

■ MANAGEMENT DISCUSSION AND ANALYSIS

WORLD ECONOMY

Global growth is expected to remain at 3% in 2019-20. The global economy is facing a confluence of risks, which could severely disrupt economic activity and inflict significant damage on longer-term development prospects. The economic progress across world is highly uneven. The risks include an escalation of trade disputes, the abrupt tightening of global financial conditions and intensifying climate changes may further restrict growth momentum. Among the developing economies, the East and South Asia regions remain on a relatively strong growth trajectory, amid robust domestic demand conditions.

INDIAN ECONOMY

Indian economy is one of the fastest growing economy in the world and it continued at growth trajectory to mark as sixth largest economy compared to eleventh largest in 2013-14. This is possible mainly due to 'Make in India' drive along with digitisation bringing in more transparency in doing business. Despite volatile crude price along with fluctuation in exchange rate throughout the year, the GDP clocked at 6.8% in 2018-19. The growth was reflected across all sectors be it manufacturing, service and agriculture and is also evident from World Bank latest 'Doing Business Report 2019' which says that India has improved its

rank by 23 position and climbed ladder from 100th rank to the 77th rank.

OUTLOOK

India's GDP growth is expected to continue at 7% in fiscal year 2019-20 driven by continued investment, improved export performance and resilient consumption. The growth is expected to be favourable mainly on three pillars, pre-election fiscal stimulus in first half of financial year, infrastructure stimulus in second half of 2019 and favourable monetary policy. The interim union budget also focuses on strengthening infrastructure initiatives with planned capex of US\$ 47.29 billion for 2019-20. India is geared up to become US\$ 5 trillion economy in next five years. The fiscal deficit is expected to be 3.4% of the GDP for 2019-20.

CEMENT INDUSTRY

Cement industry demand is expected to grow at 7% for fiscal 2019-20. As per Crisil, with the addition of 23 million tons per annum cement production capacity in fiscal 2019, the total production capacity increased to 478 million tons. Further, it is estimated that capacity may increase to 502 million tons by 2020. The growth in Cement demand is mainly driven by Government initiatives towards housing for all and other infrastructure developments:



Aligarh Grinding Unit (Greenfield Expansion)

- Government 'Housing for All - Rural and Urban' is a major source of cement consumption. House approved under PMAY scheme touched 8 million mark in urban area of which only 1.9 million houses were completed under Pradhan Mantri Awas Yojana PMAY-Urban and in case of construction under PMAY-Rural 7.5 million houses were completed out of 10 million approved. Further, Real Estate Regulation and Development Act (RERA)2016 and Benami transaction act brought more transparency in the construction sector, in all giving boost to construction activity.
- India is fastest highway developer in the world with 27 kms of highway built each day. With the uses of paver blocks/concrete tiles, construction of flyover and other structure in road project would lead to increase in cement demand. Further, Government has allocated US\$ 2.67 billion in the budget for Pradhan Mantri Gram Sadak Yojana (PMGSY).
- Other Infrastructure Projects will also stimulate cement demand such as:
 - Development of 100 cities across India.
 - Smart cities mission which focus on water supply, sanitation and solid waste management.
 - Metro Rail project in selected cities for improving rapid transport system.
 - Expanding the capacity of the railways and facilities for handling and storage yards.

PERFORMANCE

Industry

As per CRISIL, Cement Demand for financial year 2018-19 is 335 MnTpa thereby registering growth of 12%. The housing sector is still a main demand driver accounting for 60-65% of total consumption. Other demand drivers are Infrastructure and Commercial & Industrial with 15-20 % share each.

Company's operational and financial performance (Standalone)

- Grey Cement production volume increased to 8.36 MnTpa in 2018-19 as against 7.88 MnTpa in 2017-18 thereby registering growth of 6%.
- White Cement (inclusive of Wall Putty) production volume increased to 1.26 MnTpa as against 1.17 MnTpa in 2017-18 thereby registering growth of 7%.
- Net Sales increased to ₹ 4919.19 Crores in 2018-19 as against ₹ 4542.59 Crores thereby registering growth of 8.3%.
- EBIDTA increased to ₹ 810.12 Crores in 2018-19 as against ₹ 760.66 Crores thereby registering growth of 6.5%.
- Net profit is ₹ 324.90 Crores in 2018-19 as against ₹ 341.87 Crores in 2017-18 thereby registering de-growth of 4.9%.

STATEMENT OF KEY FINANCIAL RATIOS

Particulars	2018-19	2017-18
Debtor Turnover Ratio	25.00	27.03
Inventory Turnover Ratio	8.93	8.82
Interest Coverage Ratio	4.09	3.62
Current Ratio	1.61	1.55
Debt Equity Ratio	0.76	1.04
Operating Profit Margin (%)	16.47%	16.75%
Net Profit Margin (%)	6.60%	7.53%

Expansion projects

Commissioned wall putty unit at Katni having installed capacity of 2 Lacs tonnes per annum.

Medium term plan

Grey Cement expansion of 4.2 million tonnes per annum with 2.8 million clinker production line, 1 million tonnes Cement grinding and Waste Heat Recovery system at Mangrol, Rajasthan. 1 million cement grinding at Nimbahera, Rajasthan along with two Split Grinding Units of 1.5 million tonnes at Aligarh (Uttar Pradesh) and 0.7 million tonnes at Balasinor (Gujarat) in on schedule and will be completed by March 2020.

To upgrade existing Line No-3 at Nimbahera resulting in increased Clinker Production by 1,000 TPD. This is scheduled to complete by December 2020.

Wall Putty expansion at Katni will be taken up in 2020-21. The expansion of 2 Lacs tonnes per annum would increase the Wall Putty capacity to 11 Lacs tonnes per annum.

Long term plan

The Company's long-term plan is to set up integrated plant having capacity of 3.0-3.5 MnTPA plant at Panna (Madhya Pradesh) to achieve 18 MnTPA capacity by 2022. For this proposed expansion the Company has two mining leases. These leases have enough reserves to support expansion of 15 MnTPA in phases.

INDUSTRY CONCERN

Regulatory Compliance: There are rapid changes in emission norms relation to dust, NOx and SOx. Non-compliance of same lead to imposition of penalty and loss of brand reputation. For monitoring and to comply with new standards issued by Ministry of Environment and Forest & Climate change substantial capital expenditure has been done. Further ensuring compliance with NOx & SOx is a part of green and sustainable development.

Raw Material: The cement industry is dependent on existing natural resources be it limestone or other minerals for its sustenance. These resources are depleting fast owing to growing demand of cement, to conserve our existing natural resources, alternative is to promote blended cement which require more of fly ash and slag. This will reduce the cost of cement as well as promote use of waste by product of thermal and steel plants.



Mangrol Expansion (Integrated Plant)

Power & Fuel: Power and Fuel cost is almost 25 % of our operating cost. Optimum utilisation of available resources from different sources is the need of hour and for this captive investment is being done to maximise usage of alternate fuel in our kilns. Though the use of alternate fuel results in increase in consumption, the overall cost is reduced as it replaces Pet coke and risk of volatility in Pet coke prices is offset to some extent. Power cost was also adversely affected due to increasing price of imported coal as well ban of pet coke in power plant and unavailability of linkage coal. Further, recent change in the Government policy for compliance of solar and non-solar obligations has also resulted in increased power cost by way of purchasing RPO. Further, Waste Heat Recovery Power plant generation is no longer treated as generation of electricity by means green power.

Logistic Risk: Impact of Rising Crude price of over and above US\$ 65 per barrel during this fiscal has been offset by Government action to relax loading restrictions which permit 20–25% overloading of trucks. Further, limited wagons availability has also resulted in increase in logistic cost as higher dispatches are made by road. Increasing logistic cost put pressure on

operational profitability and to control the same from further increase, it is necessary to identify the area resulting in reduced logistic cost. Special efforts have been done by the Company team to reduce logistic cost which is apparently visible in the results.

Sustainable growth towards better future

At JKCL, we believe that business will grow when we adapt sustainable practice which says business which meets the need of the present without compromising with the ability of future generation to meet their needs thereby playing a strong role in shaping the nation towards better future. Our approach towards sustainable development is embedded in the business strategy through our organisational values that includes honouring our commitments, striving for perfection, taking pride in our promises, caring and empowering people.

India being developing nation has plethora of opportunities in the form of infrastructure development both in urban and rural India. We being responsible cement manufacturer have already adapted practise for using alternate raw material and fuel which is not only economical but also reduces our carbon footprint.

Restrictions and ban on use of pet-coke for power plant has resulted in increase dependence on imported coal. This will consume more fuel which in turn increase air emission. In order to control dust, SOx and NOx emission captive investment is being carried out for installation Flue Gas Desulphurisation in our captive power plant. The Company constantly aspire to evolve our processes to reduce impact on our planet thereby making the Earth – a place to live for generation next.

The company consider its employees as assets and not as liability and treat them as part of our extended family. All workers at plant site are being trained for capacity enhancement programs which in turn boost productivity and help in promoting Safety in its practises. Our consistent efforts have resulted in zero harm.

As a result, our CSR engagement programs are aligned with the needs of the local community. In addition to serving our clients, we regularly engage in improving or adding to the infrastructure needs in vicinity of our plants by way of construction of pucca roads, water tanks, bore wells, community halls and hospital beds for primary health centres and installation of chair at railway station for passengers. We hope that such developments would serve as an enabler for the local economy and promote well-being in people.

The Company have been reporting our sustainability performance from last few years. Following the practice, we will soon come out with our sixth Annual Sustainability Report (SR) based on Global Reporting Initiative's (GRI) Standard guidelines. In addition, we also publish Business Responsibility Report (BRR) which is a part of this Annual Report. For more information on our

past sustainability initiatives and performance, please refer: http://www.jkcement.com/sustainability_report.

Human resources development

Your company, as part of group's strong cultural legacy, deeply believes in valuing human resource as one of the key assets of the organisation, wherein employees are considered to be part of one big family. The value and philosophy of "philanthropy" and "One Family" are lived and practiced, which bind together diverse manpower across various manufacturing and office locations not only within India, but, UAE and Africa as well.

Your Company's human resources are the strong foundation for creating many possibilities for its business. It partnered closely with the business to implement and effect change seamlessly with due consideration for the human element. As the business strategically charted a path for expansion with new brown field and green field projects, considering the challenges of the expanding scale of operations, new products, and coupled with it the new markets, the human resource function added greater value in terms of not only adding skilled manpower to support and strengthen the business growth and market expansion but also continuous talent development through various learning and long term developmental interventions for sales and manufacturing workforce with positive business impact.

The focus has been on strengthening the employee brand and employee life cycle experience.

In last financial year, the company embarked on the journey of Digitisation by adopting SAP Success Factors as its cloud-based HR platform, one of the first in Indian Cement industry, to enable the last mile employee to connect seamlessly. This year HR integrated this platform into its mainstream operations for greater progress excellence. Leveraging on this platform, we automated all information related with Employee details (employee central), all policies and SOPs, Performance management system, Recruitment with Internal Job posting and launched official social network platform. There are some of the milestones that human resource function has built to bring efficiency and accessibility to its HR processes and systems to all employees across all locations.

As on 31st March 2019, your Company's employee strength stood at 3,414 employees, which is an increase over last year due to new projects, new markets and strengthening existing markets.

With an aim to support business against volatile external environment, leadership development is being given due importance, through the structured approach involving assessment of gaps, coaching, across the organisation. For the younger, but bright talent, we started with the identification of High Potentials, using credible and validated psychometric assessments tools. Aim is to groom internal talent and create a talent pipeline for our current and future talent needs.

This year has been the memorable year with many awards, such as

- National Award for Talent Management for its hiring initiatives
- Best HR Team of the Year
- The Golden Globe Tigers Award (For Excellence in HR Leadership)
- Top Rankers Excellence Award for HR Leadership
- Employee Engagement Leadership Award this year

This has helped to showcase your company, in various national and international platforms.

Though the emphasis is on connectivity and speed, the local connect with employees has been the key in touching employee's lives positively in some way or the other.

INTERNAL AUDITS AND CONTROLS

The Company believes that a strong internal control framework is an important pillar of Corporate Governance. It has well established internal control mechanisms commensurate with the size and complexity of its business. The company has inbuilt policies and procedures for safeguarding its assets, prevention and detection of fraud and errors if any, accuracy and completeness of the accounting and timely preparation of financial information based on IND AS.

Further, in order to maintain its independence and objectivity in observation, Internal Audit Department report on the efficacy and adequacy of Internal Control System to the Chairman of Audit Committee of the Board.

The Internal auditor verify the records as well as stock at the depots of both grey and white cement. If any discrepancies are found in the system, it is reported on monthly basis to process owner for corrective actions. Then the internal audit report duly signed by the internal auditor is forwarded to marketing office and internal audit head for review purpose. These keep check on the existing system as designated process owners are supposed to undertake corrective action in their respective areas and thereby strengthening the internal control system.