

## MANAGEMENT DISCUSSION AND ANALYSIS

### Introduction

The financial year 2012-13 had come up with moderate improvement in performance of your company.

### Overview

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956, guidelines issued by the Securities and Exchange Board of India (SEBI) and the Generally Accepted Accounting Principles (GAAP) in India. Our Management accepts responsibility for the integrity and objective of these financial statements, as well as for the various estimates and judgements used therein. The estimates and judgements relating to the financial statements have been made on a prudent and reasonable basis, so that the financial statements reflect in a true and fair manner the form and substance of transactions, and reasonable present our state of affairs, profit and cash flows for the year.

### Indian economy and its effects on your company

The global economy in FY 2012-13 did not recover to the extent anticipated in the beginning of the year. Several European economies experienced recession due to high unemployment, banking fragility, fiscal tightening and sluggish growth. The U.S. economy improved marginally, driven mainly by housing and the consumer sectors; however, capital investments remained sluggish. Among the Asian economies, China, going through a political transition, experienced considerably slower growth. Deceleration in industrial output and exports weakened India's economic growth significantly. The weak macro environment and slower growth caused the margin environment to remain volatile with downward bias.

Despite being among the fastest growth markets globally, India's per capita plastic consumption (PE, PP and PVC) at 6.6 Kg remains far behind those of the US (67.3 Kg), China (36.7 Kg) and Brazil (24.6 Kg). However, it is advancing at 2.5 times its GDP growth. Besides, the subcontinent's surging industrialisation and increasingly powerful economy holds immense untapped growth potential.

PVC finds applications in irrigation pipes, drinking water supply, sewerage schemes, profiles for the building industry, wires and cables. Pipes and fittings continue to account for 74% of the domestic PVC demand. India's PVC consumption was estimated to be 2.24 MMT in FY 2012-13, growing by 14% over the previous year. HDPE, LLDPE and LDPE demand have grown by 10%, 13% and 18.9% Y-o-Y basis, respectively.

Despite these adverse economic conditions, your Company Texmo Pipes And Products Limited could continue its growth momentum in FY 2012-13 as well and grew by 2.12 % in turnover and manufacturing turnover grew by 13.06 %.

### Overview of the company business

Your company started as a partnership firm under the name & Style Shree Mohit Industries on May 13, 1999. It was converted into a public limited company on July 03, 2008 in the name Texmo Pipes and Products Limited and has received business commencement certificate.

The product range includes PVC Pipes ranging from 20 mm to 315 mm and HDPE pipes ranging from 20 mm to 630 mm and wide range in Pipe fittings. Client list of the Company includes various Corporate sectors, Telecommunication sectors, Agricultural sectors, Govt. organizations and your Company plans to further penetrate the urban & rural market by establishing more dealers for its Piping Systems & fitting, thus focusing on India's increasing need for housing, sewerage, water supply, telecommunications and other infrastructure.

The Company has increased its distribution reach by adding new dealers and distributors to penetrate the domestic markets. It is also expanding its business at international level.

### Opportunities and Threats

As per the assumptions of All India Plastic Manufacture's Association (AIPMA), the domestic consumption is increasing by 10% to 12% CAGR over the last decade. This will make India the third largest Country in the world in plastic consumption after US and China.

About 70 percent of unorganized sectors are manufacturing PVC Products but simultaneously the organized sectors are also striving rapidly which will be the greatest opportunity and advantage because the popularity gained by virtue of

brand image retained by your company.

The Company earned a distinguished reputation in the local market and gradually expanded the business across the country by working with its customers and satisfying their requirements. Your Company is currently functioning in eight states and now strategically planning to be a Pan India presence. The company has established a strong dealer network of more than 560 dealers which is continuously increasing due to its wide popularity, continual improvement and enhancement of customer satisfaction on the quality of our products and the services. The cost competitiveness and high quality of the products of your company will ensure healthy demand of the company's product in the coming year. Company is continuously launching new products to increase its product portfolio to gain the competitive edge.

Limited raw material suppliers, sometimes availability of raw material at higher prices, fluctuations in the prices of crude oil and fluctuations in the exchange rate could adversely affect the profitability of the Company. Volatility in crude oil prices and dollar prices can also affect the raw material cost.

To overcome these threats the company has increased its procurement of raw material by way of increased imports from foreign suppliers, committed suppliers from indigenous and foreign suppliers and also further undertaken fresh MOU with indigenous supplier Reliance Industries.

### **Competitive strength**

- One of India's growing pipes and fittings manufacturers.
- Has the widest range of products.
- Acknowledged as a leader in technology with a strong emphasis on quality products.

Your company has a very strong brand image in the market. The products of the company are sold in Madhya Pradesh, Maharashtra, Rajasthan, Gujarat, Karnataka, Andhra Pradesh, Uttar Pradesh and Chhattisgarh and brand holds good market share in these states. Presently company has a very strong dealer network in several states like Madhya Pradesh, Rajasthan, Maharashtra and Andhra Pradesh, Uttar Pradesh and Gujarat.

Presently company engaged into manufacturing of range of PVC and HDPE Pipes viz. Suction & delivery hose pipe, rigid PVC Pipes, elastomeric sealing ring fit PVC pipe (Gasket Pipe), PVC casing and ribbed screen casing pipes, SWR Pipe, Plumbing pipe, conduit pipes, casing strips, column pipe, HDPE plain pipe, sprinkler pipe, PLB HDPE cable duct and drip irrigation system and fittings of all kind.

The cost competitiveness and high quality of the products of your company will ensure healthy demand of the company's product in the coming year also.

Under the dynamic leadership of your Managing Director Mr. Sanjay Agrawal, who has more than 30 years experience in the business, the company will be able to meet the challenges in the market and enhance the market share of the company's products. The executive director of the company, Mr. Vijay Prasad Pappu has the experience of more than 28 years in the industry. Your independent directors are also having huge experience in their concerning fields. Company's sales team is also very enthusiastic and experienced. Company not only supplies the material in agriculture sectors but also supplies the material to telecom sector, government sector, real estate and various other fields.

### **Human Resources**

Your Company continues to maintain constructive relationship with its employees with a positive environment so as to improve efficiency. The industrial relations at plants were cordial. Your Company places great value to the commitment, competence and vigour shown by its employees in all aspects of business.

Your Company confirms its commitment to take initiative to further align its HR policies in order to meet the growing needs of the business.

Your Company has employee focus in the sense that it provides fulfillment, stretch and opportunity for development of its employees at all levels. It is because of the considerable skill and motivation of the employees, that your Company is able to deliver performance satisfaction. Your Board would like to express its sincere appreciation and gratitude to all employees on behalf of the Stakeholders of your Company, who benefit from their hard work.

## Challenges, Risks and Concerns

### **Financial Market Risks**

The Company is exposed to the financial market risks from changes in rate of interest and inflation. The volatile movements in exchange rates are caused by major geo-political developments besides mere economic and financial issues. These factors are beyond the control of your company.

### **Interest Rate Risks**

Interest rate risk arises from short term and long term borrowings. Borrowings obtained at variable rate exposed us to cash flow interest rate risk. Any rise in interest rate pushed banker to raise rate of interest on the loan.

### **Inflation Risks**

We are affected by inflation as any rise in inflation may lead to increment to cost of raw materials, power & fuel cost & employees cost etc.

### **Company Outlook**

The company is operating with focused efforts on cost control, reduction in cycle times, improvement on operational efficiency and efficient Working Capital Management Program. This has helped the Company in controlling costs and also to be competitive. Timely delivery has reaffirmed the dependable image created by the Company in the market.

### **Internal Controls**

In line with the size and nature of operations, the Company has designed a system of internal controls that provides for:

- Accurate recording of its transactions with checks and balances built in
- Prompt reporting
- Adherence to applicable Accounting Standards and Policies
- Compliance with applicable laws, statutes, as well as internal procedures and practices
- Safeguard of assets and their proper usage

The system further provides for policies which are documented clearly together with authorization and approval procedures. To the extent applicable these are also inbuilt into the Company's ERP system. The Audit Committee of Directors, in its periodical meetings, reviews the adequacy of internal control systems and procedures and suggests areas of improvements. The Audit Committee met four times during the year under review.

### **Cautionary Statement**

Some of the statements in this Management Discussion and Analysis Report may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Such statements reflect the Company's current views with respect to the future events and are subject to risk and uncertainties. Important developments that could affect the Company's operations include changes in industry structure, significant changes in political and economic environment in India and overseas, tax laws, litigation and lab relations.