

Management Discussion and Analysis



Economic Review

Global Economy

The global economy witnessed an unprecedented crisis in 2020 as the outbreak of the novel coronavirus pandemic towards the end of 2019 spread rapidly across the globe. While stringent lockdowns and restrictions enforced by major economies played a critical role in saving lives, they resulted in extreme damage to economic activities, thereby plunging the world economy into a deep recession. As per the International Monetary Fund (IMF) estimates, the global economy contracted by 3.3% in 2020 as against 2.8% growth registered in 2019. Economic activity was hit by reduced personal interaction, while uncertainty about the post-pandemic landscape discouraged consumption and investment.

Advanced Economies (AEs) witnessed 4.7% contraction in 2020 as compared to 1.6% growth recorded in 2019. Precautionary social distancing and strict lockdowns in response to surging COVID-19 cases triggered a drastic collapse in economic activity. Growth is, however, expected to rebound, particularly in the United States (US) and Japan, reflecting additional fiscal support in both the countries at the end of 2020. As the vulnerable population gets vaccinated, contact-intensive sectors are expected to resume and drive a significant pickup in growth.

Emerging Market and Developing Economies (EMDEs) have been hit hard by the pandemic, particularly the ones with the highest number of cases and those reliant on services, tourism, and industrial commodity exports.

Growth across EMDEs plummeted to 2.2% in 2020 vis-à-vis 3.6% growth clocked in 2019. Notably, effective containment measures, a forceful public investment response, and central bank liquidity support facilitated a strong recovery in China in the second half of 2020.

Outlook

A raft of sizable, swift, and favorable fiscal and monetary responses by most governments and central banks have been aiding the recovery in economic activity. Massive vaccination drives and additional policy support in a few large economies such as United States and Japan have raised hopes of a turnaround in 2021, with growth expectations of 6.0% in 2021 followed by 4.4% in 2022. The strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, and exposure to cross-country spillovers. However, new virus mutations and accumulating human toll may pose challenges, even as growing vaccine coverage lifts sentiment. Strong multilateral cooperation is required to bring the pandemic under control everywhere. With growing vaccine availability, improved therapies, testing, and tracing, local transmission of the virus is expected to be brought to low levels everywhere by the end of 2022.

(Source: IMF World Economic Outlook, April 2021)

Indian Economy

India was amongst the few countries that went into a nationwide lockdown post the pandemic, and after that, the economy unlocked in phases. Overall economic slowdown, led by COVID-19 onstage followed by stringent lockdowns severely impacted economic activity, bringing manufacturing and trading activities to a grinding halt. Mobility restrictions and social distancing led to unprecedented supply chain and manufacturing disruptions and weakened investment and consumption demand. As estimated by IMF, India's Gross Domestic Product (GDP) contracted by 8.0% in FY 2021 vis-à-vis 4.2% growth recorded in FY 2020.

In the second half of FY 2021, however, restrictions on inter-state movements were lifted to ensure mobility of goods, thereby easing supply side pressures. A rebound in the industrial activity, stronger car sales, rising production and consumption, higher goods and services tax revenue collections and improvement in the availability of finance from banks have added buoyancy to the economic activity. Recovery in economic activity and improved investor sentiments can also be attributed to the powerful fiscal and monetary reforms undertaken since March 2020 to combat the economic fallout.



Supported by strong fiscal and quasi-fiscal measures along with mass vaccination drives, India's growth is likely to rebound to 12.5% in FY 2022 and 6.9% in FY 2023.

Notable initiatives such as special package under 'Atmanirbhar Bharat'; liquidity support for banks and financial institutions; liberalization of Foreign Direct Investment (FDI) norms; creation of National Infrastructure Pipeline (NIP); Production-Linked Incentive (PLI) scheme to boost domestic manufacturing – are all expected to reinvigorate the economy. Supported by strong fiscal and quasi-fiscal measures along with mass vaccination drives, India's growth is likely to rebound to 12.5% in FY 2022 and 6.9% in FY 2023. With this, India will leave China behind and become the fastest-growing economy in the world. However, the second wave of coronavirus infections, trajectory of vaccination drive and its impact on contact-intensive sectors may pose challenges for the economy.

(Source: IMF World Economic Outlook, April 2021)

Business Environment

Automobile Business

Global Automotive Industry

The global automotive industry grappled with multiple issues during the year. On one hand, the sector saw greater clarity emerge on Brexit; yet on the other hand, mounting trade tensions, muted global growth and enhanced regulatory norms fundamentally changed the contours of the business environment. The onslaught of the COVID-19 pandemic saw automakers suffer a difficult first half of 2020 with sales plummeting in most markets, slightly lifted by a buoyant second half. Global shutdowns halted productions and supply chains were disrupted.

On the positive side, demand for Class 8 trucks in the US has been surging despite supply chain disruptions and shortage of raw materials and components. Consumer goods spending continues to drive demand for new trucks with the easing of the pandemic and recovery in economic activity. Freight growth remains vibrant as fleets are rushing to add capacity to keep pace with the growing demand. Moreover, the EU commercial vehicle market shrank in 2020 with the impact of the COVID-19 lockdown and economic slowdown weighing down the performance for the year.

Further, 2021 will be the year electric vehicles (EVs) will take centre stage. Global EV sales are expected to rise sharply, particularly in Europe, supported by numerous government

incentives, increasingly stringent emission regulations, and newer launches. Government-led infrastructure spending will also buoy demand for Commercial Vehicles (CVs), which will outpace those of cars. Online sales is another trend that is likely to gain momentum as e-commerce has been growing by leaps and bounds during the pandemic. Increasing proliferation of emerging technologies and the expected transformation of the automotive landscape including fuel efficiency norms, electric vehicles, autonomous driving, and connectivity will lead to greater demand for E-mobility solutions.

Outlook

A difficult 2020 has bled into a challenging, yet opportunistic 2021. The pandemic has compelled vehicle makers to review their supply chains, production, and sales operations. Despite the economic recovery and encouraging vaccine rollouts, COVID-related risks such as resurgence of infections and renewed quarantines remain worryingly high, which could further dent demand prospects. However, 2021 will see a continuation of trends that have been bubbling even before the pandemic. From ramping up EV investment to digital playing an ever-increasing role in the vehicle purchase journey, sustainability and customer experience will be the standout priorities for the automakers this year. As auto component manufacturers set their course for the future, strategizing to build to meet local and global demand, expanding to complementary sectors and optimizing costs will help regain growth momentum and shape the next normal.

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Company Review of the Exports Auto Market

(₹ Million)

Particulars	CV Export Revenues	PV Export Revenues
Q1 FY 2021	822	572
Q2 FY 2021	1,648	1,188
Q3 FY 2021	3,167	1,053
Q4 FY 2021	3,958	1,638
FY 2021	9,595	4,451

Both the CV & PV revenues have witnessed sharp recovery post the opening up of global economy. The export CV revenue uptick can be attributed to the synchronized recovery seen in both the North American and European markets. The positive outlook provided by the global OEM for CY 2021 provides tailwinds for the CV revenues as we enter FY 2022. The recovery in PV export revenues is very encouraging, as we have ended the year with highest quarterly revenues from this segment.

Indian Automotive Industry

The Indian automotive industry is the pillar of the manufacturing sector and provides employment to a large pool of people. Being the fourth largest automotive market globally, the sector plays a vital role in India's aspiration to become a USD 5 Trillion economy. Increasing urbanization, large working-age population, rising incomes and strong impetus on infrastructure and construction sectors have been driving the industry's growth over the years.

FY 2021 has been one of the toughest years in the history of the automotive industry with the COVID-19 pandemic putting brakes on the growth of the industry. Already battered by a prolonged slowdown before the coronavirus pandemic due to factors such as regulatory changes and migration to BS VI emission norms, liquidity constraints, and weaker demand environment, the sector was brought to a standstill due to the nationwide lockdown and restrictions enforced to curtail the spread of the virus.

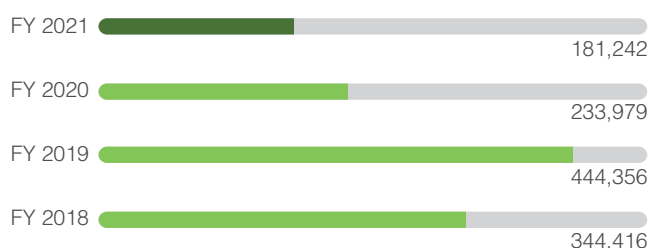
The declining trend in underlying demand was underway even before the COVID-19 pandemic. Over the period FY 2018 to FY 2021, production volumes for MHCV & PV segment have declined by 47% and 24%, respectively.

Outlook

Although the near-term outlook is negative due to the lockdown to curb the second wave of COVID-19, the medium to long term outlook is very encouraging, especially for the MHCV sector. The focus on infrastructure spending, government's focus on increasing manufacturing as % of GDP from 16% to 25%, PLI schemes, Atmanirbhar Bharat Abhiyan policy and the scrappage policy coupled with investment in road infrastructure points to a long runway for the MHCV sector.

While the Company continues to identify and address new opportunity in the domestic automotive industry, commencement of operations at CLWT enables BFL to open up newer avenues in traditional and new technology mobility solution going ahead.

India MHCV Production



India PV Production





Aluminum Forging Facility, Germany

Industrial Business

BFL's core business in O&G is dependent on shale drilling in North America. Due to COVID-19 lockdowns, oil demand dropped dramatically leading to fleet count reduction in 2019. This drop was so sudden and significant that many O&G companies filed for bankruptcy. This led to a significant drop in BFL's exports to North America. O&G revenues dropped to around ₹136 Crores in FY 2021 from almost ₹1,000 Crores in FY 2019. During the second half of FY 2021, drilling activities have been improving consistently which is positive for BFL's businesses. During this period, BFL's customers launched new model of fluid end, which was developed & approved expeditiously and well appreciated.

During this period, BFL evaluated opportunities in other sectors to de-risk its business from O&G sector. The focus is on high growth areas in India which are currently imported, besides new business. This development will also support Atmanirbhar Bharat initiative. Sectors under focus are renewable energy (wind power) and steel industry. All the global OEMs for wind turbines have now set up manufacturing facilities or increasing capacity in India which is leading to growth in component/parts supply chain, starting from castings, gear boxes, bearings etc. BFL has the capabilities to produce many critical forgings needed for wind turbine.

The industrial sectors addressed by the Company (Construction & Mining, PSU including Defence & Power, Engineering Sector) have a significant linkage to government spending on infrastructure and defence. While these sectors will continue to grow as investment in infrastructure increases, one focus area for the Company is renewable energy space. BFL is present in a small way in this supply chain but the acquisition of Sanghvi Forgings provides a relatively new & bigger capacity to address this sector requirement. Today, most of the component requirement is being addressed by way of imports. BFL's endeavor will be to grow this business in the medium to long term.

Overseas Business

The Company's manufacturing presence in the overseas market has been through a series of acquisitions to have a footprint close to its customers and its strategy of dual shore manufacturing. These companies are market leaders in their product segment. However, their financial performance has been uninspiring for the past decade due to various reasons. Over the past 18 months, the Company has undertaken series of measures to turn around the financial performance of these subsidiaries.

The key elements of the turnaround are reduction of the fixed costs, restructuring of the product portfolio and focus on aluminum forgings. While the first two elements have been implemented, the shift to aluminum forgings is a

continuous process and is expected to be the key driver of sustainable improvement in financial performance.

Over the past decade, the Company has expanded the Aluminum forging capacity in Europe to around 30,000 TPA. It is now setting up a greenfield facility in North America with a capacity of 10,000 TPA. With all capacities on stream, the Company's endeavor is to take the Aluminum Forgings business from around EUR 60 Million in CY 2020 to around EUR 200 Million in the coming 4-5 years. This shift in revenue contribution will also result in meaningful and sustainable improvement in financial parameters in the coming decade.

Defence and Aerospace Business

In Defence and Aerospace sector, the Company is seeing traction from its diversified product portfolio along with Artillery and Protected Vehicles being the main stay, capitalizing on the 'Atmanirbhar Bharat' campaign.

Year of Successful Trials

This year has been the year of trials for its diversified product portfolio. The ongoing pandemic has impacted the world adversely, but it hasn't dented the spirit of BFL's teams. Despite unfavorable situations, the Company has shown some indomitable spirit in carrying out the trials across the country. These trials were conducted under extreme conditions across the length and breadth of the country, from Leh (vehicle) in north to Trichy (small arms) in south; from Pokhran (CIWS) in west to Sikkim (ATAGS) in east; over land (Artillery Gun, Vehicles, CIWS etc.), sea (Torpedo homing heads) and air (UAVs).

Most of our programs are in advanced stages of trials. Starting with Artillery business, in the month of January 2021, ATAGS program has successfully completed its Sikkim winter trial, which is the second last stage of the trials before summer trials. In its vehicles business, BFL has created a record by successfully completing trials for three of its platforms, namely Kalyani M4, Kalyani Maverick & MPV. During the year, Company received an order from the Indian Army for the supply of protected armored vehicle, Kalyani M4.

Aero Show

During the recently concluded Aero-India 2021 event in Bengaluru, Karnataka, the Company showcased its indigenously built technological capabilities and strengths across the span of jet engines, aerospace components and air defence systems. This event also provided an amazing platform, where the Company signed Memorandums of Understanding (MoUs) with various established defence firms to further augment its overall manufacturing capabilities and defence technologies.



ATAGS Firing in Sikkim



Team ATAGS on reaching Luckrep-Northern Most Point



Bharat Forge protected vehicles displayed post completion of successful trials

Financial Review

STANDALONE: Analysis of Profit and Loss Statement

(₹ Million)

Particulars	FY 2021	FY 2020	% Change
Total Revenue	36,515.12	45,638.84	(20.0)
Raw Material	14,144.54	17,489.09	(19.1)
Manufacturing Expenses	6,153.61	7,831.49	(21.4)
Manpower Cost	4,482.37	4,823.60	(7.1)
Other Expenditure	4,386.79	5,095.56	(13.9)
Total Expenditure	29,167.31	35,239.74	(17.2)
EBITDA	7,347.81	10,399.10	(29.3)
EBITDA (%)	20.1	22.8	(11.7)
Depreciation	3,660.75	3,448.71	6.1%
Interest	779.15	1,450.28	(46.3)
Other Income	1,404.57	1,608.88	(12.7)
PBT	4,312.48	7,108.99	(39.3)
Exchange Gain/(Loss)	(71.58)	(243.94)	(70.7)
PBT	4,240.90	6,865.05	(38.2)
Exceptional Items	(91.83)	(939.14)	(90.2)
PBT	4,149.07	5,925.91	(30.0)
Taxation	1,028.13	1,190.75	(13.7%)
PAT	3,120.94	4,735.16	(34.1)

Analysis of Balance Sheet Statement

(₹ Million)

Particulars	March 31, 2021	March 31, 2020
Long Term Debt	20,557	18,227
Working Capital Loan and Bill Discounting	15,560	14,084
Equity	59,486	53,551
Cash	26,752	18,676
D/E	0.61	0.60
D/E (Net)	0.16	0.26
RoCE (Net of Surplus Funds)	5.3%	9.9%
RoNW	5.2%	8.8%

The financial performance during the year was impacted by the economic lockdown imposed by the government to arrest the spread of COVID-19. This resulted in only 10 months of manufacturing possible in the year. Hence, the results should be seen in light of the loss of 2 months working. To tide over the tough times and taking advantage of low interest rate regime prevailing at that time, the Company raised long-term funds via NCD to the tune of ₹500 Crores. This coupled with the cost reduction initiatives has ensured a robust balance sheet at the end of FY 2021.

CONSOLIDATED: Analysis of Profit and Loss Statement

(₹ Million)

Particulars	FY 2021	FY 2020	% Change
Total Revenue	63,362.61	80,558.44	(21.3)
Raw Material	26,341.56	35,765.32	(26.3)
Manufacturing Expenses	10,754.73	12,773.87	(15.8)
Manpower Cost	10,710.60	11,954.57	(10.4)
Other Expenditure	6,922.17	8,675.64	(20.2)
Total Expenditure	54,744.82	69,169.40	(20.9)
EBITDA	8,633.55	11,389.04	(24.2)
EBITDA (%)	13.6	14.1	(3.8)
Depreciation	6,121.59	5,477.15	11.8
Interest	1,077.29	1,713.29	(37.1)
Other Income	1,688.98	1,878.63	(10.1)
PBT	3,123.65	6,077.23	(48.6)
Exchange Gain/(Loss)	(16.17)	(241.95)	
Exceptional Items	(3,062.28)	(789.16)	
Share of (Loss)/Profit of Associates and Joint Ventures	(299.74)	(429.03)	
PBT	(254.54)	4,617.09	
Taxation	1,015.12	1,124.63	
PAT	(1,269.66)	3,492.46	

The performance at a consolidated level reflects the impact of lockdown of economic activities globally. The exceptional item reflecting in the P&L pertains to the fine imposed on the German operations.

Analysis of Balance Sheet Statement

(₹ Million)

Particulars	March 31, 2021	March 31, 2020
Long Term Debt	26,328	23,445
Equity	54,468	52,517
Cash	28,755	20,070
Long Term D/E	0.48	0.45
Long Term D/E (Net)	(0.04)	0.06



Human Resources

Since March 2020, life has been upended completely by the global pandemic. Ensuring business operations, employee safety and welfare became the foremost concerns for Bharat Forge. The pandemic made the Company rethink not just its business strategies but also the employee environment and BFL proactively adopted the new normal.

1: Initiatives for Safety and Welfare

Work from Home

The Company introduced the work from home policy that met both the objective of employee safety as well as business continuity. Use of virtual platform was made mandatory for all the meetings and interactions with employees. All external interactions were mandated to be conducted online to ensure safety and social distancing. Employee trainings and classes were moved to an online learning platform.

Safe Environment at Workplace

BFL followed a strict 'no visitor' policy keeping in mind the social distancing norms. Physical meetings or visitors in exceptional cases were allowed only with a negative RT-PCR report valid for 48 hours. For the safety of employees, 100% temperature screening and masks at each entry point of factories and offices was installed along with daily monitoring of oxygen levels and pulse

rates of each department. To maintain safe hygiene levels, employee transport vehicles, shop floor and canteen were disinfected multiple times in a shift while all its offices were disinfected daily.

Support System

Bharat Forge has always been known for having a culture of a big extended family and strong support system. During these challenging times, this support was needed the most. BFL's teams ensured twice a week personal connect with all employees suffering from coronavirus, whether they were isolating at home or were hospitalized. Given the unprecedented scenario and need for emergency help, the Company also created COVID war room, a 24x7 manned helpdesk for employees to reach out in times of need. In addition to the arrangement of teleconsultation for employees with doctors, BFL also tied up with hospitals in Pune where latest and best capabilities are present for severely ill patients. It also provided mental and psychological counseling assistance to anyone in need as it is equally important.

Vaccination

Employees have always been the Company's first priority and it is important to create a safe and secured ecosystem for them to thrive in. RT-PCR tests were conducted for all non-vaccinated employees to identify and segregate COVID positive cases. BFL conducted mass vaccination

drives for employees as per GOI criteria by tie-up with vaccination center right next to its plant. More than 95% of employees above the age of 45 years were vaccinated. Once the vaccine is available, employees above the age of 18 will also be vaccinated.

COVID Training and Re-Grouping

BFL's HR and support staff has been extremely efficient in ensuring all the policy initiatives and employee reach. For this, virtual meeting of all department HR facilitators were conducted twice a week, to take stock of COVID preventive measures in the shop floor and a forum to exchange ideas for better prevention of COVID. Once a week meeting of all HOD was also conducted to take stock of COVID and its preventive measures for the employees. It was also important to train the security staff regarding COVID-19 and the security procedures to be followed.

While the pandemic has altered the work-life conditions, it has not affected BFL's spirit. As an organization, the Company is stronger than ever and contributing to a larger cause. It is committed to come out of this pandemic, while ensuring safety and wellbeing of employees.

2: Online Training and Skill Enhancement

During the pandemic, BFL precisely focused on online training and skill enhancement of its employees. Its primary focus was to deploy various trainings online which would lead to increase in competency level of our employees. Focused training was imparted pertaining to Industry 4.0, Sensor, Robotics and Manufacturing Engineering.

The Company leveraged online learning methodology to help employees understand advance engineering concept

and transform their knowledge into day-to-day activity. The usage of online learning through THORS learning platform reported exponential rise.

More than 1,100+ employees utilized this as good learning opportunity to up skill themselves and stay updated on new technologies.

3: Harmonious Industrial Relations

Industrial relations philosophy emphasizes on involvement of workers and their representatives to ensure implementation of changes and peaceful wage settlements. BFL entered into a long-term wage settlement with its union i.e. Bharat Forge Kamgar Sangh at Mundhwa Plant. The wage settlement is effective till June 30, 2022.

The Company also continued with Industry 4.0 training to workers to build a digital workplace and improve their understanding of products and processes. It also partnered with unions to ensure cordial and proactive industrial relations across all the plants.

Information Technology

At the start of the pandemic, BFL geared up with all technology components needed for remote working. This includes secure connectivity using Virtual Private Network and providing virtual desktop environment, while ensuring security with two factor authentication.

During the lockdown, moving towards paperless operations was a must. Bharat Forge deployed Microsoft 365 suite. This has been a game-changer. This helped the Company to move on real collaboration, breaking down the silos within cross-function teams, and driving

Focused training was imparted pertaining to Industry 4.0, Sensor, Robotics and Manufacturing Engineering.



decision-making using accurate data. The Company also rolled out production scheduling solution integrated with ERP for the Aerospace vertical. Along with this, it rolled out data analytics using Qlik for key business functions to become more data-driven.

Some of the major highlights as part of Industry 4.0 include:

Energy Efficiency

Bharat Forge has already connected all energy meters on Industrial IoT platform. The natural gas meters are also connected. The real-time information of power utilization and quality of power has helped with interventions to reduce the energy consumption.

Zero unplanned Downtime with condition monitoring

Bharat Forge has taken a goal of zero unplanned downtime in Hydraulics, Pneumatics, and Electronics. To achieve this, sensorization was taken on priority along with condition monitoring. Bharat Forge already has achieved this goal on many forging lines.

During the year, Bharat Forge moved towards total automated operational reporting for the data coming out of machines using IoT platform. The Company also leveraged augmented reality for training operators and guiding them during actual maintenance process.

Corporate Social Responsibility

At Bharat Forge, sustainability i.e. integration of social and environment objectives into business objectives and inclusive growth are the key factors enshrined in the spirit behind the CSR Act. Village Development, Education, Skill Development, Women Empowerment, Health & Hygiene, supporting and nurturing the talented player and Swachh Bharat are the key CSR projects of the Company.

BFL's efforts on environment front includes water harvesting projects, planting and taking care of trees and keeping surrounding clean by constructing underground gutters in the villages.

In its social development project, the Company aims for social inclusion by focusing on development of every individual in its 100 target villages. It is helping drive livelihood by improving agriculture scenario and facilitating skill development. Education of underprivileged children is ensured by strengthening Zilla Parishad schools infrastructure. Health and hygiene of villagers is ensured by facilitating safe drinking water and building infrastructure and facilities to store and conserve it.

Additionally, in FY 2021, the Company undertook several measures to strengthen the country's fight against the COVID-19 pandemic. It distributed PPEs, relief materials and oxygen concentrators, supported setting up of sanitization tunnels, oxygen beds and production of ventilators, and helped strengthen infrastructure of the village Primary Health Care Centers.

The Company undertakes impact assessment through independent party to track the progress of its ongoing projects and take necessary actions where required. Meetings are also held with community members to identify needs.

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Risk Management

Considering the cyclical nature of the business and the ongoing transformation of the global automotive landscape, it is imperative to identify risks and take adequate mitigation measures. The risks may be internal as well as external in nature. Bharat Forge has a robust risk management framework to identify, manage, and mitigate key business risks and maintain consistent growth and success.

Industry Risk

The US and European operations contribute more than half of the Company's total revenue. A global economic slowdown or continent-specific shocks may disrupt these markets and adversely affect the Company's revenue generation capability.

Mitigation Strategy

Diversification of business into multiple industries such as Automotive, Defence, Oil and Gas, Mining and Construction, Power, Aerospace, E-mobility, etc. has enabled the Company to de-risk its business model. In addition, the Company has also diversified geographically with a global presence across 5 countries. The Company continues to evaluate and add newer geographies and newer customers to its portfolio. With a diverse global presence, the impact of country-specific shocks will be minimal.

Foreign Exchange Risk

The Company has significant foreign currency liabilities as 54% of its revenue is generated from exports business. Any adverse or unfavorable movement in the exchange rates may adversely impact its profitability.

Mitigation Strategy

The Company practices hedging and also enters into simple forward contracts on a rolling basis to insulate itself from exchange rate fluctuations. Further, the Company ensures a natural hedge by maintaining its foreign currency borrowing less than its exports at any given time.

Raw Material Risk

Unavailability of critical raw materials such as steel, aluminum, energy, etc. at competitive rates may interrupt Bharat Forge's operations and adversely impact margins and profitability.

Mitigation Strategy

Steel is the most crucial raw material for the Company, the availability of which is met through a group company, thus ensuring continued supply at competitive prices. The Company has also developed a patented in-house loop-based manufacturing system that ensures zero scrappage of key raw materials. Additionally, the Company practices a raw material price pass-through clause in all its contracts. These initiatives have been instrumental in mitigating the raw material risk.

Technology Risk

The Company operates in a highly competitive, regulated, and cyclical industry. The entire automobile industry is the midst of a technology transformation in the form of CASE (Connected, Autonomous, Shared and E-mobility) that poses a risk of the Company's products becoming irrelevant. Failure to stay abreast with the evolving technological developments may damage the Company's global competitive position.

Mitigation Strategy

The Company is embracing the transformative changes shaping the automotive industry and is proactively developing new growth engines. Investment in newer and best-in-class technologies will enable the Company to adapt to future changes and cater to emerging demands, thereby building capabilities to be future-ready. Internally, it continues to undertake productivity enhancement initiatives and strives to optimize its production costs by adopting Industrial Internet of Things (IIoT) and implementing Industry 4.0 across its plants.

Funding Risk

The Company's operations entail sustained investments in capacity, technology, and extensive R&D. Unavailability of external sources of funds at competitive rates and at the right time may impact its business plans and profitability.

Mitigation Strategy

With its efficient utilization of working capital and prudent capital allocation capabilities, the Company has maintained strong cash and equivalent position on the books. This, coupled with optimal utilization of debt, has enabled it to maintain healthy net debt/equity ratio at 0.16 as on March 31, 2021. Moreover, the Company's strong business model and R&D capabilities have enabled it to generate ample free cash flows. This has successfully reduced its dependence on external source of funding.

Talent Risk

Talented pool of employees and its retention are paramount for the Company's sustainable growth. Failure to retain skilled teams and high attrition levels may affect the day-to-day functioning of the Company and adversely affect its business operations.

Mitigation Strategy

The Company has people-centric policies and promotes meritocracy across all the hierarchies. The robust HR policy of the Company ensures maintaining a conducive work environment and minimal attrition rates. Periodic training and skill development programs are conducted by the Company to hone employee capabilities. Further, the Company encourages new talent acquisition and rewards excellent employee performance.

Cyber Security Risk

The Company's operations are increasingly dependent on IT systems, digital interactions, and management of information. The cyber attack threat of unauthorized access and misuse of sensitive information or disruption to operations can inhibit business operations in several ways.

Mitigation Strategy

The Company is certified for information security management system ISO 27001:2013 and suggested controls by the standard are implemented and monitored continuously. VAPT test is regularly conducted for IT infrastructure and actions are taken thereafter on highest priority to close the findings. In addition, the cyber security

posture is validated by independent expert agencies. The Company strives to deploy latest technologies to protect organization's information assets as well as give increased emphasis on information security training and awareness of employees.

COVID-19 Risk

The disruptions due to COVID-19 related lockdowns, challenges in production, managing supply chains pose multi-dimensional risks that are rapidly evolving. These can disrupt supply chain and manufacturing processes and adversely impact business.

Mitigation Strategy

While the physical & mental effect of the pandemic and its adverse impact on the employees takes precedence, the Company continues to monitor these developments closely and keep exploring alternative strategies including use of digital medium and a hybrid approach of work from home and presence of staff required to minimize its impact on the business.

Internal Control Systems and their Adequacy

The Company has in place a well-framed internal control system that authorizes, records, and reports transactions to safeguard assets and protect against loss from unauthorized use or disposition. The internal controls ensure the reliability of data and financial information to maintain accountability of assets. These internal controls are supplemented by extensive internal audits, management review, and documented policies, guidelines, and procedures.

