

Management Discussion and Analysis

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1. Overview

During 2019-20 Indian economy witnessed its lowest ever growth rate of 4.2% in a decade as against 6.1% in FY 2018-19. While the full year growth rate was 4.2%, it is noteworthy that the growth rate in Q4 FY 20 was just 3.1%, showing significant drop in growth rate sequentially. Manufacturing sector was again an area of concern with a contraction of 1.4%.

Outlook

The bad news on economic activity front in FY 20 got worse with the Covid-19 pandemic striking both India and across world in March 2020. Already the Investment activity and exports were in weak zone in addition to the fall in consumption driven demand. With private expenditure dwindling due to the lockdowns and labour migration issues, investment impacted negatively due to fall in consumption demand and worsening of the already stressed corporate balance sheets, there is high amount of uncertainty. There are estimates that Indian economy might for the first time in decades, see a GDP contraction for the full year. Banks are staring at record NPA's making them risk averse and thereby restricting the flow of credit to the industry and particularly the MSME sector.

2. Business & Industry Overview

WeP is primarily a Enterprise Services provider coupled with strong manufacturing capability of retail products and solutions. It has a strong Enterprise customer base, ranging from the MSME sector to the very large enterprise groups in the country. It also has a strong channel network for its products and services. As part of its Enterprise Services it provides Digital Services and Managed Printing Services to its customers. During the FY 2019-20, WeP has also signed up as a Distributor for Ricoh Products and Solutions in the Indian Market.

Managed Printing Solutions

The Office printing landscape has been evolving over the past several years. Corporates are looking for efficiency in every aspect of their operations and activity and printing is no exception to this. There is a need for corporates to both reduce costs and streamline the printing activity which consumes a significant part of their IT support maintenance efforts. Corporates no longer want a printing partner but a total printing solution expert for their offices. There is also a conscious effort in the last few years by the corporates to "reduce" printing and opt for digitizing processes.

WeP MPS helps enterprises to optimize their print infrastructure and with the latest technological tools also help them to reduce wastage thereby reducing printing. Over the last few years there is an increased adoption of MPS services by corporates, both large and small, given the significant benefits it offers. The trend is far more encouraging in public sector enterprises which is one of the largest printing segment but have adopted MPS very late.

Digital Services

WeP digital is focused on providing enterprise customers a whole set of services which can provide efficiency in every aspect of their operations. It is working with customers to digitize their every internal and external process. While the customer has standalone options for each process, WeP Digital is focused on being a one stop shop as a Total Digital Solutions provider. The space provides enough scope for a Digital Services provider right from the digitization of records, record management, Process workflow automation, integration of processes, payment solutions, compliance management solution, tax filing etc. The list of opportunities is endless and there is an urgent need for a comprehensive digital solutions provider and WeP Digital is poised to fill in this void.

Retail Solutions & Printers business

The traditional retail business model in India has been the local kirana and general store, small restaurants, bakery etc. This “unorganized” retail network is the bloodline of the Indian Retail. Their reach and personal direct contact factor is irreplaceable. Technology is only making them more efficient and it is imperative that sooner than later, the entire network will adopt technology. WeP’s endeavor has been to become a partner of these unorganized players by digitizing their supply chain, billing, payments through its retail products and services. This sector not only generates employment in both rural and urban areas, but also creates self-employment opportunities. Once they adopt technology, the vast network and deep penetration this segment has, will be a game changer for last mile delivery of services of any nature both for public and private enterprises. WeP has products and services perfectly suited for making this happen.

In addition to the retail products, WeP in FY 20, signed up as a distributor for Ricoh Products and Solutions in India. Ricoh is a global enterprise with USD 18 Billion in revenues and has a strong customer base in India. This relationship is bound to add to WeP’s revenues and profitability in the coming years.

3. Financial Performance

Revenue

Your company has three revenues streams; Managed Printing Solutions (MPS) Service business, Digital Services business and the Manufacturing, Design and Distribution of Computer Peripherals business (Printers business).

The MPS services revenue dipped from Rs. 438 Mn. in FY 19 to Rs. 422 Mn. in FY 20. Revenue in the Printers business dipped to Rs. 201 mn. in FY 20 from Rs. 276 Mn. in FY 19. The Printers business has the Retail Billing Printers and the traditional Dot Matrix printer business. The Digital services revenue for FY 20 was Rs. 34 Mn. as against Rs. 32 Mn. in FY 19. Though the revenues from Digital business were not in line with expectations, WeP Digital now has a strong base of customers. The business is focused on providing GST services and Document management solutions enterprise customers. A major portion of the business is operated through the wholly owned subsidiary WeP Digital Services Limited. The GST business was impacted due to continued relaxations in the tax regime and frequent changes due to which the customers have postponed their decision to opt for a technology-based compliance solution.

Operating Profit

During the year the Consolidated Earnings before Interest, Depreciation and Tax (EBITDA) of the company significantly improved from Rs. 89 Mn. in FY 19 to Rs. 134 Mn. in FY 20. The EBIT also substantially improved from Rs. (21.5) Mn. in FY 19 to Rs. 4.8 Mn. in FY 20. The Digital business was the main reason for the drastic improvement in the profitability for the FY 20. It reduced its losses from Rs. 43 Mn. in FY 19 to Rs. 11 Mn. in FY 20. MPS business continued to be profitable with Rs. 20 Mn. EBIT while the Printers business losses were increased slightly on account of dip in revenue. The cost structure alignment initiatives taken by the company ensured that the dip in revenues did not impact significantly on the profitability of the business. Its EBIT for FY 20 was Rs. (4.5) Mn. vs Rs. (0.1) Mn in FY 19.

With the improved profitability of the Digital business and the cost realignment initiatives undertaken, the company is confident that the investments made will result in much improved performance in the coming years.

Net Working Capital

The MPS operations are working capital intensive as it has to maintain supplies of spare parts and consumables across India for meeting customer service commitments. Further, since the customers are usually large corporates, public sector banks etc, there are receivables for the products supplied and services rendered. The company signed up for Ricoh products in Q4 FY 20 and has procured finished goods for sale in Indian market. This has resulted in an increase in Inventory as at the year end. The overall working capital cycle slightly increased from 106 days in FY 19 to 132 days in FY 20. While the receivables days increased from 61 days to 73 days, there was an increase in yearend inventory for devices which increased the inventory days from 151 days in FY 19 to 182 days in FY 20. The Net Operating Cash flows in FY 20 improved to Rs. 91.8 Mn. as against Rs. 64.4 Mn. in FY 19.

	FY 2019-20	FY 2019-19
Debtors Turnover Ratio	5.10	5.93
Inventory Turnover Ratio (On cost of goods sold)	2.04	3.05
Interest Coverage Ratio	0.38	(2.21)
Current Ratio	1.32	1.23
Debt Equity Ratio	0.28	0.21
Operating Margin Ratio	0.7%	-2.8%
Net Profit Margin Ratio	-3.1%	-4.1%
Return on new worth	-5.1%	-7.2%

Notes:

- Interest Coverge ratio has improved due to better profitability during the year*
- The Profit related ratios viz, Operating Margin, Net Profit Margin and Return on Networth have improved due to reduction in loss during the year*
- The Current Ratio improved on account of higher inventory and receivables and better operating cash flows for the year.*

4. COVID-19 Impact

COVID-19 started spreading world wide and in India during the period Jan to March 2020. On March 11, 2020, the World Health Organisation (WHO) characterized Covid-19 it as a pandemic.

Effective March 24, 2020, a country wide lockdown was enforced by the Government as its response to curtail the spread of Covid-19 in India. WeP as a company immediately activated its business continuity plan and took measures to both safeguard the interests of the company, employees and customers. Most of our employees were quickly asked to work from home. We continued to support our customers who are in the business of providing essential services during this period of lockdown to the extent permissible and possible. We also reached out to our customers and informed them about the measures that we have taken.

However, the impact on the industry and economy overall in India could be massive. The continued spread of the Covid-19 could adversely affect workforces, supply chain, customers, economies and financial markets globally, potentially leading to a heavy economic slowdown.

The impact of this could be that the customers spend on IT and IT related services can see a potential drop and every enterprise will be under pressure to reduce investments in capex and reduce operating expenses. The increased adoption of Work from Home for employees, can significantly impact the printing demand in the short run if not also in long run. The increased travel restrictions, supply chain constraints, pricing pressures, cash flow cycle disruptions can cause financial difficulties for our customers.

The potential impact to our results going forward will depend to a large extent on future developments regarding Covid-19 that cannot be accurately predicted at this time. While the company focusses on ensuring that our customers are serviced on time and regularly and safety of its employees is paramount, one thing is certain and it is that during this time, the company has to realign the strategy of each of its business lines and optimize/review every cost element.

5. Internal Control Systems and their adequacy

The Company has in place adequate internal control systems commensurate with its size and nature of its operations. The IFC framework devised by the company have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, safeguarding Company's assets, promoting operational efficiencies and ensuring compliance with various statutory provisions.

The company has appointed M/s. Gnanoba& Bhat, Chartered Accountants to oversee and carry out the internal audit of its activities. The Audit Committee reviews the adequacy of internal control systems, audit findings and suggestions. The Company's statutory auditors regularly interact with the Audit Committee to share their findings and the status of further improvement actions under implementation.

6. Human resource development / Industrial relations

WeP's people centric focus providing an open work environment and fostering continuous learning, improvement and development helped its employees to facilitate delivery of excellence for its customers. WeP believes that success of any company lies in making the customers happy and satisfied. The human resources strategy enabled the company to attract, integrate, develop and retain the best talent required for driving the business growth. The company has created a Performance driven environment with all employees having identified Key result areas directly aligned with the business results.

Talent Transformation and Leadership development have been the key focus areas over the last few years. Company believes in nurturing internal talent to leadership positions and provides an environment of adequate training, cross functional team assignments to aid them.

WeP continued its focus on fresh campus hires and has developed an exhaustive internal training module involving mentoring programmes, live case studies, on field training modules in addition to class room training. Quarterly Reward & Recognitions for best performers and Annual Recognition awards are given in order to promote a culture of competition and performance driven by WeP Values.

SWOT ANALYSIS

We appreciate the market realities, stiff competition faced by your company mostly from the unorganized and local service providers. And your Board acknowledges the following major SWOT analysis more specific to your company.

Strengths:

1. Large base on Enterprise Customers using the Managed Printing Solutions and services.
2. Direct relationship with major OEM like Ricoh, a global enterprise, that can add to its MPS and Digital services and solutions offerings.
3. Comprehensive Digital Services Provider with variety of Digital Solutions like GST Services, Document Management Solutionsetc
4. Ability to develop customized printing and billing solutions for various applications both on device and non-device based platforms.
5. Scalable infrastructure with pan India presence, wide geographical reach and strong operational expertise.
6. Long standing relationships with Customers and Technology partners.

Weaknesses:

1. Dependency on products manufactured by other OEM's for providing solutions in MPS business.
2. Inability to develop in-house technical expertise quickly to move up the value chain in MPS business.
3. Inability to retain key resources and attract talent due to lack of substantial revenue growth.

Opportunities:

1. Cross selling of Digital services in large base of Enterprise Customers of MPS.
2. Established customers and market for Ricoh products and solutions in India.
3. Uniquely positioned to provide one stop source of Digital Services.
4. Changes in regulatory and economic environment fuelling the need for printing and document management solutions.
5. Increasing number of customers looking for expert partners to manage their non-core needs vis a vis their core business.

Threats

1. Increased adoption of Work from Home for offices due to the current pandemic situation can impact office printing.
2. Constant regulatory changes in the GST landscape can impact the potential of the Digital business.
3. Assets under deployment in MPS business are reaching their cycle of replacement, thereby creating a pressure on the Investment plans of the company.
4. Significant revenues of the company are from the Banking, Financial Service and Insurance(BFSI) Segments. Any direct or indirect impact on the BFSI industry can impact the revenues of the company.
5. As the company is largely dependent on imports for its supply of printers, consumables and spares, rupee depreciation impacts the margin of the company significantly.

Risk Management Process

The company has an established sound risk management process which is overseen by the Risk Management Committee of the Board through a structured framework. Strategic, Operational and Business risks are identified and appropriate mitigating action plans are put in place by the company. They are reviewed periodically.

The following risks are identified as key risks by the company. The mitigating steps taken to counter them are also outlined below.

Revenue Concentration

The company has concentration of revenue coming in from industry segments like Banking, Financial services and Insurance. Further, a few customers also contribute to a fair share of the revenue for the company. Such concentration exposes the company to a risk inherent in that segment or for a particular customer.

Mitigants

We have adopted prudent norms based on which we monitor and prevent undesirable concentration in geography, industry or customer. The quest for diversified activities within the existing realm of overall management after due consideration of the advantages and disadvantages of each activity is consistent with company policy of increasing business volumes with minimum exposure to undue risks. Concentration of revenue from any particular segment of the industry is sought to be minimized over the long term by careful extension into other activities, particularly in areas the company has some basic advantage such as availability of land, technical or manpower resources.

Inventory Obsolescence Risk

The company needs to maintain printers for a period of more than 48 months. These models are constantly upgraded by the principal suppliers. However the company needs to maintain adequate stocks of spares and toners at all its

customer locations in order to meet the customer requirements. These spares may or may not be used. This leads to a risk of us maintaining obsolete stocks. At times we are required to maintain inventory for demo equipments, replacement for repairs and normal distribution stocks. Your company faces the risk of obsolescence in the event of not being able to sell or deploy the above stocks.

Mitigants:

Your company is conscious of these risks and tracks and monitors its inventory at regular intervals to minimize obsolescence. Your company continuously monitors the stock levels of such items and ensures they are within the reasonable limits.

Industry Risk:

Your company is facing stiff competition from other players who are both organized large brand owners and unorganized local players. This competition forces the company to cut down its margins and reduce price for its products and services for both the existing customers and new potential customers.

Mitigants:

Your company has put in a focused approach towards monitoring all such competitive activities. Your company reviews its customer relationship strategy periodically and keeps providing innovative and new solutions. Your company is also focusing on moving up the value chain at the customer by providing Document Management solutions. Your company believes in providing value to the customers and has put in a dedicated team to manage the existing and new customers.

Foreign Exchange Risks:

A good amount of import of stock is done in order to meet the consumables, spares and printer requirement. The time involved from the date of order, receipt of the stock from the vendor, supply to the customer has remained in the range of 30 to 45 days. Further, the credit period from the vendor is an average period of 45 to 60 days. This time lag is potential enough to affect the profitability of company due to fluctuation in the currency exchange rate.

Mitigants:

Company has a defined policy for managing its foreign exchange exposure. The management reviews the hedging policy on a quarterly basis and takes appropriate decision from time to time in order to minimize the impact of such volatility.

System Risks

These risks relate broadly to System capability, System reliability, Data integrity risks, coordinating and interfacing risks.

Mitigants:

IT department maintains repairs and upgrades the systems on a continuous basis with personnel who are trained in software and hardware. Password protection is provided at different levels to ensure data integrity. Licensed software is being used in the systems. The Company ensures "Data Security", by having access control / restrictions.