

## ANNEXURE III TO DIRECTORS REPORT MANAGEMENT DISCUSSION & ANALYSIS REPORT

### 1. ECONOMIC OVERVIEW

The overall macroeconomic conditions during the first half of the financial year remained strong with some moderation in economic activity following tightening of the monetary policy in response to the rising inflation. The Industrial production grew marginally by 2.4% during 2008-09. The index of Industrial Production (IIP) increased by 5.0% during the first half. It dipped by 2.3% in March, 2009. The impact of global recession on India was felt in the second half i.e. October 2008 onwards mainly through the trade and capital channels. Merchandise exports contracted in the second half of the financial year leading to moderation in export growth to 3.4%.

Notwithstanding challenges from the global economy, the Indian economy remained relatively resilient; its financial and private corporate sector remained sound and solvent. Although there has been a moderation in economic and industrial activity, there are some signs of improvement in demand and industrial output in the recent months. With the newly formed government and recovery of the stock market, there are signs of recovery of the Indian economy during the current year. Indian officials expect the Indian economy to grow at 7-7.5% in 2009.

### 2. INDUSTRY STRUCTURE AND DEVELOPMENT

The Rubber Industry is regarded as one of the core sectors of the Indian economy, guaranteeing a turnover of Rs 200 billion and contributes Rs 40 billion to the national exchequer by way of tax, duties and other levies. According to data released by CII, the rubber industry comprises 6,000 units, including 30 large scale and 300 medium scale and around 5,600 small scale enterprises.

The overall downturn in the world economy has badly hit industrial growth during the financial year 2008-09. The International Rubber Research Institute has forecast a further 0.83% decline during 2009. Average growth rate is considered at around 5.54% which looks promising.

### 3. OPPORTUNITIES AND THREATS

The rapid pace of developments in space research, defence, railways, ports, shipyards, agriculture, automobiles, textile and other industrial sectors have generated huge demand for rubber products, but the pace of growth had been hindered by the global slowdown. In addition, the per capita consumption of rubber in India is just 0.8 kg against 14 kg in the developed world. This huge gap offers considerable growth for the industry.

The Company has the advantage of invaluable 43-year experience in the industry. There is potential in export market for products like rubber sheets, coated fabrics, hosepipes etc. There is also domestic demand for customized products like life rafts, air cells, extruded items and hosepipes. The Company offers a wide range of products customized to each customer's requirement providing an inherent advantage. The availability of indigenous raw material like natural rubber, large domestic market, easy availability of labour are some of the advantages the Company enjoys for forming part of the Rubber Industry. Disaster Management departments of various State Government and local bodies are looking out for sourcing life saving devices such as Life Rafts, Life Jackets, Rescue Boat etc. The Company is making all out efforts to respond to such needs, which promises good returns. The Company has developed collapsible pond and inflatable go-down made from coated fabrics which are customized and unique.

The global rubber consumption is likely to fall by 7% during 2009. The threat to the Company is from the small-scale units

due to their pricing advantage (i.e. duty exemption and other concessions available to SSI units). Their overheads cost is also less due to small set up. The Company faces stiff competition from such unorganized sector. The devaluation of the rupee against the dollar poses a threat for import of basic raw materials like synthetic rubber at cheaper rates.

### 4. OUTLOOK FOR THE COMPANY

During the financial year 2008-09 the Company has developed 54 new clients out of which 8 are overseas clients resulting in export turnover rising from Rs.504.98 lacs to Rs. 595.29 lacs during 2008-09. The Company's major focus area is on Coated fabrics segment e.g. Life Rafts, Air Cells, collapsible pond and inflatable godown which has huge potential market. Supply of coated fabric also has potential market. Focus is given on more private institutional clients, in addition to high value Government sectors. The Company is constantly focusing on developing new products in line with the potential market.

The Company is the leading supplier of Air cells to the transformer industry. The Company has more than 70% market share in Air cells. It has also bagged Annual Rate Contracts from some of its clients for supply of Air cells.

The Company is looking forward to good business opportunities from offshore exploration companies for customized rubber sheets. The Company is focusing on specialized high value products in order to be ahead of the local competition. The Company is also seriously focusing on obtaining required approvals.

### 5. INTERNAL CONTROL SYSTEM

The Company has a proper and adequate system of internal control to ensure that all assets of the Company are safeguarded and protected against loss from unauthorized use or disposition and that all transactions are authorized, recorded and reported correctly. The Company has a comprehensive internal audit manual, which is strictly adhered to for carrying out internal audits. A summary of audit observations and action taken by the management are placed before and discussed at the Audit Committee Meeting. The suggestions and directions of the Audit Committee are recorded and action taken accordingly.

### 6. FINANCIAL & OPERATIONAL PERFORMANCE

During the financial year 2008-09, the turn over of the Company was Rs. 2024.08 lacs as compared to Rs. 1824.50 lacs in the previous year. The export turnover of the Company during the financial year was Rs. 595.29 lacs.

### 7. HUMAN RESOURCE/INDUSTRIAL RELATION

A dynamic global business scenario requires continuous learning and upgrading of skills in order to retain the competitive edge. Skill building through acquiring products knowledge, optimum utilization of existing resources and conducting training programmes by professionals are some of the initiative undertaken. The Company also takes adequate steps for in-house training of employees and maintaining safety and healthy environment for workers within the factory premises.

### 8. CAUTIONARY STATEMENT

Statement in this report may contain certain statements that might appear to be forward looking. However, these statements are subject to certain risks and uncertainties. The end results accomplished might differ materially from those expressed in these statements as the operations of the Company could have the impact of raw material availability and prices. Government policies, economic development within and outside India and other incidental factors.