

## Trade Receivables

The Trade Receivables stood at ₹ 1,142 million on 31.3.16 as compared to ₹ 1,534 million as on 31.3.15. The reduction in trade receivables was due to healthy collections at the year end, which also resulted in increased cash and cash equivalent.

## Cash and Cash Equivalent

Cash and cash equivalent represents current investment and cash and bank balance. It was considerably higher at ₹ 379.8 million as on 31.3.16 due to aggressive collection drive and substantial collections at the year end.

## Fixed Assets

There were no significant additions to fixed assets during the year. However, Capital Work-in-Progress increased from ₹ 61.0 million to ₹ 328.8 million as on 31.3.16 in view of amount spent on the civil and construction work of the upcoming new manufacturing plant near Bengaluru. The new plant is expected to be partly commissioned for production by middle of next financial year and further investments will be made in phases in line with the requirements.

## Risk Management & Mitigation

The Company follows a well laid out Enterprise Risk Management (ERM) policy which ensures: identification of all the risks being faced by the organisation; their categorisation based on their severity for regular monitoring and attention; formulation of effective mitigation plans and institution of internal and operating controls to minimise the impact of the risks and to improve the risk profile; to appoint risk owners for proper accountability; to have a dynamic system of receiving feedback on the effective working of ERM system, including identification of new risks and changes in the risk profile of the Company. The ERM policy helps the Company to meet its business objectives without getting over exposed to controllable risks and it endeavours to inculcate a culture within the organisation wherein all business decisions are only taken after evaluating the attendant risks and making robust plans to contain the impact of such risks.

In accordance with the Policy, the Company has developed a comprehensive Risk Management Framework based on the feedback and experiences of all the functional departments, using bottoms-up approach. The Company has a Risk Committee, having all functional heads as its members along with the Executive Director, which oversees the working of ERM system.

The Company's business relates to manufacture & sale of steam turbines which falls under capital goods industry. It is closely linked with the economic activities, domestically and internationally, and the growth of sectors/industries. Even though several external factors having an impact on the operation of the Company are uncontrollable, the Company strives to mitigate the externalities in the best possible manner by expanding its market and product range, ensuring diversified streams of revenues, avoiding over dependence on any sector/s or geographies and by focussing on value engineering to

remain cost effective and for margin protection.

Some of the major risks being faced by the Company are described below:

### 1) Slowdown in Economy & Overdependence on any market

A slowdown in economy directly impacts the demand of capital goods, including the products of the Company. Further, overdependence on any market/s may adversely affect the performance of the Company, if the concerned market gets sluggish due to internal factors.

The domestic market has declined/ remained stagnant for several years limiting the demand of the Company's products. Although there is some recovery in sectors like sugar, certain process industries and IPP, core industries like cement and steel, are yet to recover. In order to reduce overdependence on the domestic market, the Company had started focussing on marketing its products in the global market a few years back and in the FY 16, the contribution of exports to the total turnover was 36%, whereas in respect of order booking during the year, export orders formed 59% of the total order booking. The Company is in the process of further extending its footprints in the global market to lessen the risk of overdependence on certain countries/regions. The Company is also leveraging on its international structures to be in the proximity of customers to get better and timely understanding of the addressable market, and its trends and potential, along with the requirements and preferences of customer.

### 2) Aftermarket Service

It is imperative to provide service support to the customers to keep the products trouble-free and to attend to breakdowns in the most efficient manner. Without such support, the Company may not be able to win the confidence and secure orders from customers.

Like in the domestic market, the Company is replicating its service model in the international market, offering its service for preventative maintenance of its products and strengthening its service capabilities to attend to urgent situations in a timely manner. The foreign subsidiaries recently set up by the Company will help in achieving such objectives apart from securing more aftermarket service orders. In due course, the Company may also own, directly or indirectly through joint ventures, service workshops in various geographies.

### 3) Technology

The Company operates in the engineered-to-order capital goods industry, where product efficiency, critical product features & overall life cycle costs play an important role. The Company vigilantly studies, analyses and forecasts market trends and customer preferences and accordingly develops its R&D programmes.

The Company has a vibrant R&D department which undertakes new product development and improvements within the shortest possible time and at optimal costs. The Company has also tied up with institutes of repute for development of technology & products. The Company has well-structured systems to validate its technology prior to commercial use. The Company imparts technical training at its in-house learning centre for all levels of engineers, to expose them to the latest technology and acquaint them on the Company's products.

#### 4) Competition

The Company faces competition from steam turbine manufacturers of international repute in the domestic and international markets. The Company may not be able to match the product offerings of the competitors and may compel the Company to quote aggressively and impact its margins.

The Company, as part of continual programme, aims to improve the product features and efficiencies and provide a value proposition to the customer with products which meet benchmark efficiencies at a competitive price and a shorter delivery without compromising on the margins. Further, the products are backed by a service organisation which is the best-in-class in India, and of a competitive standard with its competitors internationally.

#### 5) Internationalisation of Products

The Company is increasingly focussing on international markets for its products & services. There are risks of

claims from the customers if the contractual performance parameters are not met and there could be other implications in the event of non-compliance of laws of the concerned country.

The Company has been in steam turbine business for long and is aware of the technicalities involved. Proper due-diligence is made prior to accepting any order. Further, the Company has strict quality control procedures which ensure that all the products supplied to the customers meet the contractual specifications & parameters. It is also ensured that the contracts with customers clearly specify the obligations of the Company. The Company also takes appropriate insurance policies to cover all such risks. Further, a comprehensive list of all compliances is prepared for each concerned country/region to ensure full compliance.

#### 6) Increase in Manufacturing Capacity

The Company has embarked on an expansion plan to increase the manufacturing capacity of the turbines to 350 per year by building a new plant near Bengaluru. Any slowdown in the demand, domestic or international, for the products & services, may lead to underutilisation of the manufacturing capacity & impact the margins.

The Company plans to set up the facility in a phased manner so as to avoid idle overcapacity. The design & building of the new facilities will augment the production capabilities through better testing facilities and catering to larger range of turbines, thus offering large productivity gains to the Company.