MANAGEMENT DISCUSSION AND ANALYSIS

CHEMICALS BUSINESS

The Company has two divisions viz the Chemicals Division and the Environment and Biotech Division. The total revenue from operations of the Company for the year 2020-21 was ₹ 749.47 crores as against ₹ 702.48 crores for 2019-20.

The revenue from operations of the Chemicals Division for the year 2020-21 was ₹ 729.94 crores (₹ 684.70 crores for FY 2019-20) and that of the Environment and Biotech Division was ₹ 19.53 crores (₹ 17.78 crores for FY 2019-20)

The Chemicals Business is engaged in the manufacture of specialty chemicals, intermediates and actives catering to various end user segments like Agrochemicals, Water Treatment, Soaps & Detergents, Lube Oil Additives, Mining Chemicals, Polymer Additives and Pharmaceuticals.

Industry Structure and Developments:

- The Company is a leading manufacturer of specialty and performance chemicals.
- Specialty and performance chemicals are knowledge chemicals which require specialized skills and knowledge in terms of chemistry and engineering capabilities, Environment, Health and Safety (EHS) management, material handling and effluent treatment.
- Specialty chemicals are required in a number of end use applications ranging from the Life Sciences (Agrochemicals and Pharmaceuticals) to Fast Moving Consumer Goods (FMCG). Production of specialty chemicals requires good knowledge of the requirements of the end user applications to whose needs they are meant to cater.
- All specialty chemicals are subject to varying degrees of regulatory requirements and the demand for these chemicals can be impacted by changes in regulations.
- The Size of the Indian chemicals industry is estimated at US $ 178 billion. (Source: www.investindia.gov.in.) Even though there are varying estimates, the share of the speciality chemicals can be considered to be at 25% of the total chemicals industry.
- Given the specialized knowledge component involved, there are limited number of producers in India for the range of products manufactured by the Company. However, there is a stiff competition from China given the huge capacities of Chinese producers and their access to locally available feedstock.
- Most of the basic raw materials (feedstock) required for the products manufactured by the Company are imported because the domestic availability is either non-existent / limited.

Performance of the year 2020-21 and Outlook 2021-22

- The disruption in the wake of the Covid-19 pandemic adversely impacted the financial performance during Q1 2020-21. This impact spilled over into Q2 as well.
- The Company showed resilience in significantly improving its performance during the second half. This was done by a sharp focus on market share, agile supply chain management to secure the raw materials, management of logistics under challenging circumstances, asset utilization and efficient working capital management.
- Agriculture was amongst the few sectors which was not impacted by the Covid-19 pandemic and the demand for agrochemicals (and consequently agrochemical intermediates) was strong. There was an increased demand for sanitization products like cleaners and soaps and detergents.
- The above translated into a robust demand for the Agrochemical Intermediates and Specialty Chemicals manufactured by the Company.

- The Indian Meteorological Department (IMD) and other weather agencies have forecasted normal monsoon for the year 2021 – 22. Going forward, we are cautiously optimistic on the demand prospects, in the wake of favourable monsoon and increased economic activity once the Covid-19 restrictions imposed after the second wave are completely lifted. However, in recent years, we have been seeing erratic weather patterns. If this happens, the monsoon might be sub optimal despite the positive forecasts which will have an impact on the demand for agrochemical intermediates and agrochemicals.

Opportunities:

- In light of the supply disruptions from China in recent years, there is a conscious strategic drive on the part of customers to mitigate the risk of sourcing from China. The Company as an established player in the manufacture of the specialty and performance chemicals sees itself as well poised to take advantage of this opportunity.
- Many Agrochemicals are slated to go off patent during 2021-2026. Many Pharmaceutical actives will also be going off patent. With its process R & D and manufacturing capabilities, the Company is well poised to take advantage of these opportunities to enter into the manufacture of some of these agrochemical technicals and their intermediates.
- The Company is actively working on developing a line of new products to take advantage of the opportunities. The new product development strategy is centered around themes like new chemistry platforms, integrated manufacturing from Raw Material to end product stage, export focus and emerging as a solution provider in meeting customer requirements.

Risks and concerns:

- The supply chain disruptions which the Company have experienced in the wake of the Covid-19 pandemic have resulted in tightness in availability as well as increase in prices of key feedstock. The ocean freight rates have gone up to unprecedented levels and this increasing trend is expected to continue for some time to come.
- The above developments have the potential to adversely impact the cost structure of the Company. In order to mitigate these risks, the Company will continue to be agile in monitoring the emerging trends, developing long term sustainable relationships with supply chain partners and going for backward integration wherever possible.
- The Company is competing directly with Chinese manufacturers for many of its products. The Chinese producers have an advantage of locally available feedstock like Yellow Phosphorous, Acetic Acid, etc. India has to depend on imports for key feedstock. China has a track record of taking advantage of this situation by pegging the price of the Raw Materials at a high level and at the same time pricing the downstream intermediates and finished goods aggressively. This places the domestic producers of intermediates in a disadvantageous position. In order to overcome this challenge, the Company continuously works on cost improvement measures like efficiency and process improvements.

ENVIRONMENT AND BIOTECH BUSINESS

Industry Structure & Development

The waste management activity took a big hit across India in the financial year 2020-21. This was due to the Urban Local Bodies' focus shifting from all other functions to managing COVID-19 and slowdown in real estate business for most part of the year.

The solid waste management business saw partial revival in the Q4 where businesses started to open up and people were moving about freely post the first wave of COVID-19.

Opportunities and Threats

The uncertainty to businesses brought by the second wave of COVID-19 in the first quarter of 2021-22 will continue to loom heavily on the solid waste management (SWM) business for the rest of the year. One will need to adjust, refocus and pivot the business during the good times and wait patiently if there is another wave of COVID-19. This uncertainty is likely to continue until COVID-19 is completely eliminated.

Decentralized Waste Management will continue to offer opportunities with cities, corporates and real estate truly meaning to adopt sustainable solutions. Unfortunately, the pandemic has led to a permanent shut down of several recent entrants in the market. Excel has stood the test of time and offered unwavering service to its customers during the bad times too.

Company is continuously providing MSW processing services to Ahmadabad Municipal Corporation & Varanasi Nagar Nigam in Centralized Waste Management arena.

Excel's brand name coupled with strong lead generation through the digital medium is likely to help the Company to get business from the best clients in the country for the foreseeable future.

Segment Performance & Outlook

The FY 2021-22 will be an unpredictable year. One hopes that India does not get hit by another wave of the corona virus. The company will focus in strengthening its position as the premium decentralized organic waste treatment products and services provider in India.

The Company shall also augment its capabilities with introduction of complementary technologies such as Biogas/ Bio CNG and Biological treatment of sewage water.

There will also be opportunities in Plastic Waste Management i.e. Extended Producers Responsibility services, Material Recovery Facilities and infrastructure for plastic recycling on the back of the new legislation for the same.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has put in place adequate internal financial controls with reference to the financial statements, some of which are outlined below:

Your Company has adopted accounting policies which are in line with the Accounting Standards prescribed in the Companies (Accounting Standards) Rules, 2006 that continue to apply under Section 133 and other applicable provisions of the companies Act, 2013 read with Rule 7 of the companies (Accounts) Rules, 2014. These are in accordance with generally accepted accounting principles in India. Changes in policies, if any, are approved by the Audit Committee in consultation with the Auditors.

The policies to ensure uniform accounting treatment are prescribed to the subsidiaries of your Company. The accounts of the subsidiary companies are audited and certified by their respective Auditors for consolidation.

The Company has proper and adequate system of internal audit and control which ensures that all the assets are safeguarded against loss from unauthorized use and that all transactions are authorized recorded and reported correctly.

The Company continuously improves upon the existing practices for each of its major functional areas with a view to strengthen the internal control systems.

The Company has assigned internal audit function to an independent firm of Chartered Accountants. Regular internal audit and checks are carried out to ensure that the responsibilities are discharged effectively. All major findings and suggestions arising out of internal audit are reported and reviewed by the Audit Committee. The management ensures implementation of the suggestions made by the internal auditors and reviews them periodically.

FINANCIAL PERFORMANCE AND ANALYSIS

During the year under review, the net revenue from operations increased by 7% from ₹ 702.48 crores to ₹ 749.47 crores, mainly due to volume increase on account of addition of new manufacturing site at Vizag. Company's profit before tax declined by 11% from ₹ 112.21 crores to ₹ 99.70 cores largely on account of change in product mix and market mix. Consequently, net profit after tax for the year decreased by 25% from ₹ 93.47 crores to ₹ 70.19 crores due to fall in contribution from sales and higher incidence of income tax.

The reserves excluding revaluation reserves as on 31.03.2021 are at ₹ 709.57 crores.

During the year, CRISIL Limited reviewed and reaffirmed the Credit Rating of the Company as "A+/Stable" for Long Term bank loan facilities and "A1" for Short Term bank loan facilities.

KEY FINANCIAL RATIOS

In accordance with the amended SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, the Company is required to give details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations thereof:

The Company has identified following ratios as key financial ratios:

Particulars	FY 2020-21	FY 2019-20	% Change
Debtors Turnover Ratio	4.65	4.63	0.47%
Inventory Turnover Ratio	10.22	9.77	4.54%
Interest Coverage Ratio[*1]	149.49	78.04	91.55%
Current Ratio	2.04	1.81	12.58%
Debt Equity Ratio[*2]	0.01	0.04	-76.02%
Operating Profit Margin (%)	16.11%	18.43%	-12.56%
Net Profit Margin (%)[*3]	9.26%	13.15%	-29.58%
Return on Net Worth (RONW) (%)[*4]	9.81%	15.55%	-36.94%

*1 Change in interest coverage ratio is due to reduction in borrowings and interest cost thereon.

*2 Change in debt equity ratio is due to reduction in utilisation of bank credit facilities, due to surplus fund available with the company during the year.

*3 Change in profit margin ratio is due to change in product mix and market mix in the year 2020-21 and also due to one-time reversal of Deferred tax liability in the year 2019-20 pursuant to change in Corporate tax rates.

*4 Change in RONW is mainly due to reduction in profitability.

HUMAN RESOURCE DEVELOPMENT/ INDUSTRIAL RELATIONS

Last financial year was the year of the pandemic. During this period, the Company formed a task force to design and implement safe practices across the company to avoid workplace infection. SOPs were drafted in multiple languages, employees were trained vigorously with the whole implementation being monitored by task force members in order to ensure high order of compliance. The Company distributed vitamin tablets and medicines and supported people with 24X7 telemedicine facility from Apollo hospital. Other Hospitals tie ups were done to support employees and their families. The Company distributed masks and sanitizers for employees and families and in surrounding villages and Gram Panchayats. The focus of all these efforts was enhanced employee care, especially in the context of COVID-19 infection.

Employees operating from Mumbai office worked from home initially. All team members were supported with necessary IT infrastructure and connectivity at their homes. The teams collaborated well on various virtual platforms. Weekly meetings between sites and functions ensured good coordination thereby resulting in sharper customer focus.

Even during the year of Pandemic, the Company ensured that employees' salaries were paid on time every month. Employees, realizing the magnitude of business challenges faced, truly rose up to the occasion in the second half of the year to delivery an encouraging performance in all functions, thereby making up for the lost opportunities in the first half.

The labour relations across sites continued to be good and jointly many initiatives were undertaken. Wage agreement for Roha Site was amicably signed during lockdown period.

The focus of HR team was to continue to maintain the employee connect and engagement. The Company conducted many webinars and virtual trainings focusing on employees' wellbeing while working from home. Programs on health, nutrition, yoga, technical subjects, Safety, IT, Finance etc. were regularly conducted.

Employee strength of the Company as on 31st March, 2021 was 1015.

CAUTIONARY STATEMENT

Statements in this report on Management Discussion and Analysis relating to the Company's objectives, projections, estimates, expectations or prediction may be forward looking within the meaning of applicable securities laws and regulations. These statements are based on certain assumptions and expectations of future events. Actual results might differ materially from those expressed or implied depending upon factors such as climatic conditions, global and domestic demand-supply conditions, raw materials cost, availability and prices of finished goods, foreign exchange market movements, changes in Government regulations, tax structure, economic and political developments within India and the countries where the Company conducts its business and other factors such as litigation and industrial relations. The Company assumes no responsibility in respect of forward looking statements herein which may undergo changes in future on the basis of subsequent developments, information or events.