

passion to succeed



passion | innovation | technology

ENGINEERING

MANUFACTURING

ROBOTICS



# THE HI-TECH GEARS LTD.

ENGINEERING  
CONVERGENCE  
SOLUTIONS FOR  
A LEAN WORLD

## 34<sup>th</sup> ANNUAL REPORT 2019-2020

**Corporate Office**

14th Floor, Tower – B,  
Unitech's Millennium Plaza,  
Sushant Lok – 1, Sector – 27,  
Gurugram,  
Haryana – 122009  
Tel : (0124) 4715100,  
Fax : (0124) 2806085,  
Email : [secretarial@thehitechgears.com](mailto:secretarial@thehitechgears.com)

**Registered Office & Plant II**

Plot No. 24, 25 & 26,  
Sector-7, IMT Manesar, Gurugram,  
Haryana – 122050,  
Tel: (0124) 4715200,

**Plant I**

A-589, Industrial Complex,  
Bhiwadi – 301019,  
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 and Institutions**

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

**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

**Board of Directors**

Mr. Deep Kapuria  
Executive Chairman  
Mr. Anant Jaivant Talaulicar  
Vice 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. Neville D'Souza  
Independent Director

**Key Managerial Personnel**

Mr. Vijay Mathur  
Chief Financial Officer  
  
Mr. Naveen Jain  
Company Secretary

**Statutory Auditors**

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

**Internal Auditors**

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

**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, Directors' Report and Business Responsibility Report together with its Annexure are the statement of the financial figures, hence are provided in Rupees in million, 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

1. Milestones	2
2. Chairman's Message	3
3. Managing Director's Message	6
4. Directors' Report	9
5. Management Discussion & Analysis	33
6. Corporate Governance Report	38
7. Shareholder's Information	51
8. Standalone Auditors' Report	52
9. Standalone Balance Sheet	56
10. Standalone Statement of Profit & Loss	57
11. Standalone Cash Flow Statement	59
12. Standalone Notes to Financial Statements	60
13. Consolidated Auditors' Report	96
14. Consolidated Balance Sheet	100
15. Consolidated Statement of Profit & Loss	101
16. Consolidated Cash Flow Statement	103
17. Consolidated Notes to Financial Statements	104
18. Notice	145
19. Proxy Form	150
20. Attendance Sheet	151
21. Route Map	152



THE HI-TECH GEARS LTD.

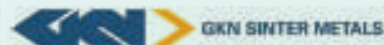
# MILESTONES

## 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.
- 2019 Achieved a Turnover of INR 9,000 Million (on Consolidated Basis)



# CUSTOMERS







## CHAIRMAN's MESSAGE



### Dear Shareholders,

I am pleased to write this message to you in the 34th year of the Company. In an era of global uncertainties, your Company continued to pursue its core values of excellence, integrity, commitment and transparency that guide our business conduct and underpin all of our operations.

As the last financial year unfolded, it brought with it several surprises that not only changed the global political and business landscape significantly but also posed a new threat to humanity. It has been more than three quarters since we began discussing the COVID-19 pandemic, its spread at a global level and the extent of its grave impact. Most of the countries, including India went for a complete lockdown for early two to three months which explains the seriousness of the issue. All of us have been worrying about the growing numbers of mortalities and crave for a solution through development of a vaccine, apart from the usual instructions to stay safe.

Available economic data forecasts indicate an unprecedented decline in global activity due to the COVID-19 pandemic. Figures released recently suggest even deeper downturns than previously projected for all economies. At the same time, commencement of unlocking and easing of restrictions by the government has paved the way for self-restriction, self-regulation with increased responsibility on every single person to protect himself/herself and those close to us while keeping economic activities operational.

While the situations prior to the spread of the pandemic across the globe were not favourable either, yet the spread of COVID-19 as global issue has not only impacted the lives, lifestyles and social structures but also significantly impacted the economic framework. It is difficult to predict when the pandemic will end; hence, the

various economies will take even longer to find their way back, along with getting back to a normal life. The Indian scenario is not any different. Even with all the relief packages and relaxations, the setback back to the economy is so significant that it will take its own time to recover.

The global economy continues to struggle; all economies across continents remain in stress due to the economic slowdown. In line with what is happening around the world, FY 20 has been a disappointing year for the Indian economy also with GDP growth coming down to just 4.2 %. In FY 21, all estimates indicate that the GDP growth will be negative, with a return to growth only in FY 22.

### Global and Domestic Economic Affairs

The world economy has experienced significant volatility in the past few years and the period under review continued to be challenging due to numerous macro-economic factors, some of which are briefly discussed in my message. The last year and the present one has perhaps been the most tumultuous in terms of global affairs with growth getting impacted by heightened uncertainties. The USA, UK, Japan and other developed countries registered minimal growth, despite expectations of improved economic activity.

World economic growth in 2019 was just 2.8%, due to the slowdown in global trade caused by both economic and political factors. 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 slowdowns in several major economies. Growth in emerging markets and developing economies are expected to stabilize in 2021 as some countries are still to move past periods of financial strain due to the global pandemic and other legacy issues. In the era of COVID-19, economists warn that further escalation of trade wars and tension between China and US could slow global growth to a crawl. A full-blown trade war will damage both economies and spill over to other regions, including India, South Korea, Japan and Europe.

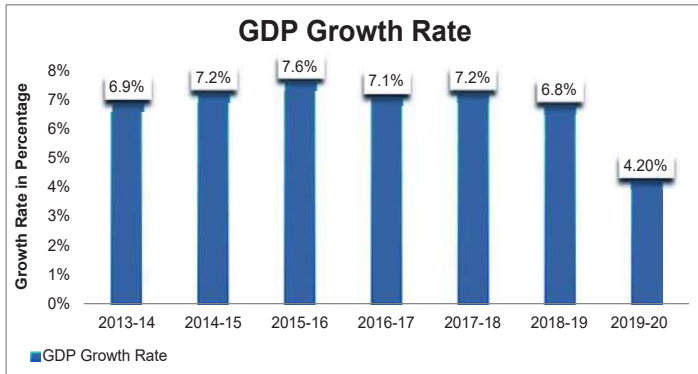
Geopolitical tensions are rising, which will result in further trade imbalances. Clashes between Chinese and Indian troops over their disputed border in the Himalayas have resulted in fatalities. American officials have increased their criticisms of China's actions in the South China Sea, calling Beijing's claims to the disputed waters and taking control on Hong Kong's sovereignty completely unlawful.

There is a higher-than-usual degree of uncertainty around any forecast. The baseline projection rests on key assumptions about the fallout from the pandemic. In economies with declining infection rates, the slower recovery path is visible. For economies struggling to control infection rates, a lengthier lockdown will inflict an additional toll on all human activities. To summarise, the COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated earlier, and the recovery is projected to be slower than expected as the pandemic is nowhere under control. The adverse impact on low-income households is particularly acute. In view of this, global growth is expected to be negative for sure this year as per the WEO, which projects it at (-) 6.2%. Some stability is expected in 2021, supported by the discovery of a vaccine, easing of lockdowns, improved market sentiments, accommodative financial conditions, and the return of domestic and international confidence.

Despite the above and headwinds from almost two years, India is still enjoying the fastest growing economy tag. Indian GDP represents 2.4% of world's GDP. However, India's gross domestic product (GDP) is estimated to have slowed to a decade low of



3.1 % in the last quarter of FY20, mainly due to poor demand and spending by all stakeholders. Overall, the GDP moderated to 4.2 % in FY 20 from 6.8 % in FY 19 with the Inflation rate at 3.4%.



I had raised a point of concern in my previous messages regarding the financial crisis in our economy; higher NPAs, financial crunch, liquidity problems rose to a new level, as the banks, especially PSBs and NBFCs went into a high risk assessment mode and were reluctant to provide financial support at a reasonable cost to even well managed companies. The challenge before the Government is now that it will be required to find ways to offset the inflationary impact of higher prices for certain essential commodities and relieve the burden especially on the poorer sections of the population, to try and revive demand.

The rupee has hit historic lows against the dollar in recent times, leading to widespread expressions of concern about what that means for the Indian balance of payments and the economy more generally. The consequences of rupee depreciation need to be thought through carefully as this might hamper the growth recovery in short and medium term. The only good news is that India's current account deficit in FY 21 is estimated to be marginal or perhaps even positive, due to the significant drop in import costs. In view of the adverse circumstances, various agencies have forecasted that the Indian Economy is expected to contract by 8% to 14% in FY 21 and then grow by 5.0% in the following year as economic activity normalizes gradually.

The Prime Minister of India laid down the target of making India a \$5 trillion economy by 2024-25, something that stimulated debate and discussion among economists and policymakers who sought roadmaps to attain this optimistic economic goal. However, in present situation the discussion garners more significance, and it seems that, Indian economy may attain the \$5 trillion mark only by 2027-28, due to the setback caused by the global pandemic.

The long-term growth prospects of the Indian economy remain positive due to its young population, the various reforms being introduced by the government in various sectors including the 'Atma Nirbhar' campaign launched by the government. Improved business processes also make a difference for doing business in India. India is now at the 63rd position as per World Bank's Ease of Doing Business rankings. Similarly, India's Balance of Payments position improved and now the forex reserve is US\$ 538 billion as of second week of August 2020.

#### Fiscal Policies Going Forward

As the great lockdown begins to ease in several parts of the world, fiscal policies have come in to picture, balancing the need to protect people, stabilize demand, and facilitate recovery. Where the pandemic remains acute and stringent lockdowns continue, fiscal policies have accommodated health care services to save lives. The objective of policies is to save jobs, provide employment and facilitate structural shifts in labor markets for a more resilient post COVID-19 economy.

Giving thought to the above principle, more than two-thirds of governments across the world have scaled up their fiscal support to mitigate the economic fallout from the pandemic and the stringent lockdowns as growth is revised further downwards. These measures have helped save lives, protect livelihoods, and preserve employment and business relations. Announced fiscal measures are now estimated at near \$12 trillion globally. One-half of these measures are additional spending and forgone revenue, directly affecting government budgets. The remaining is liquidity support, such as loans, equity injections, and guarantees, including through state-owned banks and enterprises, which help maintain cashflows and limit bankruptcies.

In May, the Prime Minister, announced a special economic package of Rs 20 lakh crore (equivalent to 10% of India's GDP) and the 'Atma Nirbhar Bharat' scheme with the aim of making the country independent against the tough competition in the global supply chain and to help in empowering the poor, labourers, migrants who have been adversely affected by COVID. Following this announcement, the Finance Minister, announced the detailed measures under various economic packages.

The RBI Governor also underlined five positive shifts that are underway which will shape the future of the Indian economy, leverage its strengths and position it as a leader in the global growth. The five areas are, the farm sector, global value chains, information and communication technology (ICT), renewable energy, and infrastructure. He also stated the need for both the private and public sector to play an important role in the path to recovery.

#### Indian Automotive Sector and Future Outlook

The automotive industry makes a significant contribution to the global economy. Overall, the industry's annual turnover is equivalent to the world's sixth largest economy. In 2019, global direct employment in the industry was estimated at nearly 16.5 million workers. The industry has had a roller coaster journey; it recovered from the 2008-09 global financial crisis, enjoyed a boom in 2015 to 2017 and now it is once again faced with great uncertainty. The industry was the first hit, since the global pandemic began in China and the impact of COVID-19 has since become severe in all parts of the world.

The automotive industry is facing a sharp drop in demand and investment. It is also struggling with an abrupt and widespread stoppage of economic activity, as workers are told to stay at home, supply chains grind to a halt and factories close. Restrictions on the movement of people and the sudden stoppage of economic activity are expected to cause a severe contraction in sectoral output and GDP. It is estimated that factory closures in Europe and North America alone have caused some 2.5 million passenger vehicles to be removed from production schedules, at a cost of US\$77.7 billion in lost revenue for automotive and parts manufacturing companies.

India is one of the most promising global automotive markets, and the size of India's auto component industry is \$57 billion. The Indian automobile market made its mark in the world by manufacturing quality products at competitive prices. Similarly, the Indian auto component industry has the potential to become one of the high growth industries in the world, if it receives the right support and incentives. Seen as a significant player in the global automotive supply chain, India is a supplier of a range of high-value and critical automobile components to almost all global automobile manufacturers. The high quality, low priced engine parts, transmission parts, brake systems and other components made in India are amongst the worlds' favorite.

Indian industry has been facing many challenges in recent past, including 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



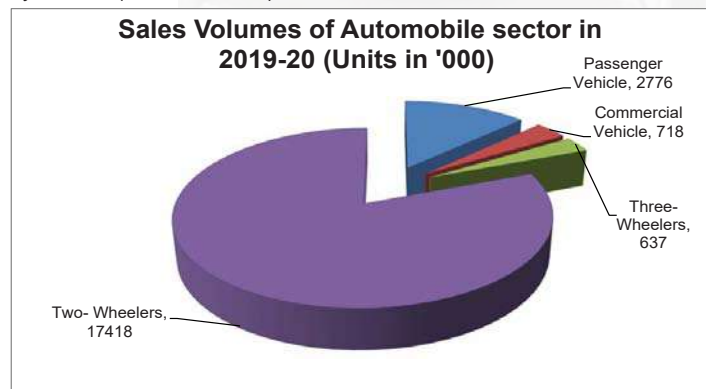


consumer sentiments resulting in inventory build-up, and all OEMs are constantly realigning production in line with demand. Also, shared mobility, electric vehicles (EV) are being promoted by the Government which poses a threat to existing production lines in the auto sector. The impact of COVID-19 was also felt in the last quarter of FY 20, when the operations were stalled due to lockdown 1.0.

As such the automotive industry under performed in FY 20; as I explained in previous messages, not only the Indian auto industry, but the entire industry at the world level needs to prepare itself for a paradigm shift and be agile and flexible to face growing uncertainties in various spheres. 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.

According to the data released by SIAM, in FY 20, the industry **manufactured** a total 26,362,284 vehicles including passenger vehicles, commercial vehicles, three wheelers, two wheelers and quadricycles, recording a decline of 14.73 % over the previous year (30,914,874 vehicles). The production trends reveal that there is negative growth in all categories from passenger vehicles, commercial vehicles to two wheelers.

In terms of sales, the domestic Industry **sold** a total 21,548,494 vehicles in FY 20; out of this passenger vehicles declined by 17.82% (2,775,679 vehicles). Also, in commercial vehicle, there is a degrowth by 28.75% (717,688 vehicles). Scooters/ Scooterette sales declined by 16.94% while all time favorite, Motorcycles and Mopeds also registered a negative growth of 17.53% (11,214,640 vehicles) and 27.64% (636,940 vehicles) respectively, taking the total two wheeler sales decline to 17.76% (17,417,616 vehicles) for the year. Overall, three wheelers sales also registered a decline of 9.19% (636,569 units), while Passenger Carrier sales decreased by 8.28% (525,015 units).



The sector's exports were almost flat during the year, with overall automobile exports increasing by only 2.95% (4,765,754 vehicles). Passenger vehicles exports increased by 0.17% (677,311 vehicles), however commercial vehicles exports registered a decline of 39.25% (60,713 vehicles). The exports of three wheelers declined by 11.54% but export of two wheelers recorded an increase of 7.30% (3,520,376 Vehicles).

Since coming to power for the second term, the Government's main concern has been the revival of growth in the Indian economy and crucially enough, it has chosen to give the industrial sector a structural push to achieve its goal. The Government's dream 'Make in India' initiative, which intends to make manufacturing the engine of growth and also generate employment, is still to take full shape. Under this initiative, there is increased focus on new processes, new infrastructure, new sectors and creating a new mindset in order to increase the share of manufacturing in GDP to 25% from the current 17%. The focus of Make in India Program is on 25 sectors out of which one of the important sectors is Automobiles.

## Company Performance and Strategy

The performance of your Company was in line with the industry performance, in the year gone by. As expected, sales and profits were down, however we were still able to show profits, mainly due to our operational excellency. To make up the gap, 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. Some new products are also under development in the field with the Company's expertise in gear & transmission manufacturing. The Company continues to focus on cost reduction efforts and make improvements in operational efficiencies as well as value engineering activities to improve margins. Additionally, your company has made its mark as a leader of sustainable manufacturing. Our state-of-the-art plants In Bhiwadi and Manesar are capable of manufacturing world class equipment.

To summarise, the financial results for the year FY 2020 the standalone turnover of the Company decreased by 21.29% and touched Rs. 5155.28 million. As a result of the lower topline, the standalone profit before tax stood at Rs 153.02 million. After consolidating the financials of the Company with its subsidiaries, the consolidated turnover registered a degrowth at 21.19% and stood at Rs. 7334.94 million. Despite the lower profits, the Company still chose to share the profits by declaring an interim dividend of 15 % for the FY 20.

In FY 20 the Company had an export income of INR 1334.44 million (standalone), which decreased by 30.21% over the previous year due to obvious reasons explained in this message. The export programs are also expected to gain momentum in coming years. Going forward, the overall focus will continue to be on manufacturing excellence and quality at optimum costs.

We have enough experience in our portfolio as manufacturers and suppliers of gears and transmission equipment, which will help us in tapping new markets. The Board is competent with both executive and non-executive Directors possessing a wide range of expertise. The Board continued to perform its role of monitoring the Company's performance including its operational & financial performance and progress in delivering new growth. Further, in terms of new strategy your Company is following a consistent and long term approach, to grow cash flow across the cycle and deliver competitive returns through focus on operating efficiencies, quality and timely delivery.

The North American subsidiaries are also facing the same issues, as in all other geographies, however your management is confident that new and improved conditions will lead to growth opportunities by 2021.

COVID-19 will change the way the world works; just like the great depression, industry 3.0, dot-com bubble, and the 2008 financial crash did in the past. I've been pondering, like many have, what fundamental changes will take place in how people, businesses, and economies function. The next 12 months will be difficult. Many businesses will struggle, some may even fold up. However, as with economic adversities of the past, new industries will emerge bringing with it renewed hope of recovery. Eventually, things will go back to normal. Just that we'll have to change the definition of normal.

I, on my behalf and on behalf of my colleagues on the Board would like to thank and record our sincere gratitude to all our stakeholders for the confidence & trust reposed upon us and our deep appreciation to all employees of the Company for their hard work, commitment and whole hearted support for achieving company's goals and targets. I further thank all our customers; our supply chain partners and our bankers for reposing their confidence & support in us.

**Deep Kapuria**  
Chairman



## MANAGING DIRECTOR'S MESSAGE



### Dear Shareholders,

I am happy as always to connect with you to reflect on the performance of your company, share with you our thoughts and strategy for the future. The FY 2020 was eventful and challenging in terms of the global and domestic scenarios. The economic environment is varying almost on a daily basis for various economic and geo-political reasons and lately due to the outbreak of COVID19.

The performance of the Indian Economy in FY 20 was disappointing in many spheres. The automotive industry was one of them and it declined in almost across the board. Obviously your Company was also adversely impacted and it moved in line with the automotive industry's performance.

### Macro-Economic Updates

After considerable growth in previous years, global economic activity slowed down from the last three years, reflecting a confluence of factors affecting major economies, including USA and China. The growth in world output also grew by a marginal 2.8 % in 2019. Ongoing trade tussles are fuelling fears about damage to global economic growth and leaving the world on the brink of a trade war.

The global economy continues to struggle with almost little or no growth in the year gone by. Slower trade liberalization, obstacles to value chain integration, elevated economic policy uncertainty and the

likelihood of financial market disruptions and outbreak of pandemic are certainly the main reasons. The continuously increasing impact of the COVID19 global pandemic has the potential to derail a fragile trade recovery expected earlier. The weakness in investment has been most pronounced in the largest emerging markets and commodity-exporting emerging and developing economies. The adverse impact on low-income households is particularly acute, jeopardising the significant progress made in reducing extreme poverty in the world since the 1990s.

Global growth is projected between (-) 5% to (-) 6.5% in 2020. The COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously forecast. The baseline projection rests on key assumptions about the fallout from the pandemic. In economies with declining infection rates, the slower recovery path; for economies struggling to control infection rates, a lengthier lockdown will inflict an additional toll on activity. And those economies, that are seemingly reaching a peak in infections, should ensure that their health care systems are adequately resourced.

This outlook is subject to considerable downside risks. The possibility of disorderly financial market volatility has increased, and the vulnerability of some emerging market and developing economies to such disruption has risen. The world is developing and looking for a cure for COVID-19 and a lot of resources have been allocated for it. Trade protectionist sentiments have also mounted, while policy uncertainty and geopolitical risks remain elevated. Saving economies from the aftermaths of the pandemic, and heightened geopolitical tensions continue to cloud the outlook atleast for the next one and half years.

India was one of the first countries to impose a nationwide lockdown to contain COVID19. It started on March 25 and stalled business activity in the country. It was slowly eased, and by June, most non-essential services had also been allowed to operate in non-containment zones in the country, subject to policies made by states. Many curbs on movement have been relaxed, though educational institutions, cinemas, local trains/metro etc are shut. At the same time government has taken prompt policy measures both in the short and long term to revive the economy at the earliest.

The Indian economy faced a huge obstacle due to the lockdowns. Up to 63% of businesses have indicated a severe adverse impact of shutdowns caused due to COVID-19 on operations, as per a survey in June. The unemployment rate had increased to 26% across India and more than 45% households across the nation reported an income drop as compared to the previous year. Various business cut salaries and laid off employees. A number of young startups have been impacted as funding has fallen. Government revenue has been severely affected with tax collection going down, and as a result the government has been trying to find ways of reducing its own costs. India should prepare for a negative growth rate in FY21 as the Indian economy was expected to lose over ₹32,000 crore (US\$4.5 billion) every day during the lockdown.

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:

India's real GDP grew at 4.2 % in FY20, thereby experiencing moderation in growth when compared to FY19. This moderation was mainly on account of decline in all sectors such as manufacturing,





mining, agriculture, transport, storage, communication, services & defence sectors.

The pickup in economic activity is contingent upon how long it will take for each sector to return to normalcy. Constraint in consumption demand can be expected to continue for few more quarters given the high unemployment rate and lower income levels. The government will have to continue to play a crucial role for the revival of the economy. As per Finance Ministry India's GDP is expected to contract 4.5% in the FY 2020-21 citing unprecedented Covid-19 induced supply-demand shocks. Other estimates by International Financial institutions and international rating agencies, estimate the decline to be even higher between 8 to 14 %.

The economy has been fraught by idle capacity, low demand, and high cost of production. And, the coronavirus pandemic has pushed it further. India began emerging from the world's longest coronavirus lockdown in early June, but despite ordering its population of 1.35 billion indoors for over two months, it has watched cases rise steadily. There are mixed views on India's decision to gradually open its economy, which was already in the grip of a slowdown before the pandemic struck with devastating force. So, where does India go from here? We'll have to wait and watch.

To bring the economy back on track, and Government's commitment towards structural reforms and social welfare measures, have launched 'Atmanirbhar Bharat' [self-reliance] scheme and released various measures for Rs. 20 lakhs crores. The scheme covers almost all aspect of people and business in any way. Scheme is projected to strengthen with the collective effort of all stakeholders and contribute to rebuilding a strong vibrant Indian economy.

Prompt policy measures have been taken in the scheme to revive the economy at the earliest. The Department of Economic Affairs reported that preliminary readings indicate the emergence of green shoots from July onwards. These green shoots have a conducive policy environment to grow further and nudge the economy early on the path of economic recovery and growth.

As global economies contract because of the COVID19 pandemic, the focus of most of India Inc has now moved back to the home market where demand is expected to pick up in coming times. 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 further assist the manufacturing and service sector and we should see positive steps being taken in this financial year.

#### The Automotive Sector:-

The Automotive sector is one of the most vibrant sectors of the Indian economy. India has emerged as the destination of choice in the world for design and manufacture of automobiles and auto components. The automobile industry in India is the world's 4th largest in numbers. India currently enjoys the tag of the world's 7<sup>th</sup> largest manufacturer of cars and commercial vehicles respectively.

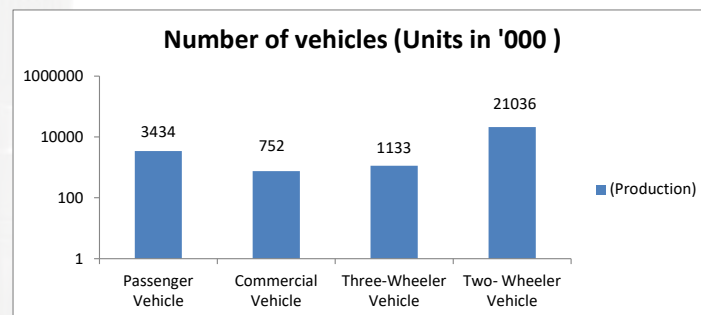
The domestic industry now has holistic capability to manufacture an entire range of automotive components e.g. engine parts, drive, transmission parts, suspension & braking parts, electricals, body and chassis parts, equipment etc. The auto sector is one of the biggest job creators, both directly and indirectly. It is estimated

that every job created in an automotive company leads to three to five indirect ancillary jobs. India's domestic market and its growth potential have been a big attraction for many global automakers.

The last few years have been weak due to low demand, regulatory pressures, increasing the automation requisite for delivering quality products, with a competitive edge over the suppliers from other parts of the world etc. Now, the pandemic has resulted in an unprecedented drop not only in business but in unemployment in the automotive industry across its supply chains. Many more jobs would have been lost, if government, employers and workers had not taken immediate action to control the adverse impact.

In 2019-20, the industry registered a decline of 14.83% over the same period last year with sales of 26,314,248 vehicles compared to 30,895,228 vehicles in the previous year.

Two wheelers have always had a major share of volumes in the total output, however there was a decline during the year. The segment produced and sold 21,036,294 vehicles and 20,937,992 vehicles compared to 24,499,777 vehicles and 24,460,688 vehicles in previous year, thus registering a significant decline of 14.14% in production and 14.40% in sales respectively.



There has also been a further fall in volumes during the last few months. The cumulative domestic sales of all vehicles continued to skid further in first quarter of 2020-21. Recently, the Society of Indian Automobile Manufacturers announced 89.35 % decline in total vehicles sales for April-May period, the lowest in nearly eight years. Looking at the downtrend, the liquidity crunch facing nonbanking vehicle financiers, lack of clarity on technological changes, rural distress etc, the OEMs had also cut their production significantly.

We can expect return in sales in this second half on improving socio economic sentiments, effects of fiscals announced to boost economy as part of Atma Nirbhar Bharat, ease on movement, stable commodity prices, re-start of mining activity and infra projects, and higher industrial activity with an improved investment climate.

The Indian Auto and Auto component sectors have been working tirelessly in all areas and are geared for further improvements & growth in the coming period. Despite the fact that the first quarter recorded a decline for the auto industry, seeing the green shoots, demand to pick up from the second quarter onwards when dispatches are stronger due to coming festive seasons. Further a normal monsoon and announcement of a higher farm support price also augurs well for automobile sales, especially two- wheelers and tractors.

#### Performance of the company

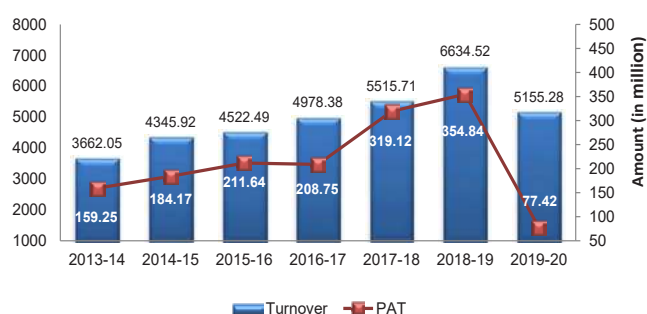
Your Company is one of the few industrial enterprises which has become a world-class Indian brand with a green and sustainable strategy of growth, despite an increasing volatile economic and



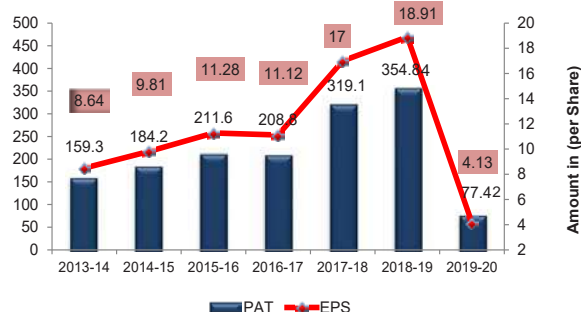
business environment. Besides being cost competitive, delivering to strict schedules and adhering to high quality standards are the main keys of success for auto component manufacturers, especially to enter into and grow export markets.

In the first half FY20, the Company made reasonable progress in all verticals except in heavy vehicles and off-road vehicles vertical. However, the second half was highly volatile due to low demand, and an increasingly unfavourable economic and business environment. In the last month of the financial year, the impact of the lockdown also adversely affected sales. The total sales turnover of the Company decreased to Rs.5155.28 million, registering a de-growth of 22.29%. Profit before tax was Rs.153.02 million and profit after tax stood at Rs. 77.42 million compared to Rs. 531.22 million and Rs. 354.84 million in FY19. Earnings per Share also decreased to Rs. 4.13 from Rs. 18.91 in the previous year. The Company recorded an export turnover of Rs. 1334.44 million, compared to Rs. 1912.10 million in the previous year, thus recording a decrease of 30.21 %.

### NET TURNOVER & PAT



### PAT & EPS



### Exports at F.O.B Value



Post consolidation with the overseas subsidiaries, the turnover stood at Rs.7334.94 million compared to Rs. 9306.81 million in the previous year, registering de-growth of 21.19 %. The consolidated financials of the Company with its subsidiaries are attached to the 34th 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. 28.15 million was paid out as interim dividend for FY 20.

In my entire experience of the auto sector, it was probably during the lockdown period, that the force majeure clause was invoked by major participants in the industry, which shows the severity of the situation faced by the industry in this pandemic. We were all faced with a great shortage of resources. The Promoter / Directors of your company have waived off their remuneration and commission to support the company in this situation. Similarly, the employees came forward and agreed to work on reduced salaries. As I mentioned in my previous messages that the "people are the company's greatest assets and must be valued, measured and developed". This is an emotional point and I must state that the statement is hundred percent true with the gesture they have shown. With this strong belief, your company continues to invest in building its most significant asset, its people. The Board of Directors and the entire team is working hard to enable the company to achieve its goals despite the global pandemic.

The management of the company is proactive and took various measures for the safety and security of its employees and society, a brief of some of initiatives are mentioned in the Management Discussion Analysis attached to the Directors' Report.

Going forward, not only the domestic, but the export programs are also expected to gain momentum. Overall, the focus will continue to be on quality delivery at optimum costs. New initiatives are 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 is 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.

In respect of internal controls, your Company has been working with M/s. Grant Thornton India, LLP, Internal Auditors of the Company with the objective of strengthening internal controls and improving internal processes.

In a vibrant economy, downturns can come and go. Disruptive change opens opportunities for new players who drive innovation, new products and services as some of the entrenched struggle and vacate space. Your company has the capability to achieve excellence in the coming years, because it has both consolidated and diversified its production capacity through significant internal re-organization in both its core and strategic areas to prepare for the future.

On behalf of The HGL team, I thank you for your continued support and assure you of our unceasing efforts to improve your company's performance and image year after year. I place on record my sincere thanks to our valued customers, supply chain partners, banks and all our employees for their valuable and continuing support in all our endeavours.

**Pranav Kapuria**  
Managing Director