

POLAR INDUSTRIES LIMITED

MANAGEMENT DISCUSSIONS & ANALYSIS

CONSOLIDATION OF MANUFACTURING UNITS

- The company at present is operating from four manufacturing units-two at Kolkata and one each at Noida and excise exempt zone at Roorkee. The company during the year 2004-05 produced 3.46 lacs fans from Roorkee. The company, encouraged by the success has now finalized one more rented location at Roorkee.

As a long term strategy, the company has gone for purchase of land in the SIDCUL Industrial Area having 20,400 Sq.mt area. The company has already paid Rs 113 lacs approx partly out of bridge loan disbursed by PNB and balance out of company's own resources. The company contemplates to start full fledged manufacturing unit in the said premises by December'06.

The company is planning to consolidate its two units at Kolkata into one. The consolidation of the manufacturing units shall result in the reduction of the overheads.

2. INCREASE IN THE RAW MATERIAL PRICES

The raw material prices of core raw material like Steel, Copper, Aluminum, Ball Bearing etc. continued to show an upward trend. Part of the raw material price increase has been offset by operations at Uttaranchal unit; being excise exempt zone. The company is of the opinion that there shall be a correction in the raw material prices in the near term due to build up of capacities around the world. As a result the indigenous manufactures may lower prices so as to be at par with the international prices.

3. REVISED CDR PROPOSAL

The earlier CDR package approved in 2003 did not work on account of delay in sale of idle assets, non-release of part LC limits etc necessitating the working of revised package which has been submitted to the Monitoring Agency, seeking relief in terms of interest rate reduction, deferment of repayment schedule apart from additional working capital finance.

4. NEW BUSINESS SEGMENTS

(a) Appliances

The company has recently launched Appliances Business under the brand name "Polar Bear". The Brand name Polar Bear is an extension of Polar brand. The company has made efforts in the Appliances segment by appointing distributors in the north & south regions of the country. The company has received a good response and soon the company shall cover the remaining part of the country. The company has registered sales of Rs.135 lacs under the appliances segment. The market size of Electrical Appliances is estimated around Rs.850 Crores with a growth rate of around 10%-15% p.a.

(b) Lighting & Electrical Products

The company has also geared itself to launch the business of Compact Fluorescent Lamps (CFL) and Luminaries. The total market size of the Luminaries market is Rs.3,400 Crores. CFLs have 80% electricity savings and 8 times of life as compared to the normal lamps. The profit margins in CFL look better as compared to Fan and Appliances segment. The CFL launch will be under the brand name of "Polar Win light."

The company is also considering to enter into the business of other Low voltage Electrical Items like MCBs, DBs and other switchgear products in the current year. This will add to overall value to the company, besides improving its bottomline.

5. OPPORTUNITIES & THREATS

Opportunities

- The demand for the electrical goods is growing in the country.
- The demand for fan industry is dependent on the growth of the housing sector/construction activity which is giving boost to these products.
- The power sector reforms in the country shall give boost to CFL segment as this is an energy saving device.
- The small appliances market is a growing market and offers us an opportunity to grow.

- Polar brand is well known and hence creating awareness for sub-brands of each product segment will not entail much investments.

Threats

- The fan & appliances industry continues to face competition from organized and unorganized sector. The imports from China are also a threat particularly in the Table, Pedestal and wall segment. (TPW segment) In order to counter the threat, the company had launched low cost fans. The company also continues to source TPW fans from China in order to take advantage of the price differential.
- The Appliances market also faces competition from a number of players. However, due to immense potential, there is a room for everyone. The company is sourcing the appliances from tax free regions in order to cut down the costs.
- The most challenging and uphill task before the company is to restructure its operations and finances with co-operation from its bankers/FIs and other major stakeholders.

6. INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

The accounting and administrative controls established by the Company are appropriate to the size and nature of the business of the company.

The Company has established proper internal checks in day today transactions. Accounting procedures are so designed that no single person is authorized to carry out all the operations involved in a transaction. The allocation of duties has been made in such a way so that no single employee has an exclusive control over any one transaction or a group of transactions. Apart from the above, there is a system of checks and cross reconciliation.

The Company has established internal audit and concurrent audit separately. This ensures the Company has a system of budgetary controls. Budgets are prepared for each segment separately on monthly and yearly basis. Actual performance is reviewed on monthly basis. Norms for consumption have been laid down for each product.

The Company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets. The fixed assets of the Company have been physically verified by the management at regular intervals.

Apart from the above, internal audit is carried out to evaluate the internal checks established by the Company and to ensure that accounting and other allied records have been maintained properly.

7. DISCUSSION ON FINANCIAL & OPERATIONAL PERFORMANCE

Particulars	Fans	Pumps	Stampings	Appliances
1. Quantity Sold	1257389 Nos.	8774 Nos.	65 MT	21675
	(PY) (1215797 Nos.)	(9904 Nos.)	(1627 MT)	(nil)
2. Net Sales	8664.35	145.87	21.45	134.99
(Rs. in lacs)	(PY) (7515.13)	(139.91)	(537.19)	(nil)
3. PBIT	230.26	10.25	52.81	37.11
(Rs. in lacs)	(PY) (172.67)	(23.95)	(61.93)	(nil)

- A quantitative growth of 3.4% in fan segment.
- In Fan segment, PBIT has increased due to excise duty benefit at Roorkee.
- Stampings division was sold in the last year.

8. MATERIAL DEVELOPMENT IN HUMAN RESOURCE / INDUSTRIAL RELATIONS

The Management laid key focus on development of its human capital deployed in different departments of units and branches all across the country. Job profiles, with an objective to prepare individual development plan have been specified. Consolidated approach to squeeze the duplication of work and control the overhead is also going to be adopted.

Industrial relation is also an integral part of management practice where work culture, compensation review and environment scanning are being given due diligence. Management is committed to maintain conducive environment to be in line with industrial climate.