passion to succeed

passion | innovation | technology

THE HI-TECH GEARS LTD.

33rd ANNUAL REPORT 2018-2019

ENGINEERING

MANUFACTURING

ROBOTICS

ENGINEERING CONVERGENCE SOLUTIONS FOR A LEAN WORLD

future engage deliver

THGL next

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Unitech's Millennium Plaza,
Sushant Lok – 1, Sector – 27,
Gurgaon,
Haryana – 122009
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Plant I
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Dist. Alwar, (Rajasthan),
Tel: (01493) 265000/265199

Plant III:
SPL – 146,
Industrial Complex,
Bhiwadi – 301019,
Dist. Alwar, (Rajasthan)

Plants of subsidiary companies

The Hi-Tech Gears Canada Inc.
(Formerly known as Teutech Industries Inc.)
361, Speedvale Avenue W,
Guelph, ON N1H 1C7, Canada

Teutech LLC
227, Barton Street, Emporium,
PA, 15834, USA

Bankers
Standard Chartered Bank
HDFC Bank
Citi Bank
State Bank of India
Kotak Mahindra Bank
ICICI Bank Ltd.

Registrar & Transfer Agent
MAS Services Limited
(Unit: The Hi-Tech Gears Limited)
T-34, 2nd Floor Okhla Industrial Area,
Phase-II, New Delhi – 110020
Tel : + (011) 26387281, 82, 83
Fax: (011) 26387384

Internal Auditors
M/s Grant Thornton India, LLP
21st Floor, DLF Square
Jacaranda Marg, DLF Phase II
Gurgaon-122002
India

Board of Directors

Mr. Deep Kapuria
Executive Chairman

Mr. Anil Kumar Khanna
Independent Director

Mr. Pranav Kapuria
Managing Director

Mr. Sandeep Dinodia
Independent Director

Mr. Bidadi Anjani Kumar
Director

Mr. Vinit Taneja
Independent Director

Mr. Anuj Kapuria
Executive Director

Mr. Prosad Dasgupta
Independent Director

Mr. Krishna Chandra Verma
Independent Director

Mr. Ramesh Chandra Jain
Director

Ms. Malini Sud
Independent Director

Mr. Anant Jaivant Talaulicar
Director

Mr. Neville D'Souza
Independent Director

Senior Executive

Mr. Vijay Mathur
Sr. General Manager Finance

Key Managerial Personnel

Mr. S.K. Khatri
Company Secretary

Statutory Auditors
M/s O.P. Dadu & Co.,
Chartered Accountants,
24/4834, Ansari Road, Darya Ganj,
New Delhi-110002

Cost Auditors
M/s Kabra & Associates,
Cost Accountants,
552/1B, Arjun Street Main Vishwas Road,
Vishwas Nagar, Delhi-110032

Secretarial Auditor
M/s Grover Ahuja & Associates,
Company Secretaries,
302, Third Floor, Gagandeep Building,
Rajendra Place, New Delhi-110008

Vision

Be a global footprint Company and a benchmark for world class manufacturing systems

Mission

We will be the preferred partner in delivering engineering products and design solution through lean philosophy with a focus on:

- Building a customer centric Organization
- Rapid development of products and innovative solutions
- Ensuring cost effectiveness
- Developing competent and committed people

Forward Looking Statement & Disclaimer

In our report we have disclosed forward looking information so that investor can better understand the company's future prospects and make informed decisions. This Annual report and other written and oral statements that we make from time to time contain such forward looking statements that set out anticipated results based on management's plans and assumptions. We have tried, wherever possible, to identify such statements by using words such as 'anticipate', 'estimate', 'expect', 'projects' 'intends', 'plans', 'believes', and words and terms of similar substance in connection with any discussion of future operating or financial performance. We cannot guarantee that any forward looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate assumptions, should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

The financial statements have the figures in millions unless specifically mentioned. The Messages, Management Discussion analysis and Directors' Report together with its Annexure are the statement of the financial figures, hence are provided in Rupees in Millions, unless specifically mentioned.

Source of information: we have consulted RBI, SIAM, ACMA, industry associations, fellow industry members, Industry journals, various ministries sites for the information set in this Report and some international sources sites such as IMF, World Bank etc. We have tried, wherever possible, to identify and authenticate the such information, however we undertake no obligation for its correctness and its updates.

Contents

THE HI-TECH GEARS LTD.

MILESTONES

1986 ONWARDS...

1986 Incorporated as a Public Limited Company
1988 Production Commencement & became single source supplier to Hero Honda
1989 Product Indigenization
1992 Technical Tie-up with Kyush Musashi, a subsidiary of Honda Motors, Japan
1993 Backward Integration into Precision Forgings
1995 Selected as single source supplier to Honda Power, Tata Cummins Ltd.
1996 Technology Agreement with GETRAG, US
1996 Certified as ISO 9002, BPR launched
1997 Selected as a global source to Cummins, US
1998 Certified as QS 9000
1999 Separate Division to handle high-end design and CAD Services established, under the name of Hi-Tech ESoft.
2002 Launches Initiative of Lean Manufactured
2003 Certified for:-
- Integrated Quality Management Systems
- TS 16949 for quality & obtained Environment Certification ISO 4001:
- Occupational Health & Safety Certification OHSAS 18001:1999

2004 Prototyping/Productionsing Precision Components for Robert Bosch, GM, Volvo and Daimler Chrysler
2005 State-of-the-art Manufacturing Facility set up at Manesar
2007 Hi-Tech eSoft (division of HGL) Certified for ISO 9001:2000
2008 ACMA Export Award 2006-07
2009 Excellence Award for Manufacturing and Export
2010 TPM Excellence Awards Category A & Shingo Silver Medallion
2011 New State of Art “ECOFAC” Plant setup in Bhiwadi
2012 Award for excellence in Consistent TPM Commitment
2013 ACMA Export Award
2014 ACMA Export Award (Large Category)
2015 Name of the Company changed to “The Hi-Tech Gears Ltd.”
2017 Acquisition of Teutech Industries INC, Canada and Teutech LLC, USA.

CUSTOMERS

Hero

DAIMLER
Daimler India Commercial Vehicles Pvt. Ltd.

MAGNA
MEGNA POWERTRAIN

TATA Cummins

JCB

CATERPILLAR®

Cummins

Pentair

NEW HOLLAND AGRICULTURE

ZF

WABCO

GKN SINTER METALS

AAM

BorgWarner

CHAIRMAN's MESSAGE

Dear Shareholders,

Time is possibly the most valued component that one invests in any journey. It is with time that trust, understanding, compatibility and capability blossoms to bear results.

You will be happy to learn that amidst all the path-breaking changes across the globe, your Company has set a new benchmark of INR 9000 million sales in FY 19. It is at this point that I would like to thank each one of the stakeholders for having faith in the management of the Company and for being there through the exciting journey of 33 years. We have come through various transitional curves, many of them very challenging, to reach a distinguished and reputed position in the automotive industry. Obviously, your Company is not going to rest on its laurels but will continually strive to deliver excellence in each sphere of the Business Process.

The business environment is constantly changing, and all economies are bearing the brunt of the volatility. Your company has however tried to maintain a fine balance by maintaining the operational excellence, which has always been the hallmark of your company and by lowering business risks through planned diversification in times of such economic volatility.

Global and Domestic Economic Affairs

All major global economies enjoyed a mini boom between mid of 2016 and upto 3rd Quarter of 2018, when growth picked up in all spheres. This phase has started deteriorating due to many volatilities, major being US where the boost from fiscal stimulus are fading, higher interest rates are dampening consumer spending and a strong dollar could be a drag on US exports. The latest is that the budget deficit is likely to continue to grow in the US, because of earlier tax cuts and higher government spending.

The aggressive approach taken by the USA towards its trading partners comes as blow, resulting in the World Bank cutting its forecast for global growth by 0.3 % points for this year in response to trade restrictions and unexpected weakness in manufacturing across both advanced and developing economies. Global trade growth has slowed to its lowest rate since the 2008-09 financial crisis, as exports from Europe and Japan have dropped, particularly to China. The World economic growth is expected to moderate from 3% in 2017 to around 2.7% in 2019.

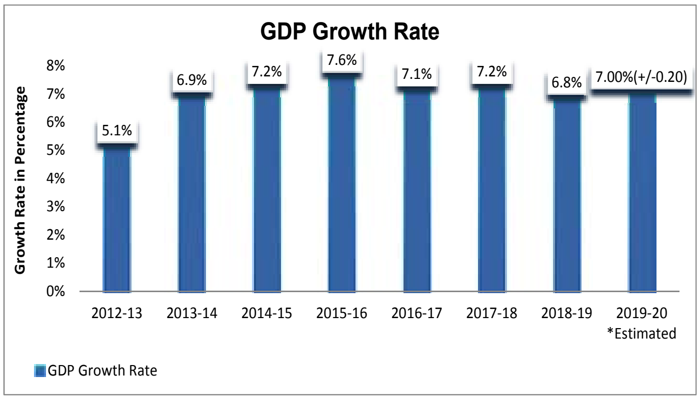
In the Eurozone, uncertainty relating to global trade tensions and Brexit will take a toll. Growth in China is also expected to slow down relative to 2018. Although the government will try to ensure that the slowdown is minimal, the impact of US tariffs and the need to control debt levels are likely to result in at least a modest deceleration in growth in 2019.

Emerging and developing economies growth are constrained by sluggish investment, and risks are tilted to the downside. These risks include rising trade barriers, renewed financial stress, currency depreciations as well as sharper than expected slowdowns in several major economies. Sharp currency depreciations are more common in emerging and developing economies like India than in advanced economies, and central banks are often required to respond to these fluctuations to maintain price stability.

Growth in emerging markets and developing economies are expected to stabilize next year as some countries move past periods of financial strain. However, cynical economists warn that further escalation of tariffs on more Chinese goods or levies on foreign autos by US could slow global growth to a crawl.

India is still enjoying the fastest growing economy tag, despite some headwinds in the 2nd half of the 2018-19. The gross national income (GNI) at current prices grew by 11.3 %. India's gross domestic product (GDP) is estimated to have slowed to a five-year low of 5.8 % in the last quarter of FY19, mainly due to poor show in the farm and manufacturing sectors. Overall the GDP moderated to 6.8 % in FY 19 from 7.2 % in FY 18 with the Inflation rate at 3.4 % in FY 19.

The country's per-capita income is estimated to have risen by 10% to Rs 10,534 a month during the financial year compare to Rs 9,580 a month in the previous year. The per-capita income is an important indicator of the prosperity of a country. India is set to become the fifth-largest economy of the world with the growth leading to a GDP of $2.8 trillion in current year. But, due to its huge population of more than 1.35 billion, India is at 145th position in term of per capita $2036 per annum.



The main source of revenue for the Government is always indirect taxation. GST collections have increased and as an average, it is almost Rs. 1.00 lakh crore per month and is increasing further. The collection is the outcome of continued rationalism of GST rates and friendly regulation, extensive automation of business processes, application of e-way bill mechanism and closing of gaps in the system. Similarly, the direct tax collection is also heading northwards. The Government is hopeful of future growth from all sectors and has set an ambitious target of becoming a $5 trillion economy by FY 25.However a sustained GDP growth rate of atleast 8% is needed to achieve the same.

In this report I would like to make a special mention of the financial crisis in our economy; we as stakeholders are directly impacted by the situation. The year 2014-15 marked a watershed. RBI, acting in the belief that NPAs were being under-stated, introduced tougher norms for NPA recognition under an Asset Quality Review. NPAs in 2015-16 almost doubled over the previous year as a result. Reasons attributable could be, the sectors to which Banks/ Financial Institutions were heavily exposed were impacted by non-viable factors.

Higher NPAs meant higher provisions on the part of banks. Provisions therefore rose to a level where banks, especially PSBs, started making losses. Their capital got eroded as a result.

The other side of story is that the NBFCs have always had an important role to perform in the financial sector and they are and continue to be an essential part of the Indian economy. When public sector banks were reeling under pressure from bad loans and withdrawing from the lending space, NBFCs were the first to answer the call. They plugged the funding gap as their local network and understanding of customer profiles at a local level gave them an edge over commerical banks when it comes to lending at the micro level. However, due to an excessive mismatch of their assets, loans and assets, NBFCs are also now going through a very difficult phase.

In view of the recent development of the failure of major NBFCs, the RBI has recommended an extra vigil on NBFCs and warned that a large shadow bank getting hit can have the same impact to the system as a large bank going down. Based on the strict government vigil and resolution mechanism, the NPAs for the first time have come below 9.5% in Financial Year 2019.

The task of accelerating economic growth is urgent. This is not possible without finding a solution to the problems that confront the banking system and the NBFC issues. There is ample scope for improving performance within the framework of public ownership and the NBFC system.

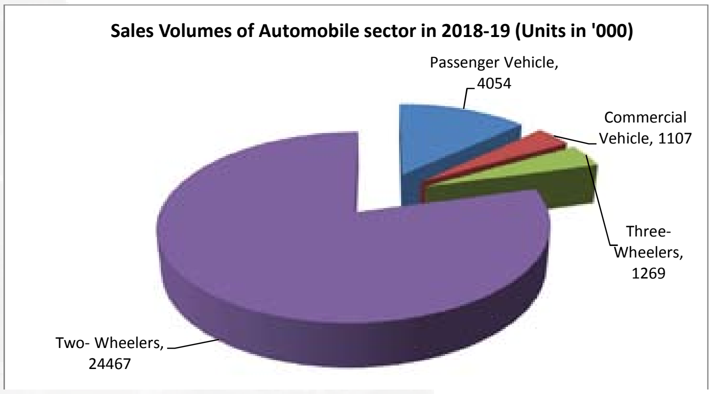
Similarly, high demand for oil and rising dependency on crude imports also means a drain on the country's foreign exchange reserves, which will get exacerbated by a weaker rupee against the dollar. A surge in crude oil prices threatens to stoke inflation, derail earnings growth of companies, and hurt India's economy in the years ahead. The challenge before the Government is that it will be required to find ways to offset the inflationary impact of higher fuel prices and relieve the burden on the poorer sections of the population.

Indian Automotive Sector and our Future Outlook

The Automobile Sector in our country is one of the major contributors in manufacturing and GDP. It is also providing employment to over 30 million people through direct/indirect employment. India has become a preferred place for world OEMs for production of their vehicles due to many cost benefits, such as skilled labour, availability of raw material, and world class equipment, beside incentives and encouragement from the State and Central Government.

According to the data released by Society of Indian Automobile Manufacturers (SIAM), during April 2018-March 2019, the industry manufactured a total 30,915,420 vehicles including passenger vehicles, commercial vehicles, three wheelers, two wheelers and quadricycles, recording a growth of 6.26 % over the previous year (29,094,447 units). The production trends also reveal an expanding market for three wheelers, as also a healthy bounce back of the commercial vehicles segment.

In terms of sales, the domestic Industry sold a total 26,267,783 vehicles; out of this passenger vehicles grew by only 2.70% (3,377,436 units). However, in commercial vehicle, the growth of 17.55% (units1,007,319) was excellent during 2018-19. Scooters/ Scooterettee sales declined by 0.27% while, Motorcycles and Mopeds registered a growth of 7.76% (13,599,678 units) and 2.41% (880,243 units) respectively, taking total two wheeler sales growth to 4.86% (21,181,390 units) for the year. Overall three wheelers sales registered a growth of 10.27% (701,011 units), while Passenger Carrier sales increased by 10.62% (units 572,392).



The sector's exports also grew during the year, with overall automobile exports increasing by 14.50% (4,629,054). While passenger vehicles exports shrunk by 9.64% (units 676,193) , commercial vehicles exports registered a growth of 3.17% (99,931 units). The star performer in exports were three wheelers and two wheelers which increased by 49% (unit 567,689) and 16.55% (units 3,280,841) respectively in FY19 over FY18.

As such the automotive industry performed well in 2018-19 ; however India needs to prepare itself as the automobile sector readies for a paradigm shift. The industry is at an inflection point where both opportunities and challenges abound in equal measure and will shape the direction of future events in the industry.

The near-term period is expected to be a tumultuous one for the auto sector on account of various regulatory changes, especially the transition from BS-IV to BS-VI and *CAFE* regulations. The uncertainty is further compounded by lower consumer sentiments resulting in inventory build-up, and all OEMs are constantly re-aligning production in line with demand. Also, Electric Vehicles (EV) are being promoted by the Government which poses a threat to existing production lines in the auto sector.

China has taken a lead in the development and use of EVs, specially two wheelers and is the world's largest EV market. It has infact already imposed restrictions on investment for traditional vehicles and has taken several steps to promote EVs.

India, though, unlike China or countries in EU, has not set a target for automakers to convert a certain part of their total vehicle production to electric. But, the NITI-Aayog is considering a policy proposal to ban all internal combustion engines for two-wheelers under 150cc by 2025 and three-wheelers by 2023 and 30% of all other vehicles by 2030. In the very recent past, we however hear that the Government may relax these targets, so that the existing auto industry has enough time to adjust and does not face any major disruption.

There are some other initiatives too being carved out by the Government which are likely to support industrial growth. The Government seeks to achieve two objectives—(i) facilitate long-term growth in the industry and (ii) reduce emissions and dependence on imported oil. The Government plans to provide land for parking and charging, subsidies to vehicle manufacturers and battery makers, drive investments, increase manufacturing capacity and breadth of services and continue the cut in interest rates. There is therefore a lot of work done and to be done in this space. The need now is for the all stakeholders, including the government, city planners, OEMs, battery manufacturers, suppliers and service providers to work together to fullfil India's grand ambition of sustainable growth.

Prospects : India and the Auto sector

Fresh off winning a clear mandate in the national elections in May 2019, Modi 2.0 has presented the first union budget of its second term. It is expected that this budget will be instrumental in setting the tone for administration, and conveying the seriousness of the Government to revamp business, which is reeling under the twin shock of a changing global trade scenario, as well as a slowing domestic economy. Most importantly, the aim is to bring reforms for the benefit of the country.

Prospects of pickup in growth in 2019-20 is largely dependent on the back of further increase in private investment and acceleration in consumption. The FM in her budget speech also said that ***"India Inc. are not only India's job creators and nation's wealth creators."*** To address the challenges of slowing economic growth and inadequate job creation, PM has constituted two cabinet committees- one on investment and growth and another on employment and skill development. The key actions identified by the government are, reforming the financial sector, rationalise the indirect tax structure for better revenue collection, privatise or consolidate the PSBs and PSUs, revival of financial sector & NBFCs, new targets for electrification along with support to industries by way of further improving the ease of doing business.

Once, the initiatives of the government are fully effective it will result in higher contribution to GDP by the manufacturing sector, Introduction of water transport, creating better road and rail network, clarity on EV to auto industry, higher FDIs are expected to make the Indian Economy grow faster in future.

Regarding the Auto Industry, in the Automotive Mission Plan 2026, the government and industry set a target to triple industry revenues to $300 billion, and expand exports sevenfold to $80 billion. To meet these aims, it is estimated that the sector could contribute more than 60 million additional direct and indirect jobs, and the result could be improved manufacturing competitiveness and reduced emissions. Pushing ahead with its goal to have more electric vehicles to curb rampant pollution, the government has started, the second phase of the FAME 2 scheme, with an outlay of ₹10,000 crore. The FM also announced certain lucrative income tax rebates for supporting EVs including interest subsidy, reduction of GST on EVs & batteries etc.

Company Performance and Strategy

Achieving our goals with discipline has been our unchanging focus. Each time we look at a growth horizon, we look at how we can make a difference in the markets we operate in, make our offerings with global quality standards and more competitive. I am happy to share that your Company together with its subsidiary companies in US and Canada have done well in all spheres. It is now in the process of establishing another vertical which is part of a Global Value Chain (GBV) with an enlarged base and operations in an important and essential geography. With presence in other geographies, your Company's customer base and product portfolio have been further strengthened.

Your Company, in addition to tapping new markets, will leverage its position by building its relationships with its existing and new customers and focus on product development. Presently the Company has an export income of INR 1912.10 million (standalone), which is an increase of 46.60% increase over last year. The export programmes are also expected to gain further momentum. Going forward, the overall focus will continue to be on quality delivery at optimum costs.

To summarise the financial results for the year FY 2019, I must mention that there was significant growth in all the key areas; resulting in robust overall growth. The standalone turnover of the Company grew by 20.28 % and touched Rs. 6,634.52 million. As a result of this and our enhanced operating efficiencies, the standalone profit before tax grew even higher to Rs 531.22 million. After consolidating the financials of the Company with its subsidiaries, the consolidated turnover stood at an all time high of Rs. 9306.81 million. The Company has shared the gains among the shareholders by declaring an interim dividend of 15%. Your Board of Directors have further reviewed the cash position of the Company and have recommended a final dividend of 20% for your approval, thus taking the total to 35% of share capital with a total payout of Rs. 65.68 million.

The vedic philosophy "***Sarve bhavantu sukhina sarve santu niramaya, Sarve bhadrani pashyantu ma kashchit dukhbhave bhavate***" provides us a holistic view of life and guides us that 'enlightened collective interest' should be the basis of our actions. 'Survival of all' is the essence of this idea. Ultimate objective of the institutions and organizations is to work towards the goal of universal welfare. We have been taking up deep impacting initiatives in line with what is required to be done as a responsible citizen of the Society. To exhibit the commitment, your Company has contributed Rs.7.78 million for the betterment of the society during the FY 2019 in line with the CSR Regulations.

I am honored to steward this great organization and I am filled with optimism about what we can achieve in partnership with our customers and society. Together, we are changing work and business and ultimately, the world we live in.

Before I conclude, I would take this opportunity to thank you as the shareholders of the Company for your support to the Company over so many years. I would also like to thank our customers, suppliers, bankers the various government agencies with whom we have been working, our loyal employees and all our business partners for their continued support and belief in The Hi-Tech Gear's mission and vision. I offer my sincere gratitude to my board colleagues also for their wise guidance from time to time. I am sure that we will pass through these challenging times with many learnings and the journey will be more rewarding as we move ahead.

Deep Kapuria
Chairman

MANAGING DIRECTOR'S MESSAGE

Dear Shareholders,

It gives me great pleasure to communicate with you through the 33rd Annual Report of the Company as it provides me another opportunity to update you on the affairs of the Company.

Despite softening GDP growth in 2018, induced by global trade tensions and other political and economic uncertainties, we achieved a highest ever sales revenue of Rs. 9310 million on a consolidated basis and Rs. 6635 million on a standalone basis.

New initiatives were taken by your company in North America to integrate into the Global Value Chain, with our footprints in both Canada and the USA. The objective of these initiatives were to further strengthen our processes, build better relationships with our customers and consolidate our position as a manufacturer of quality products for the auto sector.

Macro Economic Updates

Volatility has become a predominant factor again and is now impacting every aspect of our lives.

After considerable growth in last few years, global economic activity slowed down from the second half of last year, reflecting a confluence of factors affecting major economies, including USA and China. The Chinese economy also slowed down following a combination of regulatory tightening to rein in shadow banking and an increase in trade tensions with the USA. This took a toll on financial markets in both emerging and advanced economies. The Euro area economy lost more momentum than expected as consumer and business confidence weakened. Vehicle production in many advanced countries was disrupted by the introduction of new emission standards; investment dropped in various developed countries as sovereign spreads widened; and external demand, especially from emerging Asia, softened.

Analysts say the tariffs could hamper the rebound in the US economy, with consumption likely to be hit, as ultimately, these tariffs would be paid by the American public only. Also, this exacerbates the uncertainty in the global trading environment, affects global sentiments negatively, and adds to risk aversion globally. Ongoing trade tussles are fueling fears about damage to global economic growth and leaving the world on the brink of a trade war. A realistic situation suggests that even if the two countries reach a comprehensive treaty, still the discussions around trade, investment, procurement and technology would remain for years to come.

India's growth of real GDP has been high with average growth of 7.5 % in the last many years. It grew at 6.8 % in FY19, thereby experiencing moderation in growth when compared to FY18. This moderation was mainly on account of decline in various areas such as manufacturing, mining, agriculture, transport, storage, communication, services & defense sectors. The growth in world output also declined from 3% in 2017 to 2.8 % in 2018.

Certain facets of the Indian economy are important and I would therefore like to share it with you for a better understanding of the situation today :

Corporate Earnings and Investment:- Corporate earnings increased in the first three quarters of FY19 but are falling since then. Analysts attribute the poor corporate earnings to a combination of a slowdown in aggregate demand, relatively high interest rates plus depreciation, and tax outgo, erasing the gains from an improvement in operating margins. This negative trend is likely to persist for some more time, given the YoY rise in energy prices and disruption in global trade, including withdrawal of India's preferential trade status by the US. The move by the US is likely to hit the export-oriented companies in sectors such as ours, pharmaceuticals, garments, gems and jewellery, engineering goods etc. New investments are not taking place, in view of the uncertainty.

Crude Oil:- Another factor that added to the heat is unpredictable crude oil prices, India is among the most vulnerable to rising energy costs. PNG statistics shows that India incurred Rs. 5,66,450 million towards import of crude oil in FY 2018 and the same will increase by considerable amount by the end of FY 2019. A surge in crude oil prices threatens to stoke inflation, derail earnings growth of companies, and hurt India's economy. It consumes a huge chunk out of our foreign reserves and the higher cost can also impact the raw material supply chain of many manufacturing companies as India imports a major portion of its crude requirements.

Rupee Vs Dollar:- The Currency turmoil in developed countries also contributed to the nervousness in emerging markets such as India. There are many reasons that warrant a weak rupee in 2019 and that may, in fact, be the most appropriate response to global and domestic factors ranged against the rupee. However as India has more imports than exports, we will have to be prepared for a larger outflow of foreign exhange.

Financial crisis:- The country is already facing a cash crunch in the banking sector and now the ongoing liquidity crisis in the NBFC sector is the result of an asset-liability mismatch. Since there are lots of restrictions imposed on NBFCs to raise retail deposits from the general public, they depend on wholesale lending for their capital requirements. As a result, the cost of funds for NBFCs is higher than that of banks. However, due to the tightening of norms, NPAs and defaults, banks have stopped refinancing the loans of NBFCs and also stopped the disbursal of sanctioned loans to them.

RBI and the Government have taken steps to ring fence the Banking and NBFC sector and support its financing needs by providing additional liquidity and credit enhancement for refinancing needs, but there are still speculations over spill-over concerns in the market in the near-term.

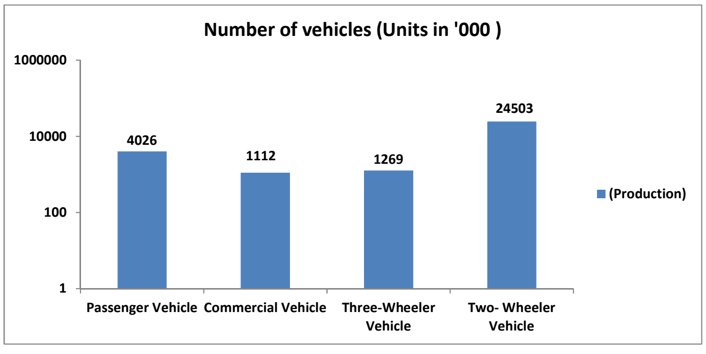
The financial crisis, low consumption, rising sluggishness in the economy, trade disputes, and other plethora of events have created an environment of vulnerability and volatality. In view of the recent turmoil and state of economy as stated above, my concerns are especially connected with the Government's resolution to issues such as falling private sector investment, farm distress, and stagnation of export growth. The real test of the Government today, is to overcome this unpredictability in such a manner that the economic equilibrium is established.

Despite all the turmoil, the Long-term prospects for the Indian economy still looks good, on the back of the return of a stable and strong government at the Centre with its focus on growth and development, along with ongoing consolidation and restructuring activities. The Government is thinking of various ways to assist the manufacturing sector and we should see positive steps being taken in this financial year post the last budget.

The Automotive Sector

The automobile industry in India is the world's fourth largest in numbers. India currently enjoys the tag of the world's 4th largest and 7th largest manufacturer of cars and commercial vehicles respectively.

In 2018-19, the industry registered a growth of 6.45% over the same period last year by selling 30,896,837 vehicles compared to 29,024,153 vehicles in previous year.



Two wheelers have always had a major share of volumes in the total output, however there was limited growth in the year. The segment produced and sold 2,45,03,086 units and 2,44,62,231 units compared to 2,31,54,838 unit and 2,30,15,120 units in previous year, thus registering a marginal growth of 5.82% in production and 6.29% in sales respectively.

There has however been a fall in volumes from the last few months. The cumulative domestic sales of all vehicles continued to skid further in first quarter of 2019-20. Recently, the Society of Indian Automobile Manufacturers announced a 10.51% decline in total vehicles sales for April-June quarter, the lowest in nearly eight years. Looking at the downtrend, the liquidity crunch facing non-banking vehicle financiers, lack of clarity on technological changes, rural distress etc, the OEMs have also cut their production significantly.

Declining automotive sales are primarily an indicator of how the Indian economy is performing, particularly the purchasing power of people while a slowdown in commercial vehicle sales indicates an investment cycle slowdown.

The real immediate challenge for auto-makers is to meet the technological change. BS VI emission norms are effective from April 01, 2020 and thereafter implementation of Corporate Average Fuel Efficiency norms. This invariably results in increased vehicle costs. As a result, this will see big investments made in cleaner technology which, in turn, will make vehicles pricier and on the other side manufacturers and suppliers would need at least five years to get a return on the equity.

Most importantly, the automobile industry is at the cusp of a once-in-a-century disruption with the advent of electric vehicles (EV). Companies must devise a proper strategy for developing the requisite technologies. Besides technologies, the business would also need to set up an alternative ecosystem at the earliest in order to engineer the smooth transformation to EV. Charging Ecosystem is as important as the vehicle itself. Hence, two major roadblocks to be overcome are availability of charging infrastructure and sourcing of standard lithium batteries.

The manufacturers have argued that they were forced to accept shorter timeline for tighter emission norms, involving expensive redevelopment. This could be the premature switch with no established supply chain, charging infrastructure or skilled labour which may result in India losing its leadership position in scooters and motorbikes.

Government initiatives for Auto Industry :- Through various programs and initiatives, the government seeks to achieve two objectives—facilitate long-term growth in the industry and reduce emissions and oil dependence.

- SAMARTH Udyog – 'Demo cum experience' centres are being set up in the country for promoting smart and advanced manufacturing helping SMEs to implement Industry 4.0.
- Government aims to develop India as a global manufacturing centre and an R&D hub.
- Under NATRiP, the Government is planning to set up R&D centres at a total cost of US$ 388.5 million to enable the industry to be on par with global standards
- The Government has shortlisted 11 cities in the country for introduction of electric vehicles (EVs) in their public transport systems under the FAME scheme.

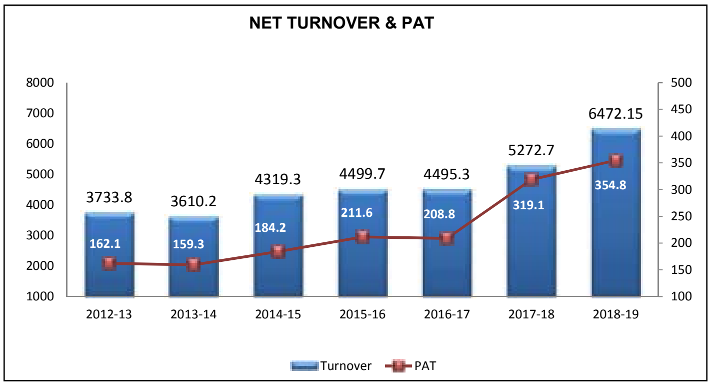
- Setting up of incubation centres for start-ups working in electric vehicles space.
- Recently, the Government approved the FAME-II scheme with a fund requirement of Rs 10,000 crores for FY20-22.
- In the Automotive Mission Plan 2026, the government and industry set a target to triple industry revenues and expand exports sevenfold. In this process it is expected to generate more than 60 million additional employment.
- To address pollution from old vehicles, the government is working on an initiative that focuses on formulation of end-of-life or scrappage policies. It plans to give incentive for the adoption of these policies with the help of lower taxes, discounts on purchase prices.
- To overcome the slowdown issue, Government is considering a package of stimulus for industry.
- A host of incentives unveiled in the Union budget for EVs, India has joined China and Europe that have backed the development of the blossoming EV industry by offering extensive fiscal incentives and a favourable regulatory environment.

On the other side, manufacturers have also found new avenues of growth as they are now tapping non-metro cities. Quick growth is likely from upcountry markets, where high ways and roads are being built, and discretionary income and aspirations are rising. Small towns and rural areas are regarded as the next engines of growth for passenger vehicle business.

Performance of the Company

FY19 was a year in which we made continued progress in many areas despite an increasing volatile economic and business environment, particularly in the last quarter. The total sales turnover of the Company increased to Rs.6634.52 million, registering a significant increase of 20.28%. Profit before tax was Rs.531.22 million and profit after tax stood at Rs.354.84 million compared to Rs. 483.87 million and Rs. 319.12 million in FY18. Earnings per Share also increased to Rs. 18.91 from Rs. 17.00 in the previous year. The Company recorded an export turnover of Rs.1912.10 million in 2018-19, compared to Rs. 1304.38 in the previous year, thus recording an increase of 46.60 %.

Post consolidation with the subsidiaries overseas, the turnover stood at Rs. 9306.81 million compared to Rs. 7794.91 million during the previous year, registering increase of 19.40 %. The consolidated financials of the Company with its subsidiaries are attached to this Annual Report. Recognizing the importance of sharing the gains with shareholders who have placed their funds and trust in the Company at all times, an amount of Rs.65.68 million is being paid out by way of dividends i.e. 15% interim dividend and now proposed 20% final dividend.



Your Company has made its mark as a leader of sustainable manufacturing. Our state-of-the-art Plants are operating to their capacity now while minimizing wastes and pollutants. This phenomenon has attracted several recognitions from the top assessing agencies, which are enumerated elsewhere in this Annual Report making your Company a respected name in the industry for its competitive and cutting-edge products.

As I have mentioned in my previous communication to you, we have seriously considered an organic as well as inorganic growth strategy that has started bearing fruits. Your Company is confident that exposure to more and more global environment will lead to strong growth opportunities. Further, as a part of operational strategy, the registered office has been changed to Haryana.

The Board has both executive and non executive directors possessing a wide range of expertise. The Board has continued its role to monitor the performance of the company, including its operational & financial performance and progress in delivering new growth. In terms of strategy, your Company is following a consistent and long term strategy, to deliver competitive returns through focus on quality and timely delivery. Further, the journey of growth, which began in a small way, has been gathering momentum with each passing year adding new dimensions and ventures in different geographies.

In this eventful journey, each year has been packed with achievements that underline our committed performance. I sincerely thank all our stakeholders including our shareholders, customers, vendors and bankers for their unstinting support and guidance. May I also express my gratitude to the Board Members for their valued guidance and my thanks to my colleagues at all levels for their support especially during these days of volatility and economic uncertainity. Your Company is positive about its medium and long term growth prospectives and looks forward to continued profitable growth in the years to come.

Pranav Kapuria
Managing Director