



Modulex Construction Technologies Limited

47th Annual General Meeting Annual Report Financial Year 2019-20

Modulex Construction Technologies Limited t/a Modulex
CIN: L45100PN1973PLC182679
Registered Office: A-82, MIDC Industrial Estate, Indapur – 413 132, Maharashtra
BSE Security Code: 504273 BSE Security ID: MODULEX
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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Suchit Punnose

Whole Time Director

Mr. Ajay Palekar

Managing Director

Mr. Sandeep Khurana

Independent Director

Mr. Aditya Vikram Kanoria

Independent Director

Ms. Rakhee Amit Agarwal

Independent Director

Mr. Raj Kumar Sharma

Non Executive Non Independent Director

BOARD COMMITTEES

Audit Committee

Mr. Sandeep Khurana

Mr. Ajay Palekar

Mr. Aditya Vikram Kanoria

Stakeholder Relationship Committee

Mr. Aditya Vikram Kanoria

Mr. Ajay Palekar

Mr. Suchit Punnose

Nomination and Remuneration Committee

Mr. Sandeep Khurana

Mr. Aditya Vikram Kanoria

Ms. Rakhee Agarwal

Company Secretary

Ms. Bhoomi Mewada

Chief Financial Officer

Mr. Mahendra Kumar Bhurat

AUDITOR

M/s. RMJ & Associates LLP

Chartered Accountants

REGISTERED OFFICE

A 82, MIDC Industrial Estate,
Indapur Pune Maharashtra 413132

Tel: 02111 217074

Email: compliance@modulex.in

Website: www.modulex.in

CIN: L45100PN1973PLC182679

REGISTRAR AND TRANSFER AGENT

Purva Sharegistry (India) Private Limited

Unit no. 9 Shiv Shakti Ind. Estt.

J .R. Boricha Marg, Lower Parel (E)

Mumbai 400 011

Tel: 91-22-2301 8261 / 6761

Email: support@purvashare.com

Website : www.purvashare.com

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE AND DEVELOPMENTS

The construction sector in India, which is estimated to employ more than 30 million people, is the second largest employer, next only to agriculture and contributes 9% to the India's GDP. The industry contributes 55% share in the Steel industry, 15% in the Paint industry and 30% in the Glass industry. As such growth in the construction sector have a multiplier effect on a number of associated industries such as cement, steel, Plastics, etc. apart from expanding the job market. In India, over 50% of the demand for construction activity comes from the infrastructure sector, while the balance comes from industrial activities, residential and commercial development etc. As per the government reports, the sector is valued at over USD 126 Billion. It also accounts for more than 60% in total infrastructure investment.

In the past few years, activity in the construction sector appears to be relatively slow due to funding constraints, slow policy reforms, weak currency and the prolonged real estate market slowdown which has resulted in a lot of unsold commercial & housing inventory across India. Simultaneously, severe shortage of skilled workforce as well as raw materials especially sand acts as a growth deterrent.

Going forward, India's construction industry is expected to pick up pace and is expected to achieve a CAGR of 15.7% on account of investments in residential, infrastructure and energy projects, corporate capex improvement, urbanization, a rise in disposable incomes and population growth. Also, Government's serious efforts to enhance infrastructure investments, increase affordable housing and improve transport and logistics support systems will support growth of construction sector.

OPPORTUNITIES AND THREATS

The government plans to focus on the following five major areas for infrastructure development – Railways, Roads, Sagarmala project (for ports and coastal development), Housing for All and Inland water ways. A pentagon of industrial corridors is being engineered to facilitate manufacturing and to project India as a global manufacturing destination. Government of India's strategic move of increasing budget allocation in defense sector is giving much required momentum to 'Make in India' initiative. We believe that all these sectors have enough potential to grow at a considerably faster pace.

The link between the economic performance of cities and the national economy gets stronger as the rate of urbanization increases. Housing and Urban Area Development are key priorities of the Government. The effect of urbanization rates on housing demand is most profound in the Tier 1 cities, where a large influx of migrants is causing housing demand to surge. The socio-cultural shift towards nuclear families is also providing an additional impetus to housing demand in India.

SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

The Company's subsidiary Modulex Modular Buildings Private Ltd. (MMBPL) is setting up what Directors believe is the World's Largest and India's First Steel Modular Building Factory – Modulex. The project aims to harness the potential of an emerging, dynamic market like India, and support its growing need with a practical, profitable and proven technology solution for its construction. Modulex will bring highly advanced and sophisticated technologies from the developed half of the world and apply it to growth markets. We believe that Modulex also has the unique ability to place the investor at a vantage point, and successfully tap the pulse of the Indian market. This is an exciting time and a great opportunity for all investors looking to make an impact in the world's second fastest growing economy.

OUTLOOK

Modulex is aimed as India's first and the world's largest steel modular manufacturing facility with an annual capacity of 2,00,000 sqm. The salient features of the project are:

- a) The four production lines will have annual capacity of 200,000 sqm. operating on an 8 hour shift 5 days a week for eleven months.
- b) Illustrative annual output: twenty 100 rooms hotels plus a thousand residential or office buildings of 1,000 sq. ft each or accommodation for 2,000 hospital beds.
- c) Being Set up at a 40 acre site in Indapur, Pune District, 250 Kms from Mumbai.
- d) Land bought from Maharashtra Industrial Development Corporation, a state run developer of industrial estates with abundant water and electricity.
- e) Construction at the Project site in in progress and the factory facility is expected to be completed before end of Q1 of 2021.

RISKS AND CONCERNS

The industry in India faces challenges alongside a general situation of socio-economic stress, chronic resource shortages, institutional weaknesses etc. The industry is fragmented with a handful of major companies involved in the construction activities across all segments; medium-sized companies specializing in niche activities; and small and medium contractors who work on the sub-contract basis and carry out the work in the field.

Another problem, still being faced by some of the construction financing institutions is of stalled or delayed projects. Projects worth several billion rupees are still stalled, due to delays in project approvals, financing issues and raw material shortages etc. Further delays in restarting stalled projects has strained some of the infrastructure companies' ability to meet their debt obligations, leading to a surge in banks' gross Non-Performing Assets (NPA).

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Board of Directors is responsible for ensuring that internal financial controls form the nucleus of the Company and that such controls are adequate and are functioning effectively. Company has well documented policies, procedures, control framework and the management systems in place that map into the definition of Internal Financial Controls as detailed in the Companies Act, 2013. These have been established at the entity and process levels and are designed to ensure compliance to internal control requirements, regulatory compliances and appropriate recording of financial information. Internal financial controls that encompass the policies, processes and monitoring systems for assessing and mitigating operational, financial & compliance risks and controls over related party's transactions substantially, exists. The senior management reviews and certifies the effectiveness of the internal control mechanism over financial reporting, adherence to the code of conduct and Company's policies for which they are responsible and also ensuring compliance to establish procedures relating to financial or commercial transactions.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Your Company's Present performance vis-à-vis the financial performance for the previous year is set out below in a tabular format.

(Rs. in lakhs)

Particulars	FY 2019-20	FY 2018-19
Total revenue including other income	1.70	1.76
Total Expenditure	77.61	50.46
Profit / (Loss) before tax	(75.91)	(48.69)
Tax Expenses	-	-
Profit / (Loss) after tax	(75.91)	(48.69)
EPS Weighted Average		
-Basic	(0.17)	(0.17)
-Diluted	(0.17)	(0.17)

RISK MANAGEMENT IDENTIFICATION AND MITIGATION

Construction industry is highly risk prone, with complex and dynamic project environment creating a perception of high uncertainty and risk. The industry is said to be vulnerable to various technical, socio-political and business risks. As a diversified construction entity, your Company continues to focus on a system-based approach to business risk management. Accordingly, management of risk has always been an integral part of your Company's strategies and includes various functions such as planning, execution, measurement systems & reporting processes. Your Company acknowledges risk as the critical function that influences the objectives of all project and processes. Following are some of the construction related risks and exposures:

1. **Financial risk** is the totality of all risks that relate to financial developments external to the project that are not in the control of the contractor or the project developer. This results from consequences that may have adverse economic effects.
2. **Political risk** is the risk that a contracting company encounters in project execution through undesirable regime acts such as change in laws, payment failure by government, increase in taxes and change in government etc.
3. **Legal risks** arise through non-compliance with legal or regulatory requirements or excessive exposure to litigations & non-observance of laws such as employment law, health and safety, environmental legislation, stipulation for minimum wages etc.
4. **Sub-contractors' Default Risks & Management** is far different and severe than the work that is self-performed. In most projects, monitoring of sub-contractor's performance and payment is the responsibility of the employer. The active management of subcontractor default risk begins with sub-contractor pre-qualification, based on financial strength, safety & quality performance etc. and continues with active monitoring of sub-contractor performance and payments.
5. **Techno-managerial risks** are the risks arising out of inadequate management of technicalities involved such as management of engineering & technology, logistics options, uncertain productivity of resources, insufficient skilled staff etc.

6. **Environment risks** relating to occurrence of environmental incidents during the pendency of the project & mitigation strategies. This risk has increased substantially due to the presence of strict legal liability in relation to such environmental incidents.
7. **Force majeure risks** are regarding the events that are outside the control of any party and cannot be reasonably prevented/avoided by them. These include natural force majeure events, direct or indirect political force majeure events.

HUMAN RESOURCES

Our employees are the most valuable assets and we endeavor to provide our employees a professional, congenial, safe working environment coupled with opportunities for personal growth and development. Your Company has put in comprehensive system in place for identifying and addressing the competency requirement and fulfilling the same through various training programs at all the levels in the organization.

Through various Organizational Development (OD) interventions, we are enhancing the competency of our employees to work in challenging environment & empower them at work place with cultivation of culture of dedication, ethics & values. Employees are provided with training on behavioral aspects, such as personality development, leadership development through self-awareness etc. to help to achieve higher level of performance.

SIGNIFICANT CHANGES IN KEY FINANCIAL RATIOS

Types of ratios	2019-20	2018-19	Significant Changes
Debtors Turnover ratio	NA	NA	-
Inventory Turnover Ratio	NA	NA	-
Interest Coverage Ratio	NA	NA	-
Current Ratio	0.12	0.35	During the F.Y. 19-20, current liabilities are increased due to short term liabilities
Debt Equity Ratio	0.005	0.001	Increased due to increase in debt in F.Y. 19-20
Operating Profit Margin (%)	NA	NA	-
Net Profit Margin (%)	NA	NA	-

Caution: The views expressed in the Management Discussions and Analysis are based on available information, assessments and judgment of the Board. They are subject to alterations. The Company's actual performance may differ due to national or international ramifications, government regulations, policies, Tax Laws, and other unforeseen factors over which the Company may not have any control.

BOARD's REPORT

To
The Members of
Modulex Construction Technologies Limited ('Company')

The Directors are pleased to present the 47th Annual Report of the Company, along with Audited Financial Statements (Standalone & Consolidated), for the Financial Year ended 31st March, 2020.

1. FINANCIAL PERFORMANCE

(Amount in Rs.)

Particulars	Standalone		Consolidated	
	31 st March, 2019	31 st March, 2020	31 st March, 2019	31 st March, 2020
Total Revenue including Other Income	1,76,447	1,69,971	37,79,544	66,29,473
Profit / (Loss) before Depreciation, Finance Costs, Exceptional Items and Tax Expense	(48,43,903)	(66,45,290)	(7,09,99,325)	(4,80,89,727)
Less: Depreciation / Amortisation / Impairment	-	3,265	4,66,198	3,86,925
Profit / (Loss) before Finance Costs, Exceptional Items and Tax Expense	(48,43,903)	(66,48,555)	(714,65,523)	(4,84,76,653)
Less: Finance Cost	25,521	9,42,326	57,87,994	94,94,127
Profit / (Loss) before Exceptional Items and Tax Expense	(48,69,424)	(75,90,881)	(7,72,53,517)	(5,79,70,779)
Add / (less) : Exceptional items	-	-	-	-
Profit / (Loss) before Tax Expense	(48,69,424)	(75,90,881)	(7,72,53,517)	(5,79,70,779)
Less : Tax expenses (Current & Deferred)	-	-	-	-
Profit / (Loss) for the year (1)	(48,69,424)	(75,90,881)	(7,72,53,517)	(5,79,70,779)
Total Comprehensive Income / Loss (2)	-	-	(50744)	(16,40,019)
Total (1+2)	(48,69,424)	(75,90,881)	(7,73,04,261)	(5,96,10,798)
Balance of Profit / (Loss) for earlier years	(53,97,760)	(1,02,67,184)	(53,97,760)	3,76,09,825
Less: Transfer to Debenture Redemption Reserve	-	-	-	-
Less: Transfer to Reserves	-	-	-	-
Less: Dividend paid on Equity Shares	-	-	-	-
Less: Dividend paid on Preference Shares	-	-	-	-
Less: Dividend Distribution Tax	-	-	-	-
Less: Changes in Other Equity	-	-	-	(50,92,23,987)
Balance carried Forward	(1,02,67,184)	(1,78,58,065)	3,76,09,825	(53,12,24,960)

2. OPERATIONAL REVIEW

Consequent upon the Company embarking upon a plan to execute the business plan, the Company's subsidiary Modulex Modular Buildings Private Limited ('MMBPL') is continuing with the construction of a factory facility to produce steel modules and in anticipation of the upcoming commercial operation date of the factory, the Company has started the process of recruiting suitable personnel and leading HR firms, both in India and overseas, have been sounded to that effect.

The factory facility is being developed on a 40 acre land owned by MMBPL in MIDC Indapur. This manufacturing facility, the Directors believe, is the first of its kind in India and the world's largest modular buildings manufacturing cluster.

The manufacturing facility in the initial phase will see 20 acres being developed consisting of three sheds totalling to circa 35,000 square metres (circa 3,50,000 square feet) which will produce steel modules and ancillary products such as bathroom pods, doors and windows.

The real estate sector and the construction industry is passing through challenging times and to survive and grow in such challenging times, it is imperative that the customers be offered a proposition which adds value. The Company with its unique offering of design and manufacturing of steel modular buildings and the construction thereof through its subsidiary MMBPL is perfectly positioned.

The technology used by MMBPL is franchised from Modulex Modular Buildings Plc, UK and enables the Company to deliver the design and manufacturing (through MMBPL) carbon neutral, Smart, BOPAS certified buildings on fixed cost and time guarantee in nearly half the time and with high quality. The cost of the modular buildings is similar to traditional construction cost.

Going forward, the Company also proposes to develop design templates for various sectors within real estate such as hotels, hospitals, schools, hostels, old age homes etc to offer designing solutions for clients which result in greater speed in delivery of the completed buildings. The Directors are confident that this synchronized solution would create a win-win situation for all stakeholders.

MMBPL had secured investment from large industrial and real estate companies as strategic partners who will be adopting the Company's technology and absorbing a significant portion of the factory's output capacity, thereby underpinning the investment made by the Company in acquiring the shares of MMBPL.

The Company has a significant order pipeline from customers in India and also from customers in the UK for export order.

Directors believe that the Company should see significant activity post completion of the factory in the next financial year.

2.1 Covid-19 pandemic

The Covid-19 pandemic is not only the defining global health crisis of our times, the unprecedented impact on people and economic devastation that it has caused across the continents is of foremost concern. Your Company is taking all necessary measures in terms of mitigating the impact of the challenges being faced and is in fact confident that the crisis will eventually firm up the resolve of the Company to meet its organisational objectives. Though the long-term directional priorities of the Company remain firm, in light of Covid-19 and its expected impact on the operating environment, the key priorities of the Company and its subsidiary MMBPL would be to step up its efforts to raise requisite resources, conserve cash and control fixed costs, while continuing to invest in productive areas.

3. DIRECTORS AND KEY MANAGERIAL PERSONNEL

Re-Appointment and Retirement by Rotation

Pursuant to the provisions of section 152 of the Companies Act, 2013, Mr. Ajay Shridhar Palekar, (DIN:02708940) is liable to retire by rotation at the ensuing Annual General Meeting, and being eligible, offers himself for re-appointment. The Board of Directors recommend his re-appointment.

Appointment and Remuneration of Directors

The appointment and remuneration of Directors is governed by the Remuneration Policy of the Company which also contains the criteria for determining qualifications, positive attributes and independence of Directors.

Declaration by Independent Directors

Pursuant to the provisions of Section 149 of the Companies Act, 2013 Mr. Sandeep Khurana Mr. Aditya Kanoria and Mrs. Rakhee Agarwal have been appointed and act as Independent Directors. The Company has received declaration(s) from all the Independent Directors confirming that they meet the criteria of independence as prescribed under Section 149(6) of the Companies Act, 2013 and regulation 16(1)(b) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations') (including any statutory modification(s) or re-enactment(s) thereof for the time being in force). The Independent Directors have complied with the Code for Independent Directors prescribed in Schedule IV to the Act and the code of conduct for Directors and senior management formulated by the Company. The Independent Directors of the Company hold office for a term of five years with effect from 10th March, 2018 and are not liable to retire by rotation in terms of Section 149(13) of the Companies Act, 2013.

Each of the Independent Directors have also confirmed to the Company that they are not aware of any circumstance or situation, which exists or may be reasonably anticipated, that could impair or impact his/her/their ability to discharge his/her/their duties with an objective independent judgment and without any external influence and that he/she is independent of the management

The Board is of the opinion that the Independent Directors of the Company possess requisite qualifications, experience and expertise in the fields of technology, human resources, strategy, auditing, tax and risk advisory services, financial services, corporate governance, etc. and that they hold highest standards of integrity.

The Independent Directors of the Company have undertaken requisite steps towards the inclusion of their names in the databank of Independent Directors maintained with the Indian Institute of Corporate Affairs in terms of Section 150 of the Companies Act, 2013 read with Rule 6 of the Companies (Appointment & Qualification of Directors) Rules, 2014.

Familiarisation programme

The Familiarisation Programme seeks to update the Independent Directors on various matters covering Company's strategy, business model, operations, organization structure, finance, risk management etc. It also seeks to update the Independent Directors with their roles, rights, responsibilities, duties under the Companies Act, 2013 and other statutes.

The policy and details of familiarization programme imparted to the Independent Directors of the Company is available at <https://modulex.in/investor-relations>