WORLD ECONOMY

During CY 2019, the world economy recorded its weakest growth of 2.9%, since the global financial crisis a decade ago. This muted progress reflects a common scenario across countries, primarily based on factors, such as rising trade barriers, especially between the US and China and uncertainty looming on business sentiments globally. The large emerging markets, such as Brazil, India, Mexico, and Russia are facing inherent challenges, while other economies remain stressed due to issues like tighter financial conditions (Argentina); geopolitical tensions (Iran); and social unrest (Venezuela, Libya and Yemen). As estimated by the IMF, the global growth is expected to witness a steep de-growth of -3% in FY 2020-21, resulting from the economic fallout of the COVID-19 outbreak. The world economy is losing its growth momentum owing to the Great Lockdown, undertaken by most nations in a bid to contain the spread of the novel virus. The lockdown has impacted goods and labour mobility, thereby affecting every aspect of the economy as countries prioritise life of its citizens, followed by a focused approach to bring their respective markets back on track. In fact, China and India are the only two major economies which are likely to grow amid the global slowdown.

INDIAN ECONOMY

Indian economy is the fifth largest economy of the world and aims to become a US$ 5 trillion economy by 2025. The year witnessed some major progress within the Indian economy, including the country retaining its position as the third largest startup base. During FY 2019-20, India also raised US$ 114.10 billion through its capital markets and attracted Foreign Direct Investment (FDI) worth US$ 456.79 billion 9MFY20. The country's foreign reserves stood at US$ 476 billion in February 2020. With economic policies driven to promote investments, India improved its rank in the World Bank's Ease of Doing Business ranking by 14 places to reach the 63rd position. During the year under review, India's fiscal deficit stood at US$ 99.56 billion (₹ 7.04 Lacs Crores), i.e., 3.3% of the GDP for FY 2019-20, while its GDP remained at 4.2%.

OUTLOOK

India's GDP is expected to grow at 1.8–2.0 % in FY 2020-21. The forecast of a sluggish growth is primarily due to the COVID-19 outbreak in March 2020 and its impact on the lives of 1,300 million people living in India. The Government of India stepped up to the plate to handle this crisis and announced a nation-wide lockdown, allowing only essential services to remain active. The extended lockdown resulted in weakened consumption demand in the economy. The government is lifting the lockdown phase-wise, restarting its manufacturing activities with the stoic understanding that the country will have to carve out its niche as a global economic power within the limits set by the COVID-19 pandemic.

The government announced a stimulus package of ₹ 20 Lacs Crores, which is almost 10% of the India's GDP to support the economic revival.

The stimulus package of ₹ 6 Lacs Crores covers Micro, Small and Medium Enterprises (MSMEs), electrical Distribution Companies (DISCOMs), Non-Banking Financial Companies (NBFCs), Tax Deducted at Source (TDS)/Tax Collection at Source (TCS) rate cut, among others. It also contains ₹ 1.5 Lacs Crores for supporting rural agriculture economy; ₹ 3 Lacs Crores for the underprivileged people relief package and ₹ 0.50 Lacs Crores for last stimulus of Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). The remaining ₹ 9 Lacs Crores is to be provided by various measures undertaken by the Reserve Bank of India (RBI) to boost liquidity in the system.

INDIA'S CEMENT INDUSTRY

A) Overview

The cement demand growth during FY 2020-21 is expected to witness an unprecedented contraction of 10-15%, owing to the spread of the global pandemic. Thus, the demand for FY 2020-21 is expected to be 285 million tonnes as against 328 million tonnes in the preceding year. Cement production capacity in FY 2019-20 stood at 520 million tonnes and it is estimated that capacity may increase to 541 million tonnes by 2021.

The cement demand for FY 2020-21 will remain muted primarily due to the diversion of funds towards health and public welfare in H1FY21 by the government. However, in H2FY21, demand would see a gradual pickup mainly driven by increased government spending on infrastructure, affordable housing in Pradhan Mantri Awas Yojana–Urban (PMAY-U), Pradhan Mantri Awas Yojana–Rural (PMAY-R) and Pradhan Mantri Gram Sadak Yojana (PMGSY). Additionally, key infrastructure project on road, metros and irrigation would drive demand for the overall economy.

Demand-driving government projects:

1) **Housing for All:** Rural and urban scheme alone contributes 10-12% share of cement demand in the housing segment. PMAY–G has set the target for construction of 15 million households in rural area, of which only 10 million were completed till FY 2019-20. PMAY–U has set the target for construction of 10 million households of which only 3 million were constructed till FY 2019-20. Thus, remaining 5 million house in PMAY–G and 7 million house in PMAY–U would generate demand for cement at CAGR of 6–7% over FY 2020-24.

2) **Road and highway projects:** India has the largest network of roads in the world spanning over 5.89 Million km. In order to widen and revamp 1.25 Lacs km of roads, the Government of India has approved the launch of Phase–III of its rural road programme Pradhan Mantri Gram Sadak Yojana (PMGSY). The government has allocated ₹ 91,823 Crores (US$ 13.14 billion) under the Ministry of Road

Mangrol Plant

Transport and Highways for construction of roads in FY 2020-21. The government also expected to award road projects with a total length of ~4,500 km worth ₹ 50,000 Crores (US$ 7.15 billion) in 2020.

3) **Other infrastructure projects:** The government has allocated over ₹ 103 Lacs Crores over a period of five years from 2020 for infrastructure projects. These new projects will include housing, safe drinking water, access to clean and affordable energy, healthcare, educational institutes, railway stations, airports, bus terminals, metro and railway transportation, logistics and warehousing, irrigation projects, among others.

B) Performance

Industry

Cement demand for FY 2019-20 was 328 MnTPA as against 335 MnTPA in the previous year, registering de-growth of 2%. The housing segment is still the key demand driver, accounting for 65% of total consumption. Other demand drivers are infrastructure at ~20% alongside, industrial and commercial demand at ~15%.

About the Company

J.K. Cement is an affiliate of the multi-disciplinary industrial conglomerate, J.K. Organisation. The Company is a leading a cement manufacturer with over four decades of experience. With a focus on partnering India's multi-sectoral infrastructure needs, product excellence, customer orientation and technology leadership, the Company has grown into the third largest White Cement manufacturer in the world with 1.20 MnTPA capacity (including 0.6 MnTPA at Fujairah, U.A.E). Besides, it is one of the two largest producers of White Cement and Wall Putty in India.

Operational and Financial Performance (Standalone):

1) Grey and White Cement production volume decreased to 9.57 MnTPA in FY 2019-20 as against 9.63 MnTPA in FY 2018-19, recording a de-growth of 1%

2) Revenue from Operations increased to ₹ 5,463.77 Crores in FY 2019-20 as against ₹ 4,981.30 Crores in FY 2018-19, thereby registering a growth of 9.7%

3) EBIDTA increased to ₹ 1,201.14 Crores in FY 2019-20 as against ₹ 855.12 Crores in FY 2018-19 thereby registering growth of 40.40%

4) Net profit is ₹ 400.38 Crores in FY 2019-20 as against ₹ 324.90 Crores in FY 2018-19 thereby registering growth of 23.23%.

Expansion Projects

Grey Cement expansion of 4.2 MnTPA

The Company commissioned 2.6 MnTPA clinker production line at Mangrol and 3.5 MnTPA cement grinding at Nimbahera, Mangrol and Aligarh and started commercial dispatches. Work of 0.7 MnTPA split grinding unit at Balasinor (Gujarat) was stopped on account of the outbreak of COVID-19. Work has restarted with limited workforce and is expected to be completed in Q3FY21.

Nimbahera Line–3
The Company had to stop upgradation and modernisation of Line-3 at Nimbahera due to migration of labourers. The construction work has restarted with limited workforce.

Wall Putty expansion of 0.3 MnTPA
We had to suspend work of 0.3 MnTPA Wall Putty capacity at Katni due to the COVID-19 outbreak. The construction work has restarted with limited workforce and is expected to be completed by Q2FY21.

Industry Concerns

Raw material: Limestone is the basic raw material for cement manufacturing. It is a fast-depleting natural resource, owing to the growing demand for cement. Other raw materials like red ochre and gypsum are also natural resources with limited availability. Hence, the only alternative is to use bauxite/iron ore and synthetic gypsum as replacement. The use of blended cement will be cost effective and environment-friendly as it uses by-products of thermal power plants and steel plants, such as fly ash and slag. In fact, we increased blending by 2% during the previous year and going forward, we will continue to expand its use.

Power and fuel: Lower pet coke and crude prices resulted in comparatively lower power and fuel costs. Power and fuel being major cost drivers, effective utilisation of available resources, such as pet-coke (indigenous/imported), imported/Indian coal and alternate fuel in mix planning for the kiln and power plant is a priority. However, the availability of alternate fuel is also a major issue. In case of pet-coke, one of the Company's major suppliers turned towards gasification resulting in increased dependence on imports, while pet coke prices in the international market remained quite volatile. The use of green energy, such as power from wind, solar and waste-heat recovery (WHR) saves power costs and enables compliance to the government's green power initiatives.

Logistic risk: Brent crude price of US$35 per barrel is lower than average price of last year of US$62 per barrel and this will help save logistic cost. Special initiatives taken by the Company has resulted in logistic cost saving of ₹ 40-50 per tonne. Additionally, the transfer of clinker to grinding location by rail also results in freight cost savings as now only 65% material needs to be transported to consumption location. However, availability of wagon from the Railways is also a major challenge, in that case the alternative is to transport material by road which reduces the cost efficiency.

SUSTAINABLE DEVELOPMENT

The world is going through a transition phase where the entire focus has shifted to a new way of doing business. Businesses are now more responsible manner towards their stakeholders – shareholders, customers, people, partners and communities.

Currently, India is undergoing a revolutionary phase of unprecedented infrastructure building, comprising roads, highways, flyovers, ports and airports, among others. The cement industry is slated to play a significant role in this transformation, helping the country evolve and elevate the lives of over a billion people. There has been constant focus to spread awareness as well as action needed for addressing environmental and social issues, concurrently developing a sustainable environment.

JK Cement has been continuously developing new techniques for more efficient utilisation of natural resources like water, land, energy and minerals. The Company promotes sustainable development by

New Grinding Unit of 1.50 MnTPA at Aligarh providing eco-friendly products and solutions that cater to the evolving construction needs of customers by way of resource optimisation. The Company itself focuses on energy efficiency measures, water conservation, monitoring and controlling emissions, waste management and conservation of biodiversity.

As a responsible organisation, it has been undertaking socio-economic development programmes to supplement efforts to meet priority needs of the community with and aim to help them become self-reliant. These efforts would be generally in and around the Company's work centres mostly in the areas of education, rural infrastructure, healthcare, sports, art and culture, among others. As a result, JK Cement's CSR engagement programmes are aligned to the needs of the local community. The Company believes that the art of giving and sharing is a sustainable practice, as it is essential to spread humanity.

During the COVID-19 crisis, the Company took several steps in digitalisation and offered work from home to its employees. This highlights the Company's commitment to being a responsible organisation that undertakes proactive measures for its people. The Company will continue to serve as an enabler for the economy and promote well-being of its people.

The Company has been reporting its sustainability performance for the last few years in its Sustainability Report based on standard guidelines from the Global Reporting Initiative (GRI). The Company also publishes Business Responsibility Report (BRR), which is a part of this Annual Report. For more information on JK Cement's past sustainability initiatives and performance, please refer: www.jkcement.com/sustainability_report

HUMAN RESOURCES DEVELOPMENT

During the year, JK Cement continued the legacy of cherishing its employees as its most important asset and widened its focus from being an employee-centric organisation to a people-focused/(human-centric) enterprise. The philosophy of valuing human resources and considering employees at JK Cement to be part of one big family, is lived and practiced in the Company's day-to-day operations. JK Cement imbibes the belief of 'People First' and this belief echoes in its fundamental assumption that 'if the Company takes care of the employees, employees will take care of the business going forward'.

The concept of 'One Family' binds together a diverse workforce across various manufacturing and office locations in India, UAE and Africa. The organisation believes in creating trust and loyalty through human welfare policies and processes, which is well appreciated by internal as well as external stakeholders. The focus on strengthening the employee brand and employee lifecycle experience, was acknowledged not only internally but also externally, earning the Company the **'Great Place to Work'** certificate. This is also reflected in reduced attrition levels compared to the last financial year.

During the year, the HR department teamed up with different divisions to bring improvements in organisational restructuring, redeploying or up-skilling talent to meet future challenges; focus on institutionalisation and transparency in working; IT enablement of processes among others.

The Company's integrated cloud-based SAP platform has enabled it to adopt paperless HR functions, including recruitment, performance appraisals, learning and development, among others. These functions are now empowered by IT processes and in line with the needs and aspirations of the workforce.

JK Cement enhanced its social media presence during the Great Lockdown, building a strong employer brand and gaining the trust of employees through various videos, post and stories.

The Company's total workforce as on 31st March, 2020 stood at 3,678.

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 the business. The Company has inbuilt policies and procedures to safeguard its assets, alongside prevention and detection of fraud and errors if any, evaluation of the accuracy and completeness of accounting and timely preparation of financial information based on IND AS.

The Company has appointed a Chartered Accountant firm to carry out risk-based internal audit of Company to further strengthen the internal control in the Company, in addition to regular audits of plants, depots and offices by existing external chartered accountant firms.

The consolidated report is presented before Audit Committee on quarterly basis along with a report outlining the action taken from the previous quarter.

The Internal Auditors verify the records as well as stock 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. Following this, the internal audit report duly signed by the internal auditor is forwarded to the marketing office and the internal audit head for review. This maintains a check on the existing system as designated process owners are supposed to undertake corrective action in their respective areas, thereby strengthening the internal control system.