

MANAGEMENT DISCUSSION AND ANALYSIS

Cautionary Statement

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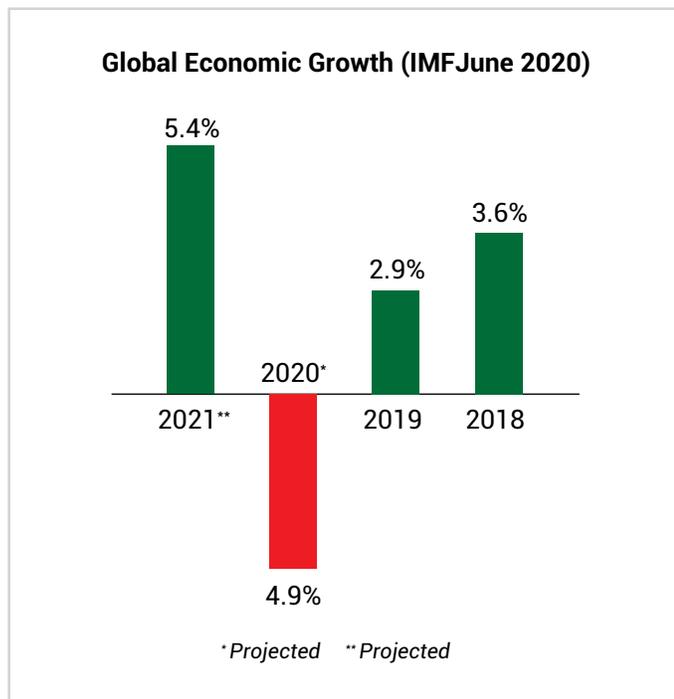
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OVERVIEW

Bhagiradha Chemicals & Industries Limited (BCIL) is a listed Company based at Hyderabad, India, manufacturing high quality technical grade agrochemicals. Its manufacturing plant located in Ongole, Andhra Pradesh has a production capacity of 3250 MT per annum. Promoted by late Sri S. Koteswara Rao, a former scientist of Indian Institute of Chemical Technology, Hyderabad in the year 1993, the Company earned a niche for itself as one of the leading pesticide manufacturers and distinguished as an R&D driven Company. Today, its products are exported to more than a dozen countries across the globe constituting about sixty percent of its revenue. Keeping in line with the objectives of its founder, unceasing efforts are made to build a sustainable organization that meets the requirements of its customers and builds value for the investors duly ensuring support to the communities in which it operates.

GLOBAL ECONOMY



Long before the worldwide impact of Covid-19 was felt, The World Economic Outlook (WEO) Update published by IMF has estimated the global output to grow at 2.9 per cent in 2019, declining from 3.6 per cent in 2018 and 3.8 per cent in 2017. The global output growth in 2019 is estimated to be the slowest since the global financial crisis of 2009, arising from a geographically broad-based decline in manufacturing activity and trade. Uncertain trade tensions between China and the USA have contributed to the decline of world output and trade. The global slack in consumer demand affected industrial activity, which slumped in most

of the major economies in 2019. As global industrial activity slowed down, there was a drop in growth of manufacturing exports from major economies. Increasing trade barriers as well as trade uncertainty stemming from growing trade tensions also weakened business confidence and further limited trade.

The COVID-19 pandemic is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis is therefore having a severe impact on economic activity. As a result of the pandemic, the global economy is projected to contract sharply by -3 percent in 2020, much worse than during the 2008-09 financial crisis. The plunge in crude prices has dried up budgetary revenues for oil exporters; on the other hand, oil importers have been denied terms of trade gains by the crushing blow to demand delivered by the pandemic. In a baseline scenario, which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support. Necessary measures to reduce contagion and protect lives will take a short-term toll on economic activity but should also be seen as an important investment in long-term human and economic health. The immediate priority is to contain the fallout from the COVID-19 outbreak, especially by increasing health care expenditures to strengthen the capacity and resources of the health care sector while adopting measures that reduce contagion. (Source: IMF)

The IMF's forecasts assume that outbreaks of the novel corona virus will peak in most countries during the second quarter and fade in the second half of the year, with business closures and other containment measures gradually unwound. A longer pandemic that lasts through the third quarter could cause a further 3% contraction in 2020 and a slower recovery in 2021, due to the "scarring" effects of bankruptcies and prolonged unemployment. A second outbreak in 2021 that forces more shutdowns could cause a reduction of 5 to 8 percentage points in the global GDP baseline forecast for next year, keeping the world in recession for a second straight year. "It is very likely that this year the global economy will experience its worst recession since the Great Depression, surpassing that seen during the global financial crisis a decade ago," the IMF said in its report. "The Great Lockdown, as one might call it, is projected to shrink global growth dramatically."

INDIAN ECONOMY

The corona virus pandemic came at a time when India's economy was already slowing, due to persistent financial sector weaknesses. The severe disruption of economic

activities caused by covid-19, both through demand and supply shocks, has overtaken the incipient recovery in the Indian economy leading to massive job losses. IMF even expects FY20 growth at 4.2% as against 5% estimated by India's statistics department. Wage stagnation, job losses, rising rural unemployment rates, stressed non-banking financial companies and decline in credit growth caused a sharp drop in domestic demand. On the supply side, excess idle production capacity and lower private investments further dragged down economic activity. The Government of India undertook initiatives such as liberalizing sectors to attract foreign direct investments, upfront capital infusion in public sector banks to alleviate liquidity concerns and reducing corporate tax rates to revive private investments. Following the Covid-19 outbreak, India implemented one of the strictest nationwide lockdowns in the world early on, in order to keep the infection numbers under control. (Source IMF)

According to the Reserve Bank of India, amidst this encircling gloom, agriculture and allied activities have provided a beacon of hope on the back of an increase of 3.7 per cent in food grains production to a new record (as per the third advance estimates of the Ministry of Agriculture released on May 15, 2020). A ray of hope also comes from the forecast of a normal southwest monsoon in 2020 by the India Meteorological Department (IMD). By May 10, 2020 up to which latest information is available, Kharif sowing was higher by 44 per cent over last year's acreage. Rabi procurement is in full flow in respect of oilseeds, pulses and wheat, benefiting from the bumper harvest. These developments will support farm incomes, improve the terms of trade facing the farm sector and strengthen food security for the country. Going forward, these would also have a salutary effect on food price pressures.

GLOBAL AGROCHEMICAL INDUSTRY

Key facts about the global pesticides market

The global crop protection market was worth \$59.8 billion in 2019, down by 0.8% on 2018.

The largest wave of M&A in decades reduced the top 12 companies to a new top 9 in 2018 with this new group, led by Bayer.

Herbicides are the largest product sector, comprising 43.8% of the global crop protection market. The leading product by a large margin is Glyphosate but this is now under increased regulatory pressure.

The biological pest control segment is estimated to be around \$3 billion and is expected to grow at a faster CAGR than the overall market.

Many of the leading companies are investing in precision agriculture and digital-farming platform technologies;

these are still at early stage and the benefits are yet to be fully realised (Source: IHS MARKIT)

Despite persistent challenges, the agrochemicals market seems poised to grow, thanks largely to increasing demand for products that protect against crop losses and increase yields. The agricultural chemical industry outlook is being shaped significantly by new developments such as integrated pest management (IPM), precision farming, and off-patent products. The future of agrochemicals looks bright, considering global population growth, growing imperative to protect against crop losses and increase yields, rising consumer demand for sustainably produced food, and the role of agrochemicals in tackling climate change.

The main challenges to future market growth include: increasingly stringent regulation, which has markedly reduced the number of conventional agrochemical products available to growers; pest resistance and continued growth of the generics sector. Consequently, the drivers for growth include increased product innovation through both R&D and life cycle management, expansion of integrated pest management approaches, investment in the biologicals sector and evolution of commercially viable digital- and precision-agriculture technologies.

DOMESTIC AGROCHEMICAL INDUSTRY

According to Agribusiness intelligence, India stands fourth in agrochemicals management and its current market value is \$4.1 billion. It has been estimated that the market will reach \$8.1 billion by 2025. The exports market is expected to reach \$4.2 billion by 2025. In spite of its huge market, India lags in terms of the agrochemical consumption that amounts to 0.65 kg per hectare approximately. The low yield per hectare of the crop is attributed to the low consumption of agrochemicals. Exponentially growing population and ever-increasing demand for food necessitate the use of more agrochemicals to increase the yield per hectare.

In the wake of lockdown imposed on account of COVID-19, the pesticide manufacturing industries too were shut down for a few days before the Ministry of Home Affairs, Government of India passed an order dated 27th March, 2020 providing exemption from lockdown for pesticide industry among other essential industry categories. While so, the Agriculture Ministry had on May 14, 2020 issued a draft notification announcing the government's intention to ban 27 pesticides that were found to be harmful for humans and animals by an official committee. There is a 90-day window for the stakeholders to present their views on the draft notification before it gets finalized. Pesticides Manufacturers & Formulators Association of India (PMFAI), the body that is opposing the ministry move, said the committee that recommended the ban had not considered their views and wanted an enquiry by a high-powered government-appointed scientific committee to look at its conclusions.

India may be providing China an opportunity to dominate the global generic pesticide market by deciding to ban the production of 27 pesticides. The ban will shrink India's pesticide export capability by more than 50 per cent and hand over a market worth ₹ 12,000 crore to our Chinese competitors. The association also complains that implementing the ban will increase the input cost of farmers and force India to stop supplying to the global market. It will also break the backbone of Indian generic pesticide industry, including several MSMEs. The generic pesticide formulations, proposed to be banned, cost between ₹ 350-450 per litre, while the alternatives imported will cost in the range of ₹ 1,200-2,000 per litre. It will defeat the very purpose of Prime Minister Narendra Modi's call for Atmanirbhar Bharat," say industry experts.

OUTLOOK

Bhagiradha is well placed in the domestic market, led by a robust domestic portfolio with focus on in-licensing and regular launch of new products. While the year before has seen speedy progress made by the Company in broad basing its revenue mix by adding new clients, new geographies and new products, during the reporting year, the momentum temporarily slowed down due to loss of about 100 production days on account of stop production orders issued by the APPCB and COVID-19. Despite facing these odds, the Company could successfully implement its Capex plan for manufacturing Fipronil insecticide and commenced its sale.

Bhagiradha is well equipped with alternative products in the pipeline in the event of any negative headwinds in terms of the proposed ban of 27 pesticides. Bhagiradha looks set for sustainable long term growth led by its sheer endurance that was displayed in the bygone year. We have stayed the course and believed in our business model. We have successfully managed both failures and risks in a fast changing world.

Bhagiradha is committed to be a partner of choice by creating compelling value for its customers through leveraging its R&D capabilities. We have been relentlessly striving to improve our standards by benchmarking ourselves against the global best. With a blend of advanced technology, talent and R&D skills, Bhagiradha aims to become a world class agrochemical manufacturer.

SWOT ANALYSIS

Strengths

- Strong R&D capabilities and niche chemistry skills
- Longstanding relationships with the global leaders in agrochemical industry.
- Long standing industry experience of promoters and hands on approach of the management in R&D segment.

Weaknesses

Dependence on China for raw material linkages. China still continues to be the main source for many of the basic raw materials used in chemical manufacturing. Any disruption in the supplies is expected to have significant impact on the production and margins for the domestic agrochemical players

Opportunities

Europe, North America, Australia and Japan are looking at India as an alternate manufacturing destination to China. This is set to bring in a number of investment and long & short term business opportunities to Indian companies.

With a number of products coming out of patent in next 3 to 5 years, it presents ample opportunities to for domestic R&D based organizations to develop and market new generics

Threats

Due to operations in a single manufacturing location any disruption in production on account of regulatory and other factors can significantly impact the performance
Susceptibility to delays in Regulatory approvals can result in loss of business opportunities.

BUSINESS STRATEGY

Medium-Term

- Regain the lost ground in terms of revenues and market share in the domestic and overseas market.
- Commercialize production of Fipronil on a large scale and capture sizable market share in domestic as well as overseas market.

Long-Term

- Continue to work on developing commercially viable technologies for the products coming off patent post 2020 and emerge as a leading agrochemical Company with decent market share in the domestic segment and strong presence in overseas market.
- Strong emphasis on registrations of new products in existing markets and also of existing products in new markets to ensure strong diversified revenue streams.

STATUS OF INSURANCE CLAIM

During the course of operations, a fire accident occurred in one of the production blocks on 20-05-2017. Part of the civil structures, Plant and Electrical Equipment worth ₹ 9.71 crores got damaged.

The Company has lodged a claim under the reinstatement policy for ₹ 12.41 crores towards the damages and the insurance company has disbursed ₹ 5.18 crores on ad hoc basis in the year 2018. The Company has accounted loss as per Ind AS 16, ("Property, Plant and Equipment") Ind AS 36 ("Impairment of Assets"), net of ad hoc amount released by insurance company. The surveyor has submitted the final report recently and settlement by the insurer is awaited.

The insurer also settled a claim of ₹ 1.82 Cr under consequential loss policy during the reporting year. An amount of ₹ 0.65 Crores was realised through the sale of salvage material and accounted in the books as an exceptional item during the year.

RESEARCH & DEVELOPMENT

Research & Development is the core around which the company has modelled its business strategy. The Company's DSIR recognized R&D Centre located within the factory premises in Ongole is the key strength of Bhagiradha. The agile team of professionals working under the stewardship of the Managing Director has mastered library of reactions and developed robust and safe synthesis processes. In doing so, they have generated useful intellectual property and created marked value to the company. With a number of molecules going off-patent in next 3 to 5 years, the company is expected to capture markets for new products and increase its presence in domestic and global markets.

QUALITY AND COMPLIANCE

Bhagiradha adheres to the quality standards set for itself and meets the requirements of all its reputed domestic and MNC customers. During the year, the manufacturing facility has undergone inspections by various regulatory authorities including the APPCB and the expert committees constituted by them from the pollution, safety, environment and other perspectives. The facility is in compliance with all the regulatory requirements.

The process technology for the high quality products of Bhagiradha are entirely developed In-House over the years and its research team is constantly striving to establish a sound scientific base to meet the increasing demands on the quality of the products.

STOP PRODUCTION ORDERS ISSUED BY THE APPCB

During the year, the Andhra Pradesh Pollution Control Board served stop production orders on the Company's manufacturing plant at Cheruvukommupalem, Ongole on 12.09.2019, with certain directives to the Company which included among others, installation of Agitated Thin Film Dryers in the place of the existing rotary kiln from the pollution control perspective. After complying with most of the directives at a cost of about ₹ 8.30 Cr revocation orders were given for a three month period on 14.11.2019. The pollution Control Board has served stop production orders again on 10th February 2020, giving certain further directives. The APPCB issued regular revocation orders on the 12th March after ensuring satisfactory compliance of such further directives by the Company.

IMPACT OF COVID-19

During the financial year ended 31.03.2020, the production operations were shut down for a period of 7 days from

the 25th March 2020 in terms of the orders of the district administration in the wake of the COVID-19 pandemic. The operations were restarted from the 2nd April 2020 after permission was received from the District Collector with instructions to follow the safety guidelines issued by the administration. However, in view of various restrictions in place due to the pandemic, the plant has been running at reduced capacity.

Execution of Customer Orders: Even though, our original plans for production and dispatches as per the orders of our overseas customers received a setback due to reduced production levels and limited operations of shipping vessels, we could still manage to ship some consignments to our overseas customers in the months of April and May 2020. On the domestic front too our sales plan was impacted due to the fall in production levels and initial logistic issues. However, there is good demand for our Company's products in the domestic market and we expect to do better in the remaining quarters of the year.

Financial Impact: COVID is likely to create adverse financial implications on our Company's performance in Q1 of the current fiscal. Considering the fact that there are plenty of opportunities available for us in the domestic market, the outlook for the remaining quarters of the year appears favourable.

Liquidity: There has been strain on the Company's liquidity position as the production and sales volumes are below the normal level owing to the restricted production activity due to the prevalence of COVID-19. However, sufficient drawing power and undrawn credit limits are available for us to avail sanctioned limits fully from banks. The inventory holdings in the form of finished goods and raw material can be easily liquidated and money realized. The existing debtors shall be realized in the normal course. The government has been slowly easing the restrictions and our production and business operations should stabilize at normal level in the near future. We do not therefore see any challenges on the liquidity front going forward.

FINANCIAL HIGHLIGHTS

Revenue from operations

The revenue from operations decreased to ₹ 245.67 Cr in the year from ₹ 383.98 Cr of the previous year. The fall in operating income is on account of stop production orders of APPCB and Covid-19 resulting in loss of about 100 production days and corresponding revenue.

Raw Material Consumed

The consumption of raw materials decreased by 44.05% in the year 2019-20 as against increase of consumption by 85.80% during the year 2018-19. The consumption level

has come down in line with the reduced level of production on account of stop production orders of APPCB and Covid-19 as mentioned above.

Employee Benefit Expenses

The employee related expenses increased to ₹ 18.89 Cr from ₹ 15.84 Cr during the year. The increase was owing to the fresh recruitment in the previous year as per the business plan and the pay hike in the year.

Finance Cost

The expenditure under this head stood at ₹ 5.48 Cr as against ₹ 7.94 Cr of the previous year. The benefit of reduction is on account of better pricing from the Banks and reduced level of utilisation of credit limits.

Depreciation Expense

The expenditure under this head increased to ₹ 6.66 Cr in the year from ₹ 4.82 Cr of the previous year, owing to implementation of Capex during the year.

Other expenses

The expenses under this head stood at ₹ 50.24 Cr in the year as against ₹ 51.19 Cr of the previous year.

Profit after Tax

The profit after tax declined to ₹ 6.51 Cr in the year as against ₹ 18.29 Cr of the previous year. The drastic fall in the sales turnover coupled with the increase in selling & distribution expenses to meet the commitment given to the overseas customers resulted in significant drop in the profits.

Balance Sheet

₹ in Crores

Particulars	As on 31.03.2020	As on 31.03.2019
Assets		
Fixed Assets	141.90	109.73
Non- Current Assets	4.79	6.58
Current assets	78.57	157.31
Total	225.26	273.62
Liabilities		
Share capital	8.33	8.33
Reserves and surplus	123.91	119.77
Non- Current liabilities	9.92	8.40
Current Liabilities	83.10	137.12
Total	225.26	273.62

Fixed Assets

The gross carrying value of fixed assets increased to ₹ 191.35 Cr in the year by ₹ 39.06 Cr, mainly due to

capitalization of plant & equipment relating for backward integration works and setting up of process line for manufacture of Fipronil insecticide besides acquisition of land in acres 27.19 at a cost of ₹ 1.94 Cr.

Ratios

Key ratios	31.03.2020	31.03.2019
Inventory turnover	4.37	6.68
Interest coverage ratio	1.90	4.67
Current Ratio	0.95	1.15
Debt Equity ratio	0.32	0.37
Gross profit ratio	10.37	12.13
Net Profit margin	3.58	7.57
EPS	7.83	22.53
EPS (Cash)	18.51	41.82
Return on capital employed	0.10	0.24
Book value	159.23	157.80

Ratios

The total revenue of the Company in fiscal 2020, having come down to ₹ 247.34 Cr by 35.68 % from ₹ 384.58 Cr of the previous year as also the bottom line to ₹ 6.51 Cr from ₹ 18.29 Cr, most of the key ratios have declined as compared to the previous year on account of stop production orders of APPCB and lockdown imposed due to Covid-19 resulting in loss of about 100 production days and corresponding revenue.

Inventory Turnover: The ratio declined to 4.37 from the previous year's ratio of 6.68 due to the fall in sales turnover for the reasons mentioned above.

Interest Coverage: Lowered profit after tax has impacted this parameter which stood at 1.90 for the year as against 4.67 of the previous year.

Debt Equity: The marginal improvement of this ratio to 0.32 in the year from 0.37 of the previous year is owing to the year's profit besides on account of reduction in term loan liabilities.

Net Profit margin: The net profit margin for the year ended 31.03.2020 stood at 3.58% as compared to 7.57% of the previous year. The fall in revenue by over 36.02% has brought down the net profits for the year to ₹ 6.51 Cr from ₹ 18.29 Cr. of the previous year. Hence, reduction in net margin.

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The company has proper and adequate systems of internal controls which ensure that all the assets are safeguarded and that all transactions are authorized, recorded and reported correctly. The company maintains adequate and effective control system and suitable monitoring procedures with regard to the purchase of raw materials, stores, plant & machinery, equipment and other assets as well as sale of goods. The finance and commercial functions have been structured to provide adequate support and controls for the business of the company.

INDUSTRIAL RELATIONS AND HUMAN RESOURCE DEVELOPMENT

The Company has cordial and harmonious industrial relations. Opportunities for individual growth, creativity and dedicated participation in the organizational development are being provided.