Mines & Minerals Act 1957 and proposed setting-up of National Mineral Index. The Government also proposed joint auction of Bauxite and Coal to make aluminum manufacturing competitive in India. These are key raw materials for the manufacture of Aluminum. This will ensure raw material security through sustainable development of Indian Aluminum industry for meeting the domestic demand. All the above reforms will help us to grow in our explosives business.

Infrastructure Sector

Apart from mining, the infrastructure industry is a major consumer of commercial explosives. Infrastructure is the frontline growth driver for development and the Central and State Governments are giving thrust to this sector with development plans and budget allocations.

The Infrastructure industry in India is estimated to grow at a CAGR of approximately 7% during the forecast period.

Government plans to invest about ₹102 lakh crore on infrastructure projects by 2024-25. The five-year-long National Infrastructure Pipeline (NIP) will enter its second year in FY21. Provision for about ₹ 19.5 lakh crores has been budgeted during FY21 as part of the NIP. Urban infrastructure, road transport, energy, and Railways account for about 70% of allocation this 2020.

About 42% of the projects in the NIP are under implementation. Another 19% is in the development stage.

During the fiscals 2020 to 2025, sectors spends on Energy (24%), Roads (19%), Urban Infra (16%), and Railways (13%) amount to around 70% of the projected capital expenditure in infrastructure in India

Big players in infrastructure such as power companies and road developers continued to face financial difficulties due to liquidity and labour issues in F 21, resulting in a slowdown in the activities in this sector. To assist the growth of this sector, Parliament passed a Bill in March 2021 to create the National Bank for Financing Infrastructure and Development to assist funding of infra projects in India.

Defence & Space Sector

To make India self-reliant by reducing the dependency on imports, promote the export of defence products and become part of the global defence value chains, the Draft Defence Production & Export Promotion Policy 2020 was released by MOD. This will provide a focused, structured, and significant thrust to defence production capabilities of our country.

To encourage Defence manufacturing the government has announced two dedicated Defence Industrial Corridors in Tamilnadu and Uttar Pradesh.

Department of Space in its objective of opening up the space sector to private industries announced that New Space India Limited (NSIL) would act as the aggregator of user requirements and obtain commitments, for operational launch vehicles, commercialize launches, satellites and services. The formation of new regulatory body- Indian National Space Promotion and Authorisation Centre (IN-SPACe) by the Government is yet another endeavor to accelerate and spur growth of Indian private companies in space sector.

Your company is also an emerging player in the area of Defence and Space manufacturing and plans to exploit the opportunities in these areas.

Metal Cladding

The Metal Cladding Group manufactures Explosion Clad plates used in fabrication of equipment for chemical, petrochemical, oil & gas, electrometallurgical, power, shipbuilding industries among others. Our products are Type & Class approved by Lloyds, American Bureau and Shipping, Indian Register of Shipping. Steady demand for FGD projects to meet environmental norms by the power sectors is expected. However, demand from other sectors was sluggish due to higher metal prices, pandemic and postponement of Capex investments.

Real Estate Sector

The near stoppage of business activity across all markets because of COVID-19 during the first quarter and its phased resumption in a weak economic environment weighed heavily on demand in 2020-21. Transactions fell 35% YoY to a six-year low of 39.4 mn sq ft in Calendar Year 2020 (Jan-Dec), while new completions dropped 42% YoY to 35.5 mn sq ft.

The office market in Q4 F 2021 Jan-Mar quarter was showing healthy recovery from Oct-Dec'20. However, the second wave of COVID and the resultant mobility restrictions and the possible lockdowns in some cities has adversely impacted office occupancy levels. This has resulted in weakening of the office market outlook for the next six months. New completions were recorded at 6.9 mn sq ft in the last quarter of F2021, a drop of over 7% as compared to the same period last year. The office market witnessed a gross absorption of 4.3 mn sq ft, a decline of over 44% QoQ when compared to the same period last year and the vacancy rate was over 15.2%.

OPERATIONAL AND FINANCIAL PERFORMANCE

The consolidated revenue turnover of the Energetics and Explosives businesses during the year F-2021 marginally declines from ₹499 crores to 416 crores mainly on account of issues connected with availability of ammonium nitrate and logistics.

OUTLOOK FOR THE CURRENT YEAR, OPPORTUNITIES AND THREATS

Removal of distinction between captive and non-captive mines will bring a level playing field to the industry and is a progressive step towards improving the overall availability of affordable minerals to consumers. Rationalization of stamp duty payable at the time of award of mining leases will provide the much needed relief to the highly taxed Indian mining sector.

Market Dynamics:

The Company and its major subsidiary operate in a highly competitive market with a few pan-India players and several regional players. There is a possibility of Mine Developer & Operators (MDOs) shifting their decision to go with lower-priced Vendors within the RC Period. The Energetics Division which manufactures explosive accessories operates in a predominantly tender-driven market, often with unreasonable performance clauses. There is thus the risk of cost increases not being possible to pass onto ultimate consumers. The restrictions / new rules imposed for containment of Covid–19 may affect business growth especially with MDOs.

The Energetics Division of the Company and its 100% subsidiary IDLEL have undertaken many projects for upgradation and modification of processes and equipment for enhancing quality, productivity, safety and efficiency to deliver value-added products and services. To meet the increasing competition new products and further modernization of facilities are planned in F 22.

Your Company (including IDLEL) has as of date secured orders worth ₹510 crores from domestic customers and export customers. More business in 2021-22, however, is subject to COVID impact in customer locations.

OPPORTUNITIES AND THREATS

As of FY 21, the rise in infrastructure development will drive growth in the metals and mining sector aided by Power and cement industries. India has a fair advantage in cost of production in these sectors. In India there are 1229 reporting mines of which metal mines are around 545 and non-metallic around 684 (mainly coal and limestone).

In the coal mining sector Coal India Ltd. (CIL) 32 new coal mining projects – 24 expansions of existing projects and 8 greenfield with an outlay of ₹ 47,000 crores. NMDC is also increasing capacity for production of iron ore.

The Government also relaxed FDI norms to 100% under automatic route in the sector for mining of non-fuel and non-atomic minerals.

The Government of India has initiated strict measures to enhance the security of detonators and explosives and as an immediate step curtailed the production of electric detonators to force a shift towards non-electric and secure electronic detonators over 5 years starting from April 2020.

REVIEW OF REAL ESTATE OPERATIONS

Net absorption of IT/ITES office space is expected to decrease during the current year as occupiers in India are still evaluating growth plans and work from home suitability. The demand will mainly be derived from technology companies, engineering and manufacturing sectors. The expected net absorption would be around 28 mn sq ft. Indian cities are witnessing projects at different stages of construction. However, it is expected that developers may pare supply to match actual demand and not build too much on speculative basis. Hence, it is projected that supply during 2021 would be around 38 mn sq.ft. Vacancy is expected to increase, led by higher supply and occupier's portfolio optimization strategies. However, overall vacancy could be over 16%.

Bangalore Commercial Real Estate Outlook

As an initial response to the pandemic and associated lockdowns, occupiers have temporarily deferred space take-up decisions and office transaction activity was adversely impacted in Q1 2021. With gradual relaxation of the lockdown in Q2 2021 and better preparedness for the prolonged coronavirus outbreak, businesses - especially technology driven enterprises – have started to make cautious comeback. Several organisations have actively started scouting for office spaces in line with their long-term business plans.

Developers too have shown increased flexibility in terms of rent as well as deal terms concerning rent free period, lock-in period, hard options, etc. The rent in the city which had started escalating early F 21 softened in Q4 F 21. The weighted average rent was lower by about 4% QoQ in Q3 2021.

Hyderabad Real Estate Outlook

Commercial Market

The office market in Q4 2021 was showing healthy recovery over Q3 F 21. New completions recorded at 1.9 mn sq ft in the first quarter of 2021, a rise of over 18% as compared to the same period last year. The office market witnessed a gross absorption of 0.4 mn sq ft, a decline of over 74% QoQ when compared to the same period last year and the vacancy rate was over 14.2%.

Residential Market

Driven by the overall market growth, Hyderabad's residential market had performed well in the past three to four years. Prices had grown at a CAGR of 6% during 2014-2019. This growth momentum and the overall residential market performance was hampered by the onset of the pandemic in Q4 F 2020.

New project launches took a significant hit in H1 of F 2021. In these quarters only 42% and 37% launches respectively, of the F 2020 quarterly average. During March-April 2020, stringent lockdowns halted construction activity and then from May-October 2020 challenges such as shortage of labour, high input costs and low demand kept new supply in check. By Q3 F 21, sales also picked up momentum.

On the demand front, numbers have plummeted by a significant 38% YoY in F 2020 recording a decade low in annual sales. Sales dipped significantly in F 2021 as lockdowns and COVID induced market uncertainties emerged on account of job losses and pay cuts. In terms of geography, the Hyderabad Metropolitan Region (HMR) – Central micro market was popular with both launches.

Source: Colliers International & Knight Frank

RISKS & CONCERNS AND RISK MANAGEMENT POLICY

The Company has established Enterprise Risk Management system to identify risks on a continual basis and implement mitigation measures proactively including those of its subsidiaries. The Audit Committee periodically reviews the risk management processes of the Company duly assisted by the Company's management committee consisting of senior executives. The risk policy and the framework provide overall guidance in assessing various risks and their mitigation.

The key risks prioritized as under include -- external and regulatory environment risks; risk of price erosion due to low entry barriers; risks in evaluation of strategic alliances and capabilities for new business opportunities; dependence on PSU customers with onerous tender conditions; scaling up of exports to highly competitive markets; management of volatile raw material prices and other input costs; impact of certain litigations; and delays in obtaining licences from the authorities. Regular review of these risks is undertaken for defining actions for mitigation of risks.

i) Environmental Risks

Regular safety audits are carried out by internal safety audit teams and at regular intervals by external teams. General Safety Directions (GSDs) are strictly enforced in all plants within the factories to ensure minimization of risk. In addition, strict compliance of the requirements of the Explosives Act and Rules are ensured to protect the exposure of adjacent neighborhoods to the explosives and accessories factories from undue risk. Operations are carried out to comply with emission, waste water and waste disposal norms of the local authorities of the respective factories. In addition, the Hyderabad Factory has implemented the Integrated Management System incorporating ISO 14001 and OHSAS 18001.

ii) Operational Issues

Licensing

The Energetics Division operates a licensed factory in a highly regulated environment. Amendments / revisions in licenses are required for change in production capacities and processes, for launch of new products etc. Any significant delay in such approvals beyond normal time taken by the regulatory authorities may impact the growth prospects of the Company. The Division, therefore, ensures that approvals are applied for well in advance to avoid launch dates / export of products and active follow up is maintained to get approvals in time.

Imported Raw Materials

Timely availability of raw materials, some of which are imported, is critical for continuous plant operations. The Company and its major subsidiary address volatility of major raw materials from global sources, by way of long-term relationships with raw material suppliers.

iii) Market Dynamics:

The Company and its major subsidiary operate in highly competitive markets where competition from pan India players as well as regional players is high. They operate in tender-driven markets, sometimes with onerous and unreasonable performance clauses. Therefore, there is a risk of cost increases not being passed on to ultimate consumers. Any reversal in growth trend in the economy in general and weak monsoons in particular, could affect demand.

Concentration of Customers

The major customers of the Company consist of large PSU where the tendering system is in vogue with the attendant risks. Missing L1 to L3 status in these tenders might result in loss of business opportunities for extended periods for the relevant tender(s).

iv) Financial Risks:

Currency Value and Interest Rate Fluctuations

Financial risk management is done by the Finance Department at the various business Divisions and at Corporate Office under policies approved by the Board of Directors. The Company has designed a debt mix policy that also considers natural hedge available to it from its export earnings to mitigate currency fluctuation risks. Policies for overall foreign exchange loss risks and liquidity are regularly reviewed based on emerging trends. Interest risks arising out of financial debt, are normally done at fixed rates or linked to LIBOR and appropriate Bank lending rates. Adverse movement of Rupee from current levels may further impact landed cost of imported materials.

Credit Risk

The Company and its major subsidiary sometimes sell their products by extending credit to customers, with the attendant risk of payment delays and defaults. To mitigate the risk, a credit risk policy is also in place to ensure that sale of products are made to customers after evaluation of their ability to meet financial commitments through allotment of specific credit limits to respective customers. Credit availability and exposure is another area of risk.

Liquidity Risk

The Company and its major subsidiary operate in working capital intensive industries. The Company realizes that its ability to meet its obligations to its suppliers and others is linked to timely and regular collection of receivables and maintaining a healthy credit rating. Review of working capital constituents like inventory of raw materials, finished goods and receivables are done regularly by the respective Divisions and closely monitored by Corporate Finance.

v) Legal and Statutory Issues:

Contractual Liability

All major contracts are reviewed / vetted by the in-house Legal Department before the same are executed. In addition, the Company engages the services of reputed independent legal counsels, on need basis. In matters of tax law and other statutory obligations the outcome of litigation cannot always be predicted. Hence, appropriate financial provisions, insurance policies and credit lines are taken to limit the risk for the Company.

Litigation Issues:

The Company is exposed to the risk of litigation of prolonged nature. Apart from the Tax Matters referred to in the Financial Statements, Litigations having a major impact on the Company include those with Udasin Mutt pertaining to leased lands of Hyderabad Works, Competition Commission of India, which are being pursued by the Company with the appropriate Court/Tribunal.

vi) IT Risks

The Company is dependent on intra-office and inter-office networks, as well as several business software operated from the corporate office and the business divisions.

Viral Attacks, failure of the system networks and consequential loss of business is attempted to be minimised by critical systems being operated on secured servers with regular maintenance, regular backup and off-site storage of data, selection of suitable firewall and virus protection systems/software. An IT policy is in place which also addresses IT risk mitigation measures.

To further improve the IT Security, VAPT (Vulnerability Assessment & Penetration Test) was carried out by a CERT empanelled third party and recommendations were implemented. The IT backup system was also upgraded during the year. Surveillance in the factory was further improved by extending the installation of CCTVs in production areas.

vii) Risks in the Realty Business

Market demand and price is a factor of macroeconomic conditions in the Country and varies from city to city as well. The Company's strategy is to entrust development to specialist developer companies who take responsibility for insulating your Company against rise in construction cost. On the other hand, timely completion of projects is a risk which is not fully mitigated and is therefore becomes a matter of close follow up by your Company. The construction industry attracts many local body, state and central regulations. Responsibility for compliance with regulations is owned jointly by your Company and the developer.

The Board through the Audit Committee provides oversight of the risk management processes in the Company and reviews progress of the action plans for the prioritized risks on a regular basis.

INTERNAL CONTROL SYSTEMS

The Company's Internal and Financial control systems consist of robust systems and procedures that are designed to ensure comprehensive management of operations, reliability of financial reporting, compliance with policies, procedures, applicable laws and regulations, safeguarding of its assets and stakeholders' interest, optimal and economical utilization of resources and are periodically assessed to remain commensurate with the growing size and complexity of its operations. The Company's internal and financial control system supported by SAP-ERP system, Risk Management processes, Corporate Policies, Standard Operating Procedures along with its certification in ISO 9001(QMS), ISO 14001(EMS) & ISO 18001 (OHSAS) ensures that quality and control processes in place are operating effectively.

The Company's Internal Audit Department continued to support management by objectively reviewing various areas of operation including subsidiaries and provide an independent assurance to the Audit Committee and the Board of Directors on the adequacy, efficiency and effectiveness of the Organization's risk management, internal financial and operational controls and corporate governance processes. The scope and authority of the Internal Audit function is provided in the Internal Audit Charter/Manual and the Internal Audit function reports to the Chairman of the Audit Committee. The approved Internal Audit Plan prepared yearly considering risk profile of the business activities and operations serves as guideline for the IA function. The Action Taken Reports in response to internal audit findings prepared by process owners and submitted periodically to the Audit Committee as well the good practices suggested by Statutory Auditors ensures timely and effective action for strengthening business processes, regulatory compliances and controls. During the year, the Audit Committee met 4 times to review and discuss matters relating to IFC, Internal Audit, Financial & Statutory Audit and other reports for timely and effective implementation of identified actions.

Details of significant changes in key financial ratios

Details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefor, are as under:

S.No.	Key Financial Ratios	2020-21	2019-20	Variance (%)	Reasons
1	Debtor turnover	8.90	7.50	18.62	Variance is less than 25%
2	Inventory Turnover ratio	6.45	7.54	-14.42	
3	Interest coverage ratio	2.72	5.08	-46.43	Decline in the ratio is due to Increase in Finance cost against Loan availed from UBI in HGHL at the end of the previous year.
4	Current Ratio	2.79	1.72	61.61	Ratio improved pursuant to increase in current assets due to loan given to GOIC and buyer's credit and current borrowings have been decreased as compared to previous year
5	Debt equity ratio	0.95	1.31	37.31	Debt equity ratio improved due to increase in net profit and movement in loan amount of HGHL.
6	Net profit margin % (variance in bps)	18.94	9.94	8.99	Higher profit margin is on accounts of increase in dividend income and guarantee commission income.
7	Operating profit margin % (variance in bps)	8.99	8.56	0.42	Variance is less than 25%
8	Return on Net worth% (variance in bps)	11.74	10.37	1.37	

CAUTIONARY STATEMENT

Statement in this Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand supply conditions, finished goods prices, raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries within which the Company conducts businesses and other factors such as litigation and labour negotiations. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent development, information or events or otherwise.