Management Discussion and Analysis

Economic Overview

Global economy

The global economy suffered deep contraction, leading to negative growth of 3.3% in CY2020[1], amidst an ongoing global health crisis and recessionary trends that followed thereafter. The containment measures imposed after the Coronavirus outbreak resulted in lockdowns across the globe, restricting mobility and economic activity to a large extent. While the impact of the pandemic was further augmented by pre-existing macroeconomic fundamentals and structural imbalances in various countries, advanced economies de-grew by 4.7% in CY2020.[1]

Economic activity came to a near standstill, especially for non-essential segments and severely impacted global supply chain and production networks. Services, especially those involved in physical aggregation of people, including tourism, hospitality and airlines are yet to recover from the demand shock. Agriculture, however, remained cushioned from the negative impacts of the pandemic.

While labour markets across the world suffered, the youth and low-skilled workers were the hardest hit. The acceleration of digital adoption and a shift towards new work orders are expected to amplify their troubles. Massive job losses also affected household incomes. Governments too were stressed due to the economic uncertainties.

Central banks across the globe resorted to monetary easing to provide governments enough room to offer fiscal stimuli. Favourable policies provided the much-needed impetus to keep the economy buoyed. As per estimates, the fiscal stimulus exceeded more than one fifth of the GDP of 9 countries, led by Japan and the US being the largest contributor in absolute terms.[2]

According to WTO, global trade volumes are forecasted to grow at 8% in CY21 after falling by 5.3% in CY20, led by a deep pull in Q2CY20. While trade growth is likely to slow down to 4% in 2022, overall volume is expected to remain below pre pandemic levels. Merchandise trade in nominal dollar terms also fell by 7% in CY20 and commercial services exports witnessed steep decline of 20%.[3] Economies with significant linkages to global trade have experienced considerable losses and declining commodity demand in the near term may act as a huge blow to the economy.

With normalization of economic activity and availability of Covid-19 vaccines, the global economy is expected to register a strong growth rate of 6% in CY2021, before slowing to 4.4% in CY2022.[1] However, the unequal impact of the pandemic, coupled with unequal access to vaccines pose a significant threat to economic growth.[4] The fragility of the growth momentum is compounded by the fact that most nations entered the crisis with huge public debts and had limited capacity for enduring a subsequent crisis. With the emergence of new strains of the Coronavirus and sporadic rise in the number of Covid-19 infections, the threat of a crisis looms large over many countries around the world.

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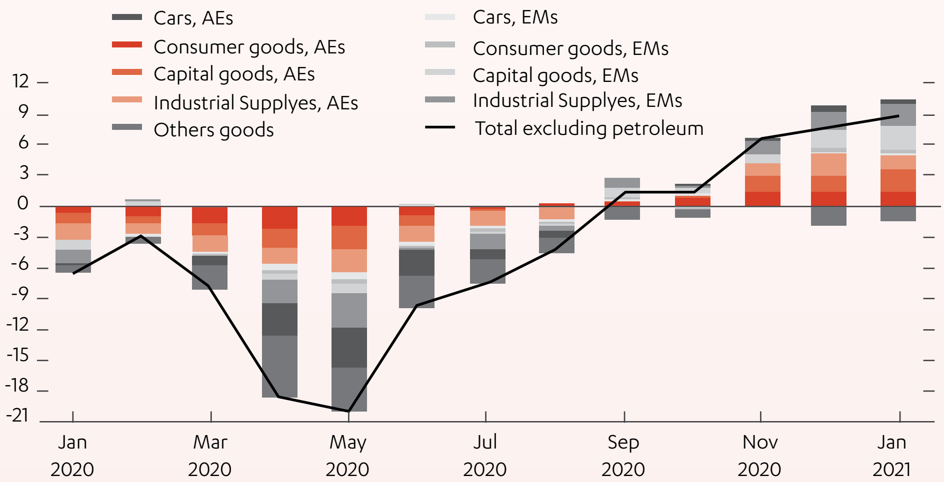
[1] *IMF World Economic Outlook 2021*
[2] *Washington post - https://www.washingtonpost.com/world/2021/03/10/coronavirus-stimulus-international-comparison/*
[3] *WTO March,2021*
[4] *World bank south asia focus 2021*

Global Imports, by types of goods and regions

Figure 1.6. Global Imports: Contributions, by Types of Goods and Regions

(Contribution to year -over -year Percent Change, Percentage points: based on value in US dollars)

The sharp rebound in international trade in the second half of 2020 reflects pent-up demand for consumer durables (cars) from advanced economies and resumption of supply chains in emerging markets.



Source IMF WEO April 2021

Indian Economy

The Covid-19 pandemic in India and the subsequent lockdowns compounded the troubles of a slowing Indian economy. The Indian economy contracted by more than 8% in FY21[1], led by sharp fall in Q1FY21, mainly on account of the countrywide lockdown enforced to contain the Coronavirus.

As per reports, most of the economic indicators slipped into red in Q1FY21, mainly due to the strict restrictions imposed during the lockdown. Barring few essential services, economic activity across the country remained suspended due to restrictions on mobility and social distancing protocols. Along with industrial activity, its immediate impact was felt across travel and tourism, hospitality, aviation, construction and trade. Agriculture remained comparatively unaffected with good monsoons in FY21. As economic activity gradually resumed after easing of restrictions, Q3 witnessed significant recovery due to pent up demand.

As a direct consequence of the economic slump, job losses, rising unemployment and decreasing household income continued to reduce consumption and investment in the country. The economic shock affected social as well as human development and this can be gauged by the slowdown of the poverty eradication process.

The economy received support from significant policy actions by the central bank and the government. It helped to stimulate demand while fulfilling obligations for social security and economic opportunities for citizens. The central bank ensured liquidity, provided regulatory support in the form of moratorium on loans and maintained an accommodative monetary policy.

Despite breaching its inflation target of 2% to 6%, the RBI pursued unconventional monetary policies to reduce interest rates through open market operations, asset buy back and Government securities acquisition program (G-Sec).[5] The government also offered fiscal stimulus package, promoted the notion of a self-reliant economy, and developed initiatives for promoting 'Make in India' initiatives. The budget for FY22 echoes the government's commitment to move towards infrastructure led development, which is expected to boost private investments and accelerate economic recovery in the days ahead.

In international trade, exports contracted by 7.4% to USD 290 billion and import declined by 18.1% to USD 389 billion, leading to a trade deficit of USD 99 billion. Besides, container shortages and weak demand across the globe added to the woes caused by the pandemic. In terms of value, trade improved significantly during H2 with February recording exports of USD 28 billion and imports of USD 41 billion.[6]

Outlook

With the rollout of a large-scale vaccination programme and revival of major economic indicators, the optimism around India's recovery has been reiterated by international bodies. According to IMF estimates, the growth rate of the Indian economy is anticipated to jump to 12.5% in FY22 and stabilise at 6.9% in FY23, the rates being the highest across all countries covered by the study. Besides, the Union Budget has echoed the government's commitment to significantly increase capital expenditure for infrastructure creation across social and economic sectors.

Amidst geo-political threats from hostile neighbours and the US China trade war, India aims to become a self-reliant economy. According to CARE ratings, GVA is expected to increase by 10.2% in FY22, over 6.5% in FY21. The prediction of good monsoons, increased bank credit and control over NPAs after lifting of moratorium restrictions and an uptick in the housing segment is likely to create favourable economic opportunities. However, the recent surge in covid-19 cases and the resulting lockdowns cast a dark shadow over economic recovery.

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[5]*Excerpts from RBI Monetary policy announcements.*
[6]*Ministry of Commerce*

Indicators - Constituents of growth

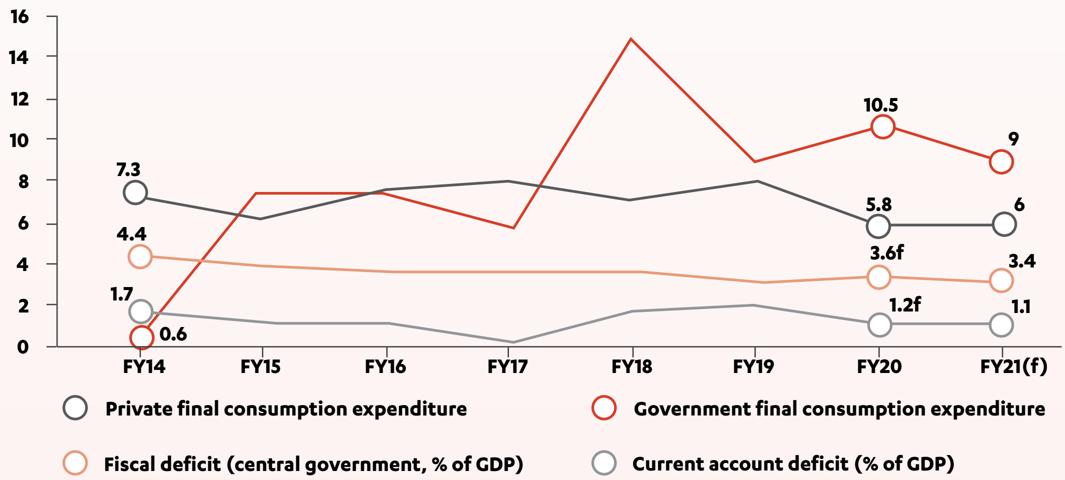

Figure are in % change, yoy

FY20 Gross value added and GDP estimates are first advance estimates by National Statistical Officer; f: Ind-Ra Forecast

Source : Ind-Ra, Central budget, by National Statistical Officer and Reserve Bank of India

Source: NSO, RBI, Budget

Industry Overview

1. Transportation

a) Railways - Passenger and Freight services

Indian Railways was severely impacted in FY21 due to the countrywide lockdown that led to complete suspension of railway services across the nation. Railways, however, operated few special trains such as Shramik Trains to transport migrant labourers to their hometowns. Although passenger revenue decreased by 75% to INR 12409.49 crores in 11MFY21, over the corresponding period in FY20, freight revenues grew by 3% to INR 117386 crore led by 1.93% growth in freight loading in FY21.[7]

The National Railway Plan for India-2030 aims to build railway infrastructure by 2030, to cater to increased demand till 2050. With a focus on increasing modal share of IR to 45% by 2050, it also aims to reduce the logistic cost of the economy.[8] The capital expenditure for rolling stock (locomotives, wagons, coaches) till 2031 is estimated to be approximately 29% of the total capital expenditure requirements and it is projected to constitute approximately 39% between 2031 and 2051.[9] Furthermore, the Union Budget FY22 has allocated INR 2.15 trillion as capex for Indian railways infrastructure expansion.[10]

The trickle-down effect from the planned investments along with demand drivers such as increasing urbanization, rising incomes and sustainable modes of transportation provide significant opportunities for upstream industries.

[7]*Newspaper reports*
[8]*PIB*
[9]*National rail Plan 2020*
[10]*PIB https://pib.gov.in/Pressreleaseshare.aspx?PRID=1694109*

b) Metro

In the next 4 to 5 years, over 25 Indian cities are expected to have operational metro rail systems with investments worth between INR 3 and INR 4 million.[11] India has operationalized 400 km of metro network in the previous 6 years and work on over 1000 km additional rail lines is in progress in 27 Indian cities.[12] As per Budget FY22, 702 km of conventional metro was operational in India.

Metro rail systems can carry higher passenger volumes of 60000 PPHD (passenger per hour per direction) to 80000 PPHD and are capital intensive sectors.[13]

The suburban passenger traffic in metro rail (in four cities) grew at a CAGR of 2.3%, between FY09 and FY18 and is estimated to increase at a CAGR of 1.52% in the next two fiscals. In absolute numbers, suburban rail passenger traffic is expected to increase from 4459 million in 2018 to 4665 in 2021 and go up to 6050 million by 2051.[14]

c) Off- Highway Vehicles

The tire market acts as a good proxy indicator for the off-highway vehicles. According to Businesswire, The Indian off-highway vehicle tire market is expected to grow at 15% between 2020 - 2025. The country's off highway vehicle tire market can be classified based on vehicle type, demand category, and radial. Based on the vehicle type, the market can be bifurcated into farm equipment tire, earth moving equipment tire, and mining, construction and industrial vehicle tire. Farm equipment holds the largest share in the off-highway vehicle tire market owing to increasing tractor penetration in India's rural regions. The construction equipment industry is optimistic to reach its FY19 level of 95000 units in sales in FY22.[15] The Indian tractor industry recorded a 26.86% increase in sales in FY21 with 899429 units over FY20 sales at 709002 units.[16]

The rural economy holds potential for future growth owing to the good monsoons experienced in recent years, rising income of households and government thrust on rural infrastructure projects. However, the agriculture sector, which largely remained unaffected by the pandemic-led economic shock, witnessed weakening pricing pressures even when Kharif harvests recorded best outputs in CY2020.[17]

Urban demand is also expected to pick up in FY21 mainly resting on the optimism created by the forecast of good monsoons in CY2021 and income growth from Rabi crops[5]. Besides, structural changes in the agricultural sector, powered by New Farm Laws and INR 1 trillion Agri infrastructure fund is anticipated to add impetus to economic growth.

d) Electric Vehicles

Across the globe, the electric vehicle sector is being considered as one of the most promising segments. As a result, policy incentives, monetary support and technology support is being sanctioned for this sector. The global sales of EVs are expected to reach 2.5 million in CY2020 and rise to 70% in CY2021. China and Europe continue to be the largest market for EVs, followed by the US. In 2021, Japan announced support for domestic

[11] *India Infrastructure Research -2020*
[12] *PIB*
[13] *National Metro Rail Policy 2017.*
[14] *National Rail Plan 2020 – Indian Railways*
[15] *https://economictimes.indiatimes.com/news/economy/indicators/witnessing-green-shoots-driven-by-rural-india-jcb/articleshow/79411682.cms?from=mdr#:~:text=in%20four%20quarters.-,Even%20as%20total%20sales%20volumes%20are%20set%20to%20decline%20by,95%2C000%20units%2C%20registered%20in%20FY19.*
[16] *TMAIndia*
[17] *Bank of America securities Report*

production of EVs with a mandate for selling only EV cars from 2030. The global sale of EV are projected to breach 12 million mark by 2025, registering a 52% growth rate.[18]

The Indian government is also enthusiastic about this sector and is creating demand for EVs through the Faster Adoption and Manufacturing of (Hybrid and) Electric Vehicles (FAME) scheme, tax reduction, PLI scheme and vehicle scrappage policy. On the consumer side, factors such as rising oil prices, preference for green solutions and burgeoning startups delivering innovative value additions in the micro mobility formats such as e-cycles and bikes, continue to drive growth. It is estimated that weighted average EV sales penetration will reach 70% by 2030, in the Indian market.

2. Industrial

a) Steel, Cement & Construction

Steel production and consumption fell drastically in Q1FY21 due to lockdown restrictions and a severe demand slump. Steel consumption improved towards the latter half of CY2020 due to demand from auto, white goods and construction segments. Domestic crude steel production is likely to de-grow by 7% YoY to reach 102 MT in FY21. Besides, during the same period, steel consumption is expected to fall by 8% to 92 MT. While steel is sensitive to global price movements, it creates input cost pressure and domestic firms are often prone to unfair trade practices that necessitate government intervention for seamless operations.

The National Steel Policy 2017 aims to take the steel production capacity to 300 MT by 2030-31. It also strives to increase per capita consumption of steel to 160 kg by FY31, from 74 kg in 2018. Expansion of production capacity will also augur additional investment of ₹ 10 lakh crores (US$ 156.08 billion) by 2030-31.

The government has also introduced the PLI scheme to incentivize domestic steel production and has, therefore, increased capital expenditure for infrastructure led economic development in Budget FY22.

The steel sector is anticipated to capitalize on opportunities arising from infrastructure projects such as Housing for All, which has a target to build 20 million affordable houses by 2022, expansion in railway networks, shipbuilding industry, domestic defence production, automobiles and consumer durables.

Cement production and capacity utilization are expected to have witnessed their steepest fall in FY21, primarily led by the great dip in Q1FY21 when lockdown restrictions severely curtailed economic activity. While production is estimated to have declined by 15.5% to 262 million tons in 11MFY21 over the corresponding period in FY20, capacity utilization improved from 45% during H1FY21 to 52.4% in 11MFY21.[19]

Covid-19 impacted the industry through reverse migration of labour and withholding of capex plans by firms due to massive decline in demand. The industry gradually picked up momentum after the lockdowns continued to be lifted.

Infrastructure and pent-up demand for urban housing, mainly driven by 26% increase in budgetary allocation for infrastructure in FY22 and the push for Aatmanirbhar Bharat is expected to accelerate volume growth of cement firms in FY22[20]. Affordable Rental Housing Complexes (ARHC) which aim to improve the standard of living of the urban poor by providing affordable housing near workplaces in urban areas will attract significant demand for cement. Moreover, in rural markets demand for cement is likely to increase due to rising income, growing household consumption and predictions of a favourable monsoon.

Construction industry came to a standstill during the pandemic due to reverse migration of labour and stalling of several projects. The sector showed faint signs of recovery following an uptick in transactions in the real estate sector in Q2FY21.[21]

The industry is estimated to significantly increase its order books for new projects due to the aggressive push for infrastructure development in the country by the Government, to boost the Aatmanirbhar Bharat Abhiyaan.

The Government of India launched the National Infrastructure Pipeline (NIP) in FY20 with an initial planned expenditure of USD 1.4 trillion on various infrastructure projects between 2019 and 2025. The project was in line with the country's target of becoming a $5 trillion economy by 2024-25[22]. The coverage of NIP was expanded from 6835 projects to 7,400 projects in FY22. 217 projects worth INR 1.10 lakh crore has been completed so far.

[18]*IHS Markitt - https://ihsmarkit.com/research-analysis/ihs-markit-forecasts-global-ev-sales-to-rise-by-70-percent.html*
[19]*CARE Ratings*
[20]*Budget FY22, Crisil Reportgs'*
[21]*Economic Survey 2020-21*
[22]*https://pib.gov.in/PressReleseDetail.aspx?PRID=1598055*

The Affordable Rental Housing Complex (ARHC) scheme, launched under Pradhan Mantri Awas Yojana, aims to provide migrant workers and the urban poor access to affordable rental accommodation to enhance their standard of living. The government aims to utilise existing infrastructure or develop new housing projects to fulfil this objective.

National Bank for Financing Infrastructure and Development has been set up for infrastructure financing with an initial capital base of USD 2.7 billion. It has a planned lending target of USD 68.4bn in three years, which is expected to boost the real estate sector and the construction industry in general with adequate investments for various projects.[23]

b) Pumps

According to a case study by United for Efficiency (U4E), the industrial sector accounts for 40% of electricity demand in India. However, the share of motor and motor driven systems accounts to 69% of the industrial electricity consumption. Following the mandatory requirement of using IE2 motors in 2017, the National Motor Replacement Program has enabled replacement of 6520 motors till FY21 and it has incurred cost savings of up to USD 7.3 million.[24] The program now aims to target energy savings of 66.5 MkWh, amounting to USD 62 million annually, by replacing huge stocks of motors with a rating below IE1. The program further aims to accelerate transition to higher efficiency IE3 motors and IE 4 motors by 2023, as major economies have already adopted IE 3 standards.[25]

High initial investment cost and lower financial capacity, especially for the SME industry, are major challenges impeding the acceptance rate of energy-efficient motors.[26]

c) Sugar

Sugar production is a seasonal phenomenon that spans from October to September. The industry is highly dependent on monsoons and price support from the Government. Sugar production during current sugar season SY2020-21 is estimated to be at 300 lakh MT, as against the estimated domestic consumption of 260 lakh MT. By the end of February 2021, sugar production in India stood at 222 lakh MT, indicating the possibility of excess supply in SY2020-21.

In order to reduce inventory of surplus sugar, the Government has fixed the mill-wise export quota at 60 lakh MT for the current sugar season. Besides, the Government is encouraging sugar mills to produce ethanol and has fixed remunerative prices of ethanol to encourage sugar mills to divert excess sugar for export.[27]

3. Power Generation

Thermal, Hydro & Wind Power

By November 2020, the total installed coal thermal power capacity in India stood at 199.59 GW and it is expected to reach 330-441 GW by 2040. By 2022, total installed capacity addition is expected to touch 47.86 GW. Besides, energy generation from thermal sources stood at 562.959^ billion units (BU) between April and October 2020.

India's gas thermal power capacity stood at 24.95 GW, as of November 2020. By 2022, it is expected to witness total installed capacity

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[23] PIB - ARHC

[24] https://m.economictimes.com/industry/renewables/isc-eesl-eyes-annual-saving-of-62-million-by-replacing-inefficient-motors/articleshow/81930164.cms

[25] IEA India energy outlook 2020

[26] United For Efficiency : Case study India , November 2020.

[27] Lok Sabha Question 2021: https://www.indiansugar.com/PDFS/LOK_SABHA-_SUGAR_PRODUCTION.pdf

addition of 0.41 GW. Lignite thermal power capacity stood at 6.26 GW as of November 2020 and India's diesel thermal power capacity was approximately 0.50 GW, as of November 2020.

The all-India capacity utilization of thermal power plants in India is likely to improve to 57%- 58% in FY22 from the estimated level of 53% - 54.0% in FY21. The all-India electricity demand is expected to grow at 6%– 7% in FY22 due to a favourable base effect and likely demand recovery in commercial and industrial (C&I) segments.

The sector is expected to rebound in FY22, riding on the back of strong demand from commercial and industrial segments along with continuing demand from domestic segment. Some of the government policies aimed at developing the sector and incentivizing private sectors include the launch of pan-India real time market for electricity, setting up of Ultra Mega Power Plants, liberalization of coal fields, setting up of India Energy Modelling Forum. These are expected to boost demand as well as revive the core sectors of the economy. Reduced capacity for investments due to setbacks suffered during lockdown, financial stress of DISCOMs and resolution of stressed thermal assets in the private segment are some of the major impediments that need to be tackled in FY22.

As per March 2021 report from Ministry of Power, hydro power generation (above 25 MW) for FY21 stood at 140357 MU.[28] India has an estimated hydropower potential of 145,000 MW at 60 per cent plant load factor.[29] While the installed hydropower capacity in May 2020 stood at around 45,700 MW, India is expected to increase the capacity to 70000 MW by 2030.[29]

The share of hydro power generation in the energy mix increased from 8.7% to 11.6% in Q1FY21 due to its 'MUST RUN'. However, the sector's role to impart flexibility in the system during power surges was highlighted during the lights out event planned in April 2020.[29]

During FY21, the government categorised hydropower (above 25MW) as renewable energy, making it eligible for availing benefits from non-solar Renewable Purchase Obligation, through power evacuation from regional utilities.[30] However, issues such as land acquisition, safety of asset, market development, financing, technical challenges and stressed balance sheets of companies could impede development of the sector in FY22.

As of February 2021, India had 39 GW of installed wind capacity, comprising 10.25% of the country's power mix. The cumulative onshore installations stood at 38625, including 1119 new installations in CY20. India along with China, the US, Germany, and Spain together accounted for 73% of the world's total wind power installations in CY2020.[31]

The COVID-19 pandemic intensified the existing challenges related to land acquisition, grid connection and permits. This led to considerable project delays. However, the segment is expected to increase annual installations, to reach a new peak in 2023, due to favourable policy support for discontinuation of inter-state transmission (ISTS) waiver and encouragement for hybrid tenders combining wind, solar and storage technologies.

The constraints around land allocation, grid availability, recurring financial instability of DISCOMs, tender design and Purchase Power Agreement (PPA) sanctity are some of the issues that will require additional policy support.

4. Diesel Generating Sets

The DG sets have a competitive advantage of providing uninterrupted power supply and portability, unlike utilities. Demand from commercial applications are mainly driving the growth of the Indian diesel genset industry. Investments in infrastructure projects, construction activities, hospitals, data centers, 5G network and rural infrastructure is likely to further drive demand in this segment.

a) Data Centre

The Indian Data centre industry witnessed significant demand surge amidst the pandemic as enterprises continued to shift to a hybrid work model, supported by cloud infrastructure and digitalization.

There are more than 80 third-party data centers in India[32] along with an installed power capacity of 375 MW for data centers (up to November 2020). The power capacity is projected to grow three times by 2025, attracting investments worth USD 4.9 billion. Over 60% of the sites are concentrated in top four metro cities including Mumbai, backed by proximity to submarine cables, reliable power supply, broadband connectivity and skilled manpower.

The growth curve is likely to be steeper, riding on the national policy on data center, increasing consumption of digital services by households and business, and a strong urge for data localization. As per estimates, the digital infrastructure in the country includes 676 million smartphone users and over 750 million internet subscribers[32]. Digital consumption in India grew by approximately 38% in Q1FY21[33] and is expected to hit 25GB per user per month by 2025. And total data traffic is likely to clock 21 EB per month.[34]

The preference for online payments, e-commerce and digital platforms for healthcare, education, social media and online gaming have put the digital revolution on the fast track. However, along with technological and security challenges, cost escalations, availability of skilled manpower and continuous power supply are some of the operational risks associated with this segment.

[28] *CEA, Ministry of Power*

[29] *https://energy.economictimes.indiatimes.com/news/power/india-to-have-70000-mw-of-hydropower-capacity-by-2030-official/75859241*

[30] *PIB: https://pib.gov.in/PressReleseDetailm.aspx?PRID=1606777*

[31] *Global Wind Energy Council*

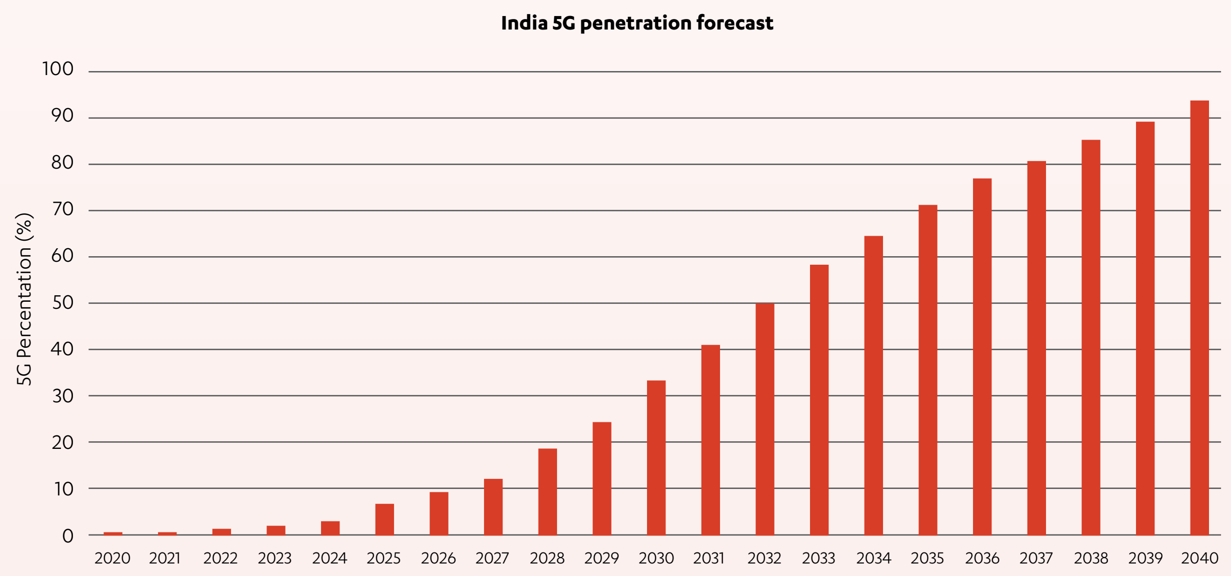
[32] *NASSCOM – Technology sector in India 2021*

[33] *Crisil Research – Demand for data center goes viral.*

[34] *Anarock- Mace Report : Navigating the India Data centre lifestyle*

b) 5G

The 5G network represents the latest upgrade in the LTE network with greater bandwidth advantage leading to higher download speeds, thereby holding significant potential for the mobile first Indian economy. However, unlike its predecessors, the network is limited to short range service areas, called cells, which reduces further in higher frequency spectrum. With an estimated 1000 base station cells required per square kilometre for 5G deployment[1] and prevalence of low power reliability, across telecom base stations in India, there exists significant demand for DG sets to power the additional base stations and towers from an increasing capex addition by telecom players in India. The installation of 0.7 million base stations in China, a similar sized country like India, catering to 7% of its population, when read with expected 5G connections in India to reach 6% of population by 2025[2], corroborates the demand potential claimed earlier.35 Further, the exponential growth in Internet of Technology (IoT) and machine to machine 5G use cases across manufacturing36, healthcare, agriculture among others is likely to increase the traffic necessitating data centres near to the user base thereby catalysing growth across the value chain, including export markets.



c) Hospitals

The importance of uninterrupted power supply in hospitals can be gauged from the potential cost measured not just in economic terms but higher cost of patient well-being. The potential demand for quality DG sets in hospital industry can be estimated by considering the hospital beds in India. Currently, hospital beds density in India at 1.3 beds per 1000 population[37] is less than half that of the global average along with the number of ICU beds in India, estimated between 75000 to 90000, according to media reports.[38] This translates into an estimated requirement of additional 3 million hospital beds[37] by 2025 to fill the gap. Furthermore, the skewed spatial distribution, where 65% of hospital beds cater to 50% of the population concentrated in 7 most populous states, highlights the regional variation in demand. Nevertheless, the projections are highly likely to experience upward revision in the near-term conditional on the contagion effect of covid 19. The hospital industry, constituting 80% of the Indian Healthcare industry[39] is expected to reach USD 132 billion by 2023 from USD 61.8 billion in 2017 supported by increased budgetary allocation in FY22 for public health spending, higher insurance penetration and the burgeoning medical tourism, subjected to covid protocols.

d) Residential & Commercial Spaces

The office segment defined by the new hybrid work culture is expected to be driven by growth in IT sector along with e-commerce, healthcare and FMCG sectors, further aided by growth in ReITs backed institutional investment. Consequently, nearly 38 million square feet new completions in this segment are expected by 2021.[40] The industrial segment comprising of warehouses witnessed restructuring post-pandemic due to increased traction from omni-channel retailing and third-party logistics. Significant opportunities also exist in cold chain manufacturing as the industry is expected to double from USD 19.6 billion in 2020 to USD 36 billion by 2024. The resulting supply demand dynamics is expected to create 30-35 million square feet in new completions in the industrial segment[40]. Constrained supply is also driving usage change of existing assets like malls, high-street retail, marriage halls, auditoriums, showrooms and workshops.

The residential segment is likely to witness increased home purchase affordability due to suppressed mortgage rates and increase in annual household income, conditional on the developing covid 19 situations in India. Furthermore, shift in consumer preferences towards owning a house, healthy

[35] *Standing Committee on Information Technology 2020-21 : India's preparedness for 5G*

[36] *GSMA, The impacts of mmWave 5G in India : 2020*

[37] *Niti Aayog : Investment Opportunity in India Healthcare, published in 2021*

[38] *Business Standard, 29 April,2021 : https://www.business-standard.com/article/current-affairs/india-will-need-500-000-icu-beds-350-000-medical-staff-in-next-few-weeks-121042900588_1.html*

[39] *Invest India : Healthcare Sector last updated April 16, 2021*

[40] *JLL India Real Estate Outlook 2021*

lifestyle, well equipped gated communities are likely to influence supply decisions in the market. However, residential segment is expected to continue witnessing focus on mid and affordable housing markets as more than 80% of new launches in 2020 were from this segment. A combination of improved consumer sentiments, affordability and integration of digital in the value chain including project monitoring should lead to translation of pent-up demand into sales.[40]

5. Appliances

The Indian Home Appliances Market is categorized into small and major appliances. They are also segregated on the basis of its distribution channel.

The appliance market is highly competitive and is moderately consolidated, with top players accounting for significant market shares. Consumer preferences have also evolved to increase demand for technologically advanced as well as ecologically safe products.[41] It continues to drive innovation in this segment.

Consumer durables demand in India is primarily driven by rising household incomes, increasing urbanization, a growing middle class and changing lifestyles. Significant increase in discretionary income and easy financing schemes have also led to shortened product replacement cycles. The industry logged in decade high sales in H2CY20, posting incredible volume growth in air-conditioners, refrigerators, microwave ovens and washing machines on offline and online sales channels. Demand for appliances grew significantly during the traditional festive season and during the lockdown when people were forced to choose convenient and easy to use appliances.[42]

The pandemic also accelerated a structural shift in the industry. With the growing popularity of contactless shopping, online channels continued to increase its penetration across cities and towns, to fuel the demand for online shopping. Non-metro cities with an increasing appetite for consumption and potential for new business centres are evolving as target markets. Policy support through the PLI scheme and Aatmanirbhar Bharat, coupled with the theme of vocal for local, bodes well for the domestic growth and export competitiveness of the industry.[43]

Company overview

Operational and Financial Review

In nearly a century, there has been no year like 2020-21, which saw the business shutting their doors for extended periods across the globe due to Covid-19 pandemic. Your Company too had no operations for about 40 days during April – May 2020, thereafter as the economy started opening with abundant caution, the marketplaces started buzzing again. Though the initial ramp up was slow but later it picked up momentum.

Following all safety protocols, the Company achieved an operating turnover of ₹ 518.17 crores as against ₹ 525.06 crores in FY20. In the start, it was the pent-up demand but subsequently with timely intervention of the governments across the world, infusing liquidity into the system, the projects started moving and the real demand started flowing.

With its agility, your Company was well placed to take advantage of evolving business environment and quickly responded to meet the customer's demand. The Company has been laying foundation over the last few years by its continuing Capex in creating capacities and developing capabilities for high value-added products. Thus, the Company could maintain its revenue despite the disruptions and achieved an EBIDTA of ₹ 78.04 crores (15.06%) in FY21 as against ₹ 77.72 crores (14.80%) in FY20.

The year saw increased demand from thermal and wind power generation, locomotives, core industrials and appliances sectors. The Company also developed new products and undertaken new projects as presented in various section of the Annual Report 2020-21.

During the year, the Company received a provisional approval of ₹ 21.66 crores and sanction of ₹ 16.25 crores (75% of approval – as per IPS 2013) of industrial subsidy for its mega project in Aurangabad from Government of Maharashtra for the years 2018-19 & 2019-20 which is accounted in March 2021.

The Company earned a profit after tax (PAT) of ₹ 28.78 crores in FY21 as against ₹ 17.10 crores in FY20, up by 68.30%, thus the Earning per share (EPS) has increased by ₹ 3.56 per share from ₹ 5.42 to ₹ 8.98 per share.

The Company's capex plans are in progress, the Company maintains a satisfactory debt profile with its debt to equity ratio of 1.08 at the year end.

[40] *JLL India Real Estate Outlook 2021*

[41] *Mordor Intelligence*

[42] *https://economictimes.indiatimes.com/industry/cons-products/durables/home-appliances-clock-decade-best-sales-in-india-in-july-dec-2020-gfk-india/articleshow/81052201.cms?from=mdr*

[43] *IBEF: https://www.ibef.org/download/Consumer-Durables-January-2021.pdf*

Key Ratio

Particulars	FY21	FY20	Change %	Reasons
Inventory Turnover (No of Times)	4	5	-20%	The sudden disruption in sales has reduced the inventory turnover during the year.
Debtors Turnover (No of Times)	4	4	0%	Debtor turnover ratio is maintained at its usual level.
Interest Coverage Ratio	3.83	3.02	27%	The interest coverage ratio has improved on account of higher PAT.
Current Ratio	1.13	1.10	3%	The current ratio has improved on account of income accrued by way of industrial promotion subsidy of ₹ 16.25 crores from Government of Maharashtra.
Debt Equity Ratio	1.08	1.06	2%	The minor movement in Debt Equity Ratio is on account of Covid facility under CECL & ECLGS availed by the Company.
EBIDTA (%)	15.06	14.8	2%	The EBIDTA% has improved due to favourable product mix of value-added products.
PBT to Net Sales (%)	7.44	3.78	97%	Both PBT & PAT has improved on account of industrial promotion subsidy and better operational efficiencies.
PAT to Net Sales (%)	5.55	3.26	71%	
Return on Equity (%)	12.20	8.23	48%	The return ratios are improved on account of higher PAT.
Return on Capital Employed (%)	13.40	11.91	13%	
P/E Ratio	7	4	75%	These ratios are the factor of the share price of the Company in the stock market.
P/BV Ratio	0.91	0.34	168%	

Risk Management

Risk Management Framework of Pitti Engineering Limited is built around the following three key aspects:

1. **Enterprise Risk Management**
2. **Process Risk Management**
3. **Compliance Risk Management**

Identification and mitigation initiatives of Enterprise level risks are handled on continuous basis by the Management and Business teams.

Process Risk management involves review of business related operational and financial processes and controls through a Risk Control Matrix.

Compliance Risk Management comprises of a mechanism of reporting and assurances with respect to adherence with laws and regulations prevailing in the country.

Following is an indicative representation of some of the material risks that the company manages on a frequent basis:

Economic risk: Capital goods sector is inextricably linked with the overall economic, infrastructural and industrial growth of any country/region. In order to reduce its dependence from economic wellbeing of a particular country/region, the Company continues to diversify its markets across many countries/regions. Further, the Company steadily diversifies its user segments also, in order to strike a right balance of user segments, including few non-capital goods one.

Technology risk: Being in the business of engineered goods with a significantly higher level of customization, the company's business is susceptible to technological/ product process obsolescence. Pitti Engineering deploys a twin-pronged approach to stay ahead of the technological curve. First being steady addition of greenfield capacities that imbibes the best in class global technologies and processes available at that point in time. The second level of this approach is to undertake periodic modernization of its legacy facilities by way of maintenance Capex.

Concentration risk: Being overdependent on a particular customer, user segment or country/ region can pose a business risk in case of the said constituent undergoing a business crisis or preferring to shift to another supplier. The Company diversifies its customer base that often transcends even the application segment and supply geographies.

Competition risk: Emergence of a large number of competitors vying for the same business can heighten competition risk which often leads to revenue and margin erosion. Pitti Engineering, by successful pursuit of a number of forward and backward linkages, has emerged as a highly unique vertically integrated player in significantly higher value added solutions. Consequently, the company has not only insulated it from standalone competitors across the highly staggered value chain, but also, in the process, developed such stickiness that even fiercely competing customers would come to it, directly or indirectly, for its impeccable customer value proposition.

Liquidity risk: Capital goods sector continues to be a capital intensive sector involving longer cycle of product development that often includes proof of concept components as well. Besides a strong balance sheet, the Company always follows a prudent working capital management regime.

Safety, health and environment (SHE) risk: Occupational hazards may endanger the safety of our employees and communities around our manufacturing locations besides adversely affecting the flora, fauna and environment. The Company deploys best in class technologies, equipment and workmen safety protocol, right from the initial development work to day to day operations of its manufacturing plants. Increased automation with extra focus on workmen safety helps improve SHE performance.

The company remains mindful in reducing its carbon footprints through steady rationalization of energy and water consumption and continues to adhere to the principle of 4Rs (reduce, reuse, recycle and recover).

HR risk: Any erosion in commitment, competence and compassion of employees towards company's stated vision of value creation can incapacitate the company's abilities and reputation. The Company keeps talent pool at the core of its being and, in turn, drives a greater involvement and commitment from them to co-create shared value.

Unforeseen Risk: The most significant emerging risk is the ongoing Covid-19 pandemic which resulted in a loss of human lives, impacted economic activity across the world and eroded wealth more than what the financial meltdown did. The lockdown imposed to contain the spread of the contagion impacted business operations across India and the world. In recognition of the seriousness of the threat, the Company put in place stringent safety protocols, provided extensive communication and training on safety protocols at the workplace for employees. Operations were carried out in adherence with the norms stipulated by the government. This helped the Company marginalize the impact of these challenging times. We are doing all we can to ensure business continuity and working tirelessly to mitigate the risks.

Internal Control system and their adequacy

The Company has a robust and effective internal control mechanism in place, one that is commensurate with the size, nature and complexities of its business. Internal control mechanism, which is benchmarked with evolving best practices at the regular intervals, ensures Company's adherences to all applicable regulations in letter and spirit. It also protects company's various assets from unauthorized use while also ensuring accuracy of financial reporting.

The Company's robust Management Information System, spanning all critical functions, forms an important pivot of internal controls. The leadership team, including all the functional/ unit heads, serves as the first ring fence. Periodic internal audits, the second ring fence formed by an independent internal auditor, reviews control mechanism and its efficacy. The internal audit is entrusted to an independent Chartered Accountants firm, M/s. SVD Associates.

The Audit Committee periodically reviews the efficacy of control mechanism, offering improvement suggestions, as and when apparent. Internal control on financial reporting is attested by the Company's Statutory Auditors.

Human Resources

Our human capital development forms the core of our organisation and drives our business strategic framework. The Company's experience over the years firmly instils the confidence that the growth and success of our organisation is directly dependant on employee's alignment with the Company's vision and customer value proposition. The Company's success has been driven by its ability to nurture, engage, upskill and motivate a promising talent pool and the Company endeavors to ensure their personal and professional growth. We continuously foster a working environment driven by collaboration, transparency and equity through bringing fresh talent and encouraging new ideas which translates into our success in innovations and entrepreneurial culture setting.

Furthermore, the Company focuses on employees personal and professional goals through a structured training program which includes access to continuous learning and development, on the job learning and behavioral skills development. Our rewards and recognition program compliments our effort in steering the potential of our human capital. There were 1159 employees on the rolls as on 31st March 2021.

Outlook

The plethora of business opportunities that lies ahead for the Company thrives in the milieu provided by the narrative on macroeconomic fundamentals as discussed in the Global and Indian economy along with an overview of related sectors of the economy.

The increased infrastructure spending by the Government for instilling recovery spirit in the economy has improved liquidity into the system through these developmental projects. Consequently, besides directly generating demand from the transportation sector, the spill over effect on industries along the value chain is driving capex additions in industrials, by both private and public sector, for creating capacities in steel, cement and construction. Factoring the positive sentiments as gauged through interactions with the existing customers and new enquiries, the Company is poised to outperform in the segment in the coming years.

Opportunities

New infrastructure development has also created new demands in the pump industry along with replacement demand. The company has proactively increased capex to boost its capabilities to cater to the rising demand even as the Company is prepared for adapting to the changing efficiency norms.

The sugar industry is witnessing a turn around aided by policy support and record production in recent years. We expect a good demand from this sector as India has started exporting its surplus sugar amidst supply constraints from major exporting nations.

The demand from the power generation sector which was sluggish in recent years is witnessing strong surge due to growth in economic activities. The company has a dedicated capacity to cater to the sector and the anticipated demand will increase the operating leverage of the company from a previous low base due to underutilisation, thereby leading to a positive impact on its bottom line.

The company is highly optimistic on the growth trajectory of demand from Diesel Generator (DG) sets segment to provide uninterrupted power supply for crucial downstream segments such as data centres, hospitals, 5G Network, high rise residential and commercial complexes. The company expects these sunrise sectors to drive growth in the near future.

With the objective of increasing product portfolio for its existing customers, the Company has capitalised on its capex additions to enter into fabrication of Truck Frames, which is the under carriage of railway engines, to supply for the domestic operations of one of its prestigious international customers. The success in this new product is expected to unlock new market opportunities in International and domestic markets as there exists huge untapped opportunities with Indian Railways for the product.

In line with the strategy to move high up along the procurement value chain of its downstream customers, the company has begun supplying shaft-inserted rotors by manufacturing shaft in house, thereby facilitating unique positioning of PITTI in the supply chain of this product for its customers.

The Company's capacity expansion program to modernise its press shop with high-speed presses is in line with the objective to enter the high-volume appliance market, which is transitioning towards organised sector for fulfilling its procurement requirements. The shift, driven partly by withdrawal of many players from the unorganised sector in the post pandemic scenario along with changing efficiency norms and rising quality awareness amongst the end consumers, is forcing appliance manufacturers to source components from established players in the industry.

The competitive advantage provided by in house facility for integrated end to end manufacturing processes including machining, assembly, fabrication, casting along with an established large supply chain for procurement of massive list of components required for assembly and sub assembly purposes, imparts higher value addition to the products. This one stop shop characteristic of PITTI makes it invincible for its downstream customers for their supply chain requirements. Furthermore, an established track record of timely supply of quality products year after year reiterates the sturdy relationship we have with our customers.

Threats

The major threat to the company lies in the fickleness of the recovering economy buffeted by the resurgent second wave of infection and its spill over effect on downstream sectors. This could impact the anticipated demand from government's infrastructure push in the near term owing to diminishing headroom for fiscal spending and increasing commodity prices particularly steel, among others. The spread of the virus in the otherwise buoyant rural economy could compound the crisis further, thereby eroding significant demand across diverse sectors.

Furthermore, we exist in a symbolic relationship within the aforementioned ecosystem where both the vulnerability and opportunities within the ecosystem could spill over to the Company's performance.

Nevertheless, as an organisation with strong preparedness model, we stand on a very strong order book from our marquee clientele.

Cautionary Statement

Statements in this report on Management Discussion and Analysis, describing the Company's objectives, projections, estimates, expectations or predictions may be "forward-looking statements" within the meaning of applicable laws and regulations. These statements are based on certain assumptions and expectations of future events. Actual results could differ materially from those expressed or implied since the Company's operations are influenced by many external and internal factors beyond its control. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statements, based on any subsequent developments, information or events. Readers are cautioned that the risks outlined here are not exhaustive. Readers are requested to exercise their judgment in assessing the risks associated with the Company.