

Management Discussion and Analysis

I) Industry Structure and Developments

- The Home Appliances segment of consumer durables also known as White goods, comprises of Refrigerators, Washing Machines, Air Conditioners (ACs'), Microwave Ovens, Vacuum Cleaners and Dishwashers.
- With the entry of global giants like Whirlpool, Electrolux, Samsung, LG, Daewoo, the Indian customer now has a plethora of world-class brands to choose from. Among the MNC's, in the consumer durables market, Koreans have been the most aggressive and they have performed better. Greater spending and access to cheap finance have made these companies as formidable competitors.
- On the other hand, Indian companies have the disadvantage of high costs finance, slow growth of market and erosion in the profit due to competition from multinationals.
- The refrigerator market, with sales volume of 3.2 million units, is broadly divided into :
 - Conventional or Direct Cool Refrigerator and
 - Frost Free Refrigerator
- While direct cool refrigerators account for 85% of the domestic market in volume terms, the increase in share of frost-free refrigerator is expected to be driven largely by replacement demand. The price difference between the lower range of frost-free refrigerators and direct-cool refrigerators is around Rs. 5,000.
- The market can also be segmented on the basis of size, with the 165-litre refrigerator segment being the largest segment with a share of 70% of the total market in volume terms. However, the share of 200 litre and higher capacity refrigerators is expected to increase on account of higher income levels and additional features in these models.

The Company sees lot of opportunities to take up OEM supplies to competition, in view of superior quality and aesthetics in the new range of Refrigerators.

II) Opportunities and Threats

Opportunities

- Strong brand equity
- Only manufacturer of refrigerators in South India
- Success story of frost free refrigerators can be replicated in direct cool

Threats

- Flat/negative market growth in the last 2 years
- Stiff competition from multinationals
- Slow down in replacement demand
- Weak financials of the Company, Over leveraged, unsustainable debt levels
- Recent loss of customers due to negligible marketing activity
- Low

operating levels below break even point resulting in cash erosion on a continuous basis.

III) Performance

- Even when the operations of the Company was seriously affected due to a squeeze on its working capital, the operating team has worked on up-grading existing models and developing new models for addressing the market requirements.
- The Company was first in the country to introduce environment friendly Non-CFC Refrigerators in both Direct Cool and Frost Free segment, simultaneously.
- All Frost Free Refrigerators have been up-graded with latest multi-flow technology and aesthetics/performance/features have been improved to 'best-in-class' international standards.
- The Company has introduced indigenously manufactured 340, 380 and 400 litres refrigerators. The competition generally imports Frost Free Refrigerators above 300 litres. Stainless steel metal doors have been introduced in all high-end Frost Free Refrigerators and VCM doors in all high end Direct Cool Refrigerators.
- Although a very late entrant in the Direct Cool segment, the Company now has a wide range of Direct Cool models in capacity and colours.
- In the extremely price conscious Indian market, the Company offers superior "Value for Money" proposition to the customer by way of enhanced aesthetics/features at competitive prices.

IV) Outlook

Indian Market

- The demand drivers of the industry are increased competition, lowering of duty/tax structure, increased availability of consumer finance and dealer network expansion. The advent of frost-free segment has also acted as a demand stimulant for refrigerators.
- The demand for refrigerators is expected to grow at a CAGR of 10% p.a. over the next 5 years. In the frost-free segment, price realizations are expected to drop further. In direct cool segments, price realizations are expected to stabilize as the prices have reached low levels.
- The consumer durables market is poised for a steady and rapid growth. Competition is likely to be intense with MNCs trying to make inroads in the Indian market and the domestic players trying to hold on to their share of the market. This is likely to lead to severe pressure on the margins.

- The product range of the Company straddles across the entire capacity and value segments of Refrigerators market and is well poised for ramping up production, sales volume in the BPL Brand.
- The Company sees lot of opportunities to take up OEM supplies to competition in view of superior quality and aesthetics in the new range of Refrigerators.

Exports

- The Company registered a growth of 38% in exports in the flat year. The growth trend will be maintained in the future years also.
- Supply of products on OEM basis to Brand owners' abroad offers higher volume business.
- During 2002-03, supplies have been made to four OEM Brands and during current year four more OEM orders have been contracted for supplies in the flat year 2003-04.

V) Risks and concerns

- With the strength of R&D, in-house Tool Room, low foreign exchange content and the successful introduction of Non-CFC technology, the Company considers risks of : • Technology • Product changes • Foreign exchange and • Environmental risks as low • The financial and market risks are considered medium • The company is working with Institutions and Banks for financial restructuring to improve revenue generation.

VI) Internal Control Systems and their Adequacy

- The company has out-sourced the Internal Audit Function to an experienced firm of Chartered Accountants who carry out the same. The scope and extent of Internal Audit encompasses, audit and review of transactions involving, Inventory and Purchases including Sub-contracting, Cash and Bank transactions including bank reconciliation, verification of Accounting Records, Central Excise and MODVAT Records, General Ledger, Statutory Compliances' and Fixed Assets.
- The Internal Auditors furnish the report to the Company and in turn an executive summary of observations and Company's comments are made available to the Audit Committee. The Committee reviews the summary of observations with the Auditee's comments and gives directions to the Company for initiating necessary corrective action.
- The Statutory Auditors review the internal audit reports, the area, scope and coverage and advise the management from time to time.

- Refrigerators come under the purview of mandatory Cost Audit and a Cost Auditor appointed by the Central Government conducts the same

VII) Discussion on Financial Performance with respect to Operational Performance

• Financial Objectives

Financial objective of B S Refrigerators Limited (BSRL) is mainly to ensure availability of need based working capital thereby increase the volume of activities, which will help to reduce the overall loss suffered by the Company.

• Review Process

The Company carried out stringent financial reviews at regular intervals. A monthly analysis of cash flow and working capital requirements were carried out to ensure that the performance matched or exceeded the budget. This ongoing check also ensured adequacy of funds to meet peak / seasonal demands.

• Accounting Policies

The Company follows accrual method of accounting. The details of these policies are available elsewhere in the annual report. The Company follows conservative accounting policies to ensure that the results of the company are reported credibly to all stakeholders.

• Share Capital

Paid up Share Capital of the Company as on 31st March, 2003 is Rs. 29.64 Crores comprising 2,25,93,070 equity shares of Rs.10/- each, fully paid up, and 94,00,000 equity shares of Rs 10/- each, partly paid, up to the extent of Rs.7.50/- each. During the financial year ended 31st March, 2003, there was no change in the value of share capital.

• Reserves & Surplus

The Reserves of the Company has been reduced from Rs. 127.02 Crores in the financial year 2000-01 to Rs 125.99 Crores in the financial year 2001-03. The components attributable to this changes are: (1) Increase on account of Non CFC Grant of Rs 1.70 Crores received from World Bank credited to Reserves. (2) Decrease due to transfer of an amount equal to the excess depreciation on account of revaluation of fixed assets, from revaluation reserves to the extent of Rs 2.73 Crores.

• Borrowings

Total borrowings of the Company as on 31st March, 2003 was Rs. 177.53 Crores, out of which, secured loan was Rs. 147.53 Crores and unsecured loan was Rs. 30 Crores. Secured Loans include Interest accrued and due aggregating Rs. 37.26 Crores.

• **Cost of Borrowing**

As compared to the previous year ended on 30th September, 2001, financial expenses has been reduced by Rs.7 Crores in the current period. The Company is planning to initiate several steps to reduce the cost of borrowings in the coming months.

• **Net Block**

Net Block as on 31st March, 2003 stood at Rs. 229.95 Crores as compared to Rs. 204.40 Crores as on 30th September, 2001. Rs. 49.80 Crores has been added to the gross block during the accounting year. A bulk of this investment was made in Design & Drawings.

• **Capital Expenditure**

The capital expenditure of the Company in 2001-03 was Rs. 49.80 Crores. The Company had invested Rs. 46.20 Crores in Design & Drawings, Rs. 3.35 Crores in Plant & Machinery and Rs 0.25 Crores in other Fixed Assets.

• **Depreciation & Amortization**

The details of depreciation and amortisation have been provided in the notes to accounts. No significant changes were made in the depreciation policies.

• **Prior Period / Extra-Ordinary Items**

The Company has re-focussed on core business on the basis of market demands and has also carried out a major exercise of reconciliation of its account with many of its suppliers, customers and other parties. Consequently, few items were identified as not having significant commercially realizable value and have been charged off as extra-ordinary / non-recurring / prior period expenditure and the details for the same are furnished in the notes to accounts.

• **Corporate Tax**

Since the Company has not generated any taxable income for the period, no provision has been made in the books.

• **Foreign Exchange Earnings**

The Company has earned Rs. 4.80 Crores from exports during 2001-03.

VIII) People & HR

Company's Human Resource (HR) practices have contributed to achieve higher employee productivity and greater efficiency, to attain competitive advantage and achievement of Company's overall objectives and goals.

Some of the major HR initiatives undertaken during the year are given below:

- To enhance the skills & knowledge of employee, job rotation system was introduced. This has resulted in filling up of several vacant positions internally, by re-deployment of competent manpower.
 - Need based training programme is continuous, by being carried out at factories for Workmen & Supervisory Staff, to increase their knowledge, skills & competencies.
 - Concerted efforts have been put to reduce cost and inventory, by introduction of *Gemba Kaizen* initiative.
 - Implemented Activity Based Costing system for identifying and eliminating non-value-adding activities in the Company.
 - Process benchmarking with best practices and actions initiated to excel in them.
 - Implemented world class quality improvement concepts like TPM and Kaizen.
- **Safety, Health and Environment**
- The Company continued to provide a safer, healthier work environment by practicing manufacturing processes, which are environment friendly.
 - A Safety Committee is functioning in the factory, which is educating employees on Safety at workplace, Fire Fighting in association with National Safety Council and the Inspector of Factories.
 - Safety Audits were undertaken by internal/external auditors, which has resulted in providing employees with safe working environment.
- **Industrial Relations**
- A cordial and healthy environment was maintained with the following ongoing initiatives to strengthen Employee Relations:
- Regular Conduct of Open House Meetings to understand the grievances of the employees and to address these grievances collectively, with the active involvement of senior level executives.
 - Effective functioning of Various Committees, with the active participation of representatives of employees.
 - As at 31st March, 2003, the Company had a total strength of 466 employees.