



MANAGEMENT DISCUSSION AND ANALYSIS

A. INDUSTRY OVERVIEW:

AIA Engineering Ltd. ("AIAE") designs, manufactures and markets a wide range of consumable wear parts (mill internals) which are used in the process of Crushing and Grinding in Cement, Mining, Thermal Power and Aggregate industries. AIAE partners with customers in these industries in their cost and process optimization journey, helping them improve operational parameters. The Company employs casting process for the manufacture of the products.

Of the industries AIAE serves, Mining represents the largest opportunity and continues to be the growth engine. The Company focuses on 4 mineral ore types that represent the biggest pie of the mineral grinding space. These are Iron, Platinum, Gold and Copper. It represents a large opportunity for conversion of conventional forged grinding media to high chrome grinding media. Annual consumption of grinding media for the mining segment is estimated at 2.5 million tons with less than 20% of the same converted to high chrome, thus offering a sizeable growth opportunity of conversion. AIAE is now embarking on a journey of offering Mill Liners to the mining market and widening its wallet share and value addition with customers. Mill Linings is estimated to be 300,000 ton global market and represents an additional growth opportunity.

AIAE's philosophy is to partner with customers and design solutions to improve their cost and process parameters. It involves multiple initiatives that target different parts of customer's grinding operation. AIAE offers unique and custom designed alloys that help improve wear rates of grinding media and thereby reduce wear cost on that account. For its Gold and Copper customers, AIAE offers down-process benefits which include increase in metal recovery and reduced consumption of expensive and toxic reagents. And AIAE now offers mill optimisation for mining customers through unique mill lining solutions resulting into improvement in throughputs and cost reduction in the grinding process which includes reduction in power cost and reduced cost of wear parts. AIAE believes that because of this unique combination of capabilities to offer multiple solutions, it is well positioned to capitalise on the significant growth opportunity available in the global mining space in a sustained manner.

In FY 2019-20, mining markets enjoyed relative stability in their operations especially in commodity prices which saw recovery and stability. Cement markets continue to remain flat worldwide in line with trends observed over past many years. Large economies like US, Europe and India have significant needs to ramp up infrastructure which in turn will help the Cement market. But till that

time, we continue to expect a flat market scenario. We continue to engage with our customer with solutions that can help improve their operating parameters and maintain our market share.

The Covid-19 Pandemic which has surfaced practically during the last quarter of fiscal year 2019-20 has adversely impacted almost all countries of the world and India is also not an exception. Governments of most of the countries declared either partial or complete Lockdown and due to this reason the economic activities including trade and industry practically came to a halt for varying periods during the last quarter of fiscal year 2019-20 and it has also continued in different proportions in the first quarter of fiscal year 2020-21.

In view of the Lock down declared by MHA on account of threat of COVID 19 in many states across the country from 23 March 2020, the operations of AIAE's Plants and Offices at various locations had been temporarily under lock down. AIAE restarted manufacturing operations at Company's plants located around Ahmedabad in early April and its plant at Trichy around second week of April 2020, while its Nagpur plant started in the 4th week of April 2020 in a staggered manner. AIAE has developed comprehensive operating instructions for COVID-safe environment, and these are effectively implemented at all Plants. All support functions are operational and working from home.

We are carefully gauging the impact of this pandemic on our customers mainly comprising of Mining and Cement customers spread over more than 120 countries. While many countries, where our customers are based, had various levels of lockdown procedures, most of our customers' plants have largely continued their operations, though at a subdued level, as Cement and Mining are both classified as essential commodities.

In our view, both Cement and Mining industries have been impacted in varying degrees by the pandemic related contraction and its knock-on effects on global supply chains. The ripple effect of this, like on most industries, is also faced by our customers and, by extension, by us. We have seen lower off take in the months of April and May and it is difficult to estimate how soon things will revert to normal. However, with Cement and Mineral Ores' end use in infrastructure and other essential requirements, along with the massive fiscal stimulus packages offered by all major Countries for Economic revival, we expect consumption to ease back earlier than many other products which are discretionary in nature.

We are in close contact with our customers through online tools and remain committed to partnering with them in their process optimization journey.

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AIAE's production was operationalized in a staggered and restricted manner and reached 70% pre-COVID capacity utilization in June 2020. AIAE is hopeful to enhance utilization progressively over next few months. As a strategy, we maintain stock at many locations closer to customers' plants which allows us to service customers from these warehouses.

As for our business in FY 2019-20, we saw stability in our raw materials, especially in Ferro Chrome prices which had remained choppy for last few years. Ferro Chrome pricing is linked to Chinese actions on production of steel and stocking decisions on this raw material which in turn brings volatility in pricing. We expect Ferro Chrome to remain reasonably stable going forward.

While shipping rates for most part of the fiscal year 2019-20 were showing a gradual upward movement it was within the manageable range. We expect that in the post Covid-19 period, in the initial phases the shipping rates may remain volatile but over a medium to longer term the shipping rates should stabilize.

Lastly for major portion of the fiscal year 2019-20 we saw a range bound movement in INR vs. other currencies more particularly USD. However, in the last quarter of the fiscal, particularly during February/March 2020, there was a sharp depreciation in INR vis-à-vis USD primarily owing to the impact of the Covid-19 on the global economy as well as on the Indian economy. The closing INR rate witnessed a sharp erosion and was lower at ₹ 76.86 to a USD which was the lowest level to which the INR had ever fallen. Again, in the post Covid situation it is expected that Rupee will remain volatile and there is a high degree of uncertainty prevailing all over the world. India continues to maintain a current account deficit which in turn brings pressure on INR in times when capital flows ease or reverse. We follow a rigorous hedging policy to mitigate the risk to the extent possible.

B. SEGMENTWISE PERFORMANCE:

The Company primarily operates in only one segment i.e. manufacturing of High Chrome Mill Internals. In Fiscal Year 2019-20, 77.39% of its total sales came from outside India while balance 22.61 % came from sales from India.

C. OUTLOOK AND PROSPECTS:

AIAE's core business involves offering solutions around grinding and crushing operations with focus on wear parts used in these processes at Cement plants, Mines and coal fired Thermal power plants. AIAE's growth prospects are linked to overall economic conditions in these industries in addition to its strategy around taking higher market share.

AIAE's primary growth prospects are linked to its strategy for the mining space from which bulk of its growth is expected to accrue from. The growth prospects are primarily emanating out of the large annual replacement market in this industry. Conventionally, forged grinding media is being used for grinding and crushing in grinding mills. Less than 20% of this is converted to high chrome and hence presents an opportunity to AIAE to convert forged media to high chrome. Main benefits of high chrome include reduction in wear cost, reduction in consumption of reagents and down process benefits including higher recovery of metal in gold and copper ore. AIAE engages with a customer over 18 to 24 months to develop a mine site by doing trials and establishing optimal chrome grade for that set of operating conditions. Because of these benefits we expect high chrome to take higher market share over forged over a time.

Additionally, AIAE is further entrenching itself in the mining space by venturing into Mill Linings wherein the offering will include optimization of grinding circuit. The Company will be able to offer reduced grinding power costs and increased throughput as a solution to customers. These will be material savings for the customer and with Company's existing solutions around wear cost reduction and down process benefits of increased recovery of metal and reduction in reagent consumption, it will position the Company as a true partner with its Customers and help sharpen its engagement meaningfully in the Mining space.

In spite of a possible near term slow down in the mining industry in wake of the impact of the Covid-19 Pandemic, we believe that it should normalise within a relatively shorter period and thus in medium to long term the prospects of mining industry, in as much as AIAE is concerned, remain unaltered and AIAE continues to remain bullish on mining industry as its core area of focus. Again, as per the information available with AIAE, despite Lockdown being declared in major countries of the world most of the mines continued to operate, though at lower levels of output. Similarly, the process of developing solutions for both the existing as well as new mines continued without any major disruption. Now therefore as most of the major economies of the world have consciously started unlocking the economic activities we are confident that at best, this near term slow down would represent a minor aberration and will not impact the long term prospects for AIAE in mining segment.

In the Cement segment, the near-term prospects continue to remain flat. As and when India's cement production will go up your company will be an immediate



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beneficiary in terms of incremental production going to service the additional requirement. On the global front, most developing and developed markets continue to be marginal growth phase reflecting flat sales for AIAE. In China, the Company currently maintains a limited presence by marketing specific products.

In as much as the thermal power plants are concerned the Company continues to enjoy a niche position in this particular segment in India. The Company will strive to maintain a steady growth rate in this particular segment matching with the rate at which the sector grows.

D. CAPEX PLAN:

The company's current capacity stands at 3,90,000 MT of high chrome mill internals which has increased from 3,40,000 MT after implementation of the first phase of 50,000 MT capacity of Grinding Media GIDC Kerala expansion project. The company is also in the process of setting up of a dedicated Greenfield plant for manufacture of Mill Lining with a capacity of 50,000 TPA whose implementation has commenced in fiscal year 2019-20. The company expects to commission this plant before March 2021. The total estimated capital outlay for the Mill Lining plant is ₹ 250 crores, out of which the company has already incurred Capex of ₹ 60.00 crores in FY 2019-20 and the balance Capex of ₹ 190.00 crores will be incurred in FY 2020-21.

However, in line with various uncertainties emerging on account of Covid-19 Pandemic the company has decided not to break ground on the second phase of the grinding media Brownfield capacity expansion of 50,000 MT at GIDC Kerala, Ahmedabad. The second phase will be most likely deferred to the next fiscal year.

The company plans to fund all the above Capex from internal cash accruals.

E. RISKS AND CONCERNS:

Your Company is a manufacturing concern with facilities in 4 cities in India and with sales and distribution spread across the world. The Company is exposed to certain operating business risks, similar to most manufacturing companies, which is mitigated by regular monitoring and corrective actions.

Key risks that the Company faces are around stability in the mining market, foreign exchange rate fluctuation, fluctuation in raw material prices, debtor defaults and Disruption and Uncertainty in Business due to Covid-19 pandemic.

COVID-19: The company's operations might be impacted due to exposure to the pandemic. These could impact

revenue growth and lead to under-utilisation of established capacity. Demand for the company's product may be adversely affected in our industrial segments of Mining, Cement and Thermal. This is likely to affect the company's earnings in the short and medium term.

However, the company's relative competitiveness is expected to increase because of its traditional value focus and its strong track record in helping customers improve their efficiency and saving costs. Various measures taken by company include Deployment of infrastructure enabling employees to work from home and ensure business continuity, Ensuring continuation of production at required level with minimum disruption and cost, guidance and mandate of appropriate workplace operating procedures including social distancing measures, regular coordination with key suppliers for smooth deliveries of material required for desired level of production and regular communication with customers and monitoring of receivable position, review of cash surplus and current capex spend.

Currency fluctuation: On account of high exchange volatility, there is possibility of big exchange fluctuation due to higher export in turnover and import of Raw Material Proactive and adoptive hedging policy which is aligned with market best practices and Dynamic Pricing Mechanism are in place to limit impact of exchange volatility on receivables and forecasted revenue.

Raw Material fluctuation: The Company engages with the customers and is able to pass through most of the raw material changes – either through price pass through clauses if there are longer tenure contracts or by re-pricing new offers. The Company is closely monitoring raw material price movements and is regularly buying the raw materials during low price cycles so as to average out the impact of price fluctuations.

Debtor Defaults: Company has taken up comprehensive credit insurance policy to mitigate risks around financial conditions of export mining customers.

F. INTERNAL CONTROL SYSTEM AND THE ADEQUACY:

The Company has proper and adequate systems of internal controls commensurate with its size and nature of operations to provide reasonable assurance that all assets are safeguarded, transactions are authorized, recorded & reported properly and to ascertain operating business risks, which are mitigated by regular monitoring and corrective actions. The internal control systems have been designed so as to ensure that the financial and other records are reliable and reflect a true and fair view of the state of the Company's business. The Company has the SAP-ERP system which has also helped in further strengthening the Internal Control System.

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The Company continues to co-partner and engage with reputed external firms for carrying out Internal Audits. Reviews are conducted on an on-going basis, based on a comprehensive risk based audit plan, which is approved by the Audit Committee at the beginning of each year. The Audit Committee meets on a quarterly basis to review and discuss the various Internal Audit reports and also review closure of all agreed actions and compliance to the audit plan.

BSR & Co. LLP, the statutory auditors of the Company have audited the financial statements included in this annual report and have issued an attestation report on our internal control over financial reporting (as defined in Section 143 of Companies Act 2013). Based on its evaluation (as defined in Section 177 of Companies Act 2013 and Regulation 18 of SEBI LODR Regulations 2015), our audit committee has concluded that, as of 31 March 2020, our internal financial controls were adequate and operating effectively.

G. FINANCIAL PERFORMANCE REVIEW:

The financial performance of the Company as a whole (on Consolidated basis) is as under:-

I. Consolidated Performance:

An analysis of the consolidated performance of the Company is given below:

• Physical Production:

The production achieved is as under:

	(Qty in M.T.)	
Product	F.Y. 2019-20	F.Y. 2018-19
High Chrome Mill Internals	2,71,274	2,89,666

• Sales Turnover:

The Comparative position of Sales Turnover achieved by the Company is as under:

	(₹ in Lakhs)	
Particulars	F.Y. 2019-20	F.Y. 2018-19
Sales in India (20.88%)	60,387.49	68,837.66
Sales Outside India (79.12%)	2,28,744.26	2,28,070.54
Total	2,89,131.75	2,96,908.20

	(₹ in Lakhs)	
Particulars	F.Y. 2019-20	F.Y. 2018-19
1 Revenue from Operations	2,98,087.75	3,06,949.99
2 Cost of Materials Consumed (Including change in Inventories)	1,17,346.87	1,22,525.44
- % of revenue from operations	39.37%	39.92%
3 Employee Benefit Expense	13,438.76	12,639.13
- % of revenue from operations	4.51%	4.12%
4 Other Expenses	99,274.02	1,05,798.57
- % of revenue from operations	33.30%	34.47%
5 EBIDTA	82,219.10	78,079.29
- % of revenue from operations	27.58%	25.44%
6 Finance Costs	558.75	754.71
- % of revenue from operations	0.19%	0.25%
7 Depreciation and Amortization Expense	9,787.92	7,884.57
- % of revenue from operations	3.28%	2.57%
8 Profit Before Tax	71,872.43	69,440.01
- % of revenue from operations	24.11%	22.62%
9 Profit After Tax (Including Other Comprehensive Income and after Minority Interest)	58,645.60	50,428.84
- % of revenue from operations	19.67%	16.43%



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II Standalone Performance

The analysis of Standalone performance of the Company is given below:

• Sales Turnover :

The Comparative position of Sales Turnover achieved by the Company is as under:

(₹ in Lakhs)		
Particulars	F.Y. 2019-20	F.Y. 2018-19
Sales in India (22.61 %)	56,502.47	66,167.19
Sales Outside India (77.39%)	1,93,303.97	2,07,549.52
Total	2,49,806.44	2,73,716.71

• Key performance indicators:

An analysis of the key indicators as percentage to Revenue is given below:

(₹ in Lakhs)		
Particulars	F.Y. 2019-20	F.Y. 2018-19
1 Revenue from Operations	2,58,762.44	2,83,758.50
2 Cost of Materials Consumed (including change in inventories and purchase of stock in trade)	1,17,601.25	1,39,152.03
- % of revenue from operations	45.45%	49.04%
3 Employee Benefit Expense	9,953.04	9,089.14
- % of revenue from operations	3.85%	3.20%
4 Other Expenses	73,944.44	78,458.86
- % of revenue from operations	28.58%	27.65%
5 EBIDTA	1,05,812.16	68,680.05
- % of revenue from operations	40.89%	24.20%
6 Finance Costs	519.89	719.05
- % of revenue from operations	0.20%	0.25%
7 Depreciation and Amortization Expense	9,551.24	7,769.59
- % of revenue from operations	3.69%	2.74%
8 Profit Before Tax	95,741.03	60,191.41
- % of revenue from operations	36.99%	21.21%
9 Profit After Tax (Including Other Comprehensive Income)	83,515.58	41,577.33
- % of revenue from operations	32.28%	14.65%

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H. DETAILS OF SIGNIFICANT CHANGES IN THE KEY FINANCIAL RATIOS & RETURN ON NET WORTH

Pursuant to amendment made in Schedule V to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in Key Financial Ratios and any changes in Return on Net Worth of the Company including explanations therefor are given below:

Standalone

Sr. No.	Particulars	F.Y. 2019-20	F.Y. 2018-19	Change	Change in %	Explanations
1	Debtors Turnover (Days)	137	107	30	27.74%	On account of increase in overall debtors due to lock down
2	Inventory Turnover (Days)	38	32	6	19.60%	
3	Interest coverage Ratio	185.16	84.71	100.45	118.58%	On account of reduction in finance cost and borrowing both.
4	Current Ratio	10.45	8.51	1.94	22.79%	On account of increase in current asset, mostly current investment, receivable and inventory.
5	Debt Equity Ratio	0.03	0.04	(0.01)	-25.09%	On account of increase in total equity
6	Operating Profit Margin (%)	42.36%	25.09%	17.27%	68.80%	On account of dividend from subsidiaries and increase in sales margin.
7	Net Profit Margin (%)	33.33%	15.16%	18.18%	119.94%	On account of increase in operating profit margin as above
8	Return on Networth (%)	24.53%	13.98%	10.56%	75.53%	On account of increase in net profit margin

Consolidated

Sr. No.	Particulars	F.Y. 2019-20	F.Y. 2018-19	Change	Change in %	Explanations
1	Debtors Turnover (Days)	86	81	5	6.56%	
2	Inventory Turnover (Days)	74	61	13	21.63%	
3	Interest coverage Ratio	129.63	93.01	36.62	39.37%	On account of reduction in finance cost and borrowing both
4	Current Ratio	8.67	7.67	1.00	13.06%	
5	Debt Equity Ratio	0.03	0.04	(0.01)	-16.90%	
6	Operating Profit Margin (%)	28.43%	26.30%	2.13%	8.10%	
7	Net Profit Margin (%)	20.41%	17.20%	3.21%	18.69%	
8	Return on Networth (%)	16.36%	15.66%	0.70%	4.48%	

I. INDUSTRIAL RELATIONS AND HUMAN RESOURCE MANAGEMENT:

The Company believes that human resource is the most important asset of the organization. During the year under review, your Company continued its efforts to improve HR related processes, practices and systems to align these to the organizational objectives. Training and development of its employees is ensured through on the job and outside training programs and workshop. The Company continues to attract excellent talent to further its business interests. Industrial Relations continue to be cordial.

CAUTIONARY STATEMENT:

Statements made in the Management Discussion & Analysis describing the Company's objectives, projections, estimates, expectations may be "Forward-looking statements" within the meaning of applicable securities, Laws & Regulations. Actual results could differ from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand supply and price conditions in the domestic & overseas markets in which the Company operates, changes in the government Regulations, tax Laws & other statutes & other incidental factors.