

# Jessop & Co Ltd

## MANAGEMENT DISCUSSION & ANALYSIS

### A. General

India is the fastest growing economy fuelled by a strong GDP growth led by resounding performance in manufacturing and service sectors. The Indian economy is experiencing a major turnaround in recent times. The Indian Rupee has proved to be a strong reliable currency on account of improved FDI inflow and healthy foreign exchange reserves. Favourable government policies, growth oriented budgets and a commitment to infrastructure improvement has resulted in increased demand and has led companies to build on their domestic capacity.

Jessop is engaged in manufacturing diversified range of engineering products based on company's strong technology and engineering base. The company has built its reputation based on decades of achievement in producing wide variety of railway rolling stocks, cranes and fabrication of complicated and heavy steel structures. Jessop's major products are Electric Multiple Units (EMU) Coaches, Passenger Coaches and Railway Wagons. In addition, its production range includes industrial and technological structures, all types of cranes – especially heavy duty cranes used in steel plants, ports and shipyards as well as ship deck cranes, mobile cranes and railway break-down cranes, hydraulic gates, stop log gates, road rollers, power roof supports for long wall, face mining for underground coal mines.

Jessop, with its five workshops and a skilled workforce of about 1400, is now a premier manufacturer of engineering goods and an emerging one-stop solutions provider for a variety of engineering problems. It is present in design, manufacture, supply, erection and commissioning of a wide range of capital goods and turnkey projects required by sectors like railways, ports, coal mines, power, petroleum, shipping together with construction of highways and flyovers. Its products and services range includes cranes, bridges, technical structures, gates, wagons and coaches, mining machinery, hydraulic cylinders, road rollers etc.

### B. Outlook

Indian Railways, world's second largest rail network has been a key component of India's transport sector for 154 years. It is 5-6 times more energy efficient and about 4 times more efficient in terms of land use. Pragmatic and a forward looking rail budget 2008 has unveiled various initiatives proposed to be taken up by the Indian Railways like wagon investment scheme, up-gradation of freight terminals, encouraging wagon manufacturers to design wagons with higher pay load and new technology and high capacity new design passenger coaches to be manufactured, through public private partnership to the maximum extent in areas amenable PPP, construction of new east and west dedicated freight corridor, greater emphasis on mass Rapid Transit System (MRTS). The 11<sup>th</sup> 5-Year Plan (2007-12) sets a target of 1100 million tons of freight load and to double the present capacity of rolling stock.

The Railway Budget has attempted to address the transport requirements of an expanding Indian Economy. Various new procedures that will facilitate private sector participation in the Railways, particularly in design and development of new models of wagons, have been introduced. The, Rs.75000 cores, reserved for infrastructure upgradation over the next seven years, will give a big thrust to business and companies associated with the Indian Railways. The new policy promotes induction of wagons with modern designs, and thus, is expected to help

companies like Jessop,, which can now import technology from abroad and introduce modern designs into the Indian Railways.

During the last 10 years annual wagon acquisition by Indian Railways has been at a level of 8,000 to 10,000 Nos. In addition, Ministry of Railways (MoR) has taken several policy initiatives to encourage private industries participation in the procurement of wagons, like Wagon Leasing Scheme, Wagon Investment Scheme(WIS), Own Your Wagon Scheme etc.

During the Financial Year 2007-08, the total acquisition of different types of wagons by various industries (under WIS) has been at the level of 2000VUS. The demand for wagons for this segment of users is likely to go up @8% to 10% annually form 2008-09 onwards.

Besides WIS, MoR has granted license to 14 (Fourteen) companies for Intermodal Transportation of Containerized Freight Traffic. Out of 14 companies, 8 companies have already in the process of procurement of Container Flat Wagons. Estimated annual demand of this category of Container Flat Wagons is about 200-2500 wagons per annum. The demand for Container Flat Wagons is likely to grow at annual rate of 5% to 10%.

Continuous increase in capacities by setting up new plants as well as expansion of capacities by steel sector has projected the annual steel production of 110 million tons by 2019-20. The company is continuously consolidating its position to catch up with the high demands for the products it is engaged with and is hopeful of capturing a good market share by reinforcing marketing and technology up-gradation.

Business is all about change and evolution. Your Company, therefore, is changing its focus from being an engineering company to becoming a complete solutions provider.

## **C. Opportunities and Threats.**

### **i) Railway Rolling Stock:**

Jessop is the only EMU Coach manufacturer in India in the private sector. The other major coach suppliers like ICF, have shifted their focus to metro coaches. Jessop being an established EMU coach manufacturer, it is most capable of developing ICF type ACE EMU coaches, which the Railway Board has now required. With the opening up of the wagon sector by railway ministry and targeting to double the production of rolling stock, the company has got encouraged to give higher concentration to develop and improve the production of wagons. The Company has already developed many new types of wagons like BOBSN, BVZI, BLC etc during the financial year under review, and is fully geared up to develop other various types of wagons like aluminium wagons etc

Transformation of EMU coach procurement from administrative price regime to open market competitive bid system is likely to cause topsy-turvy in the industry. Moreover, un-predictability and un-certainty of the price mechanism of EMU coaches arising out of addition of new items/change in specifications continues to be a major threat to the company. However, the company has already established itself a major player in the area and expected to overcome these threats with huge opportunities available to it.

### **ii) Cranes, Structures, Bridges**

Market demand for cranes is estimated at the level of about Rs.1000 cores p.a of which about 30% of the demand comes from Steel plants and Port sectors.

Since the Power Sector is shifting towards Hydro-Electric Power Plants, Jessop would have a very good opportunity to manufacture various Gates such as Radial Gates, Vertical Gates etc. Jessop, having a very successful track record can have a good market in this filed.

Although Steel Bridges are not preferred against Concrete Bridges, The Indian railways still opt for Steel Bridges for its reliability, as these bridges are subject to Dynamic Loading. So, Jessop can have a fair market share in the area of Steel Bridges.

#### iv) **Road Construction Equipment**

In this product category, Jessop is the only manufacturing conventional Road rollers. The physical demand for Road Rollers is estimated at the level of 150-200 per annum as against Jessop's current production of about 100-120 Rollers per annum.

During the past few years, market demand for road construction equipment has shifted from conventional road rollers to Tandem rollers and Tandem Vibratory Rollers. Jessop is trying to develop Tandem Rollers through in-house initiative and first prototype is expected to be ready by July/Aug,2008.

#### v) **Mining Machinery including Hydraulic Cylinder and Integrated Test Facility(ITF)**

In this product category, Jessop is capable of manufacturing Underground Longwall Mining Roof Supports and associated equipment for which the company had technical collaboration and manufacturing license agreement from well-known British and German companies.

In recent years, the demand for underground Longwall Mining equipment has gone down substantially due to lack of new projects. In the area of testing of mining machineries, Jessop is the only accredited testing facility in the country. So, any new machinery, indigenous or imported, has had to be tested by Jessop under the Norms of DGMS.

### **D. Risks and concerns**

The company's major customer today is the Indian Railways. The change in policies by Indian Railways in respect of ordering mechanism supply of raw materials and pricing creates a concern for the company so far as it adversely affects the working capital requirements and support for the growth. The company presently depends on domestic market and especially public sector for its business and revenue, which is subject to change in Government policies and regulations by the Government of India, which may expose the company to risk of loss of revenue. Any delay in implementation of projects or decisions by the government in the areas related to the company may also adversely affect the company. Moreover, some of the products of the company like cranes and road-building equipments are facing obsolescence for which the company has taken steps for new technology through natural retirement by inducting experienced professionals and graduate Engineers, Diploma Engineers as well as technicians. In view of the Government of India's progressive policies on economic liberalization and reforms, the company is confident to avoid the risks of change in policies. The company has taken up a new business area of EPC which has a huge opportunity available in the areas of fabrication, structural jobs, pipe line projects fuel oil systems collaborations. The company has also taken steps to correct the erosion of engineering skills due to, LPG storage system, underground

pipe line project, drinking water pipes, etc. The fabrication and machining division of the company has already executed a number of import substitution orders for various customers. Full efforts are concentrated to develop Tandem Vibrating Road Roller with certain collaboration. The company has also taken up upgrading testing capacity of ITF, the only test house in India recognized by DGMS, Government of India, in order to take up jobs of higher capacity.

## **E. Expected Market Share**

We envisage the market share of our market products as under:

<b>Product Group</b>	<b>FY 07-08</b>	<b>FY 08-09</b>	<b>FY 09-10</b>	<b>FY 10-11</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Wagon	6-7	10	14	20
EMU	30	35	40	42
Heavy Duty Cranes& Structural Fabrication	5	7	8	10
Road Construction Equipment	38	45	45	47
Mining(Refurbishment/Spa res),Hydraulic Cylinders &ITF	10	15	20	25

## **F. Other Growth Initiatives**

In order to cater to the growing demand of Wagons by the Indian Railways, Jessop is keen to pursue a Project at the earliest.

The proposed project shall be a Greenfield Wagon Manufacturing Facility located at Durgapur about 180 Km away from Kolkata. In this unit we intend to install 'State of Art' manufacturing facility to achieve cost effectiveness through scale of production with highest level of product quality.

The Company has also aggressively taken initiatives to revive the foundry unit at Durgapur as a steel based foundry to produce bogies, couplers and other castings. This will add huge value to the Company on Completions.

## **G. Internal Control Systems**

The company has an adequate system of internal control implemented by the management towards achieving efficiency in operations, optimum utilization of resources, cost control and effective monitoring thereof and compliance with applicable laws.

The organization is well structured and the policy guidelines are well documented. The company, on a regular basis, stores and maintains all the relevant data and information as a back up, to avoid any possible risk of losing important business data. The management MIS Cell undertakes checks and reviews and follows up for corrective and preventive action.

The Company has sufficient systems to ensure that assets are safeguarded against loss and that the transactions are authorized, recorded and reported. The Company also has an exhaustive budgetary control system to monitor all expenditures against approved budgets on an ongoing basis.

The company has also appointed an independent external reputed firm of Chartered Accountants to provide independent and professional observations on the operations of the company.

A qualified and independent audit committee of the Board reviews the reports, operation and financial performance and the adequacy of internal controls.

## H. Financial Performance

During the year under review, the company has achieved a higher turnover of Rs.136.31 cores as against Rs.87.37 cores registering an increase of 56.01%. The net profit before tax has also improved by 68.01 % during the year under review. With the continuous positive net worth and fourth year of profit in a row after disinvestment, the company today stands in a strong financial foothold and is almost NIL Debt company. The order book position of the company is very strong and is more than Rs.117.80 crores pending for execution, as on 31.03.2008.

## I. Segment-wise Performance

It was observed that during the year 2007-08, upward trend in Production and performance of the Company continued unabated. During the year 2007-08 the Company has achieved a billable production of Rs.9461.83 lacs against a billable production of Rs.8606.10 lacs achieved during the year 2006-07.. In Wagon Division, total 521 VUs wagons were produced during the year compared to 476 VUs during the last financial year 2006-07 registering an increase of 9.45%. The Company has successfully developed prototypes for BOBSN wagons for Indian Railways, as well as prototypes of Container Flat Wagons (BLC) for the private sector, which has been approved by RITES and RDSO. In Crane area, production for the year 2007-08 continued in the same trend and was Rs.3185.82 lacs compared to Rs.3303.02 lacs in 2006-07. Major orders executed during the year included orders from Durgapur Steel Plant, Rail Wheel Factory and Essar Steel. Pending orders for other cranes are under various stages of execution.

During the year 2007-08, a total of 20 nos. coaches and 83 nos. bogie frame arrangements were completed. Production of ICF Design Bogie Frames and Under Frame could also be started. It was observed that during the year 2007-08 there had been a continuous improvement in Road Roller production. This division contributed Rs. 874.38 lacs in total billable production compared to Rs.707.75 lacs in the year 2006-07 by producing 99 Road Rollers in place of 81 in the year 2006-07. The development of Tandem Vibrating Road Roller is in advance stage of progress and is expected to be successfully completed soon,

The segment-wise performance is furnished below:

(Rs.Crore)

S/No.	Particulars	CSM&W	EMU	REH	EPC	Total
1.	Segment Revenue	96.41	25.4	10.2	0.01	132.07
2.	Segment Result – Profit / (Loss)	22.42	9.42	1.74	.0041	33.58
3.	Unallocable Corporate Income less Exp. (Net)					(-)18.72
4.	Interest net of Interest Income					2.99
5.	Prior Period Adjustment					(-)0.43
6.	Net Profit / (Loss) Before taxes					18.76

## H. HR and Industrial Relations

Jessop believes that the real asset of an organization is the value of men because it is he who run the show. The company places human resources, which is the

most critical component of an enterprise, at the core of its business model and believes that it is the employees' skills and capability, which can provide the necessary cutting edge to face challenges and market competition

Various measures have been taken to upgrade the level of human resources in the organization. Some of the measures include:

**a) Induction:**

With a view to continuously encourage the employees and improve their skills, fresh blood have been inducted in the company by way of graduate engineers from reputed institutes and colleges like BHU, MNNIT-Allahbad, Shibpur & Jadavpur University etc as well as very reputed polytechnics in West Bengal.

**b) Training & Development**

The continuous training programmes to the graduate engineers as well as on the job training have helped in improving the skills of the employees. The scholarship of the company was availed by eligible employees so that their meritorious children could be assisted in pursuing higher studies.

**c) Communication:**

Jessop believes that effective communication at all levels of organization is the path to effectively achieving the organisation's objectives. Therefore, improved communications through monthly meetings, joint consultative committee, house keeping committee and brain storming have been implemented, which has resulted into greater transparency and understanding all the goals and objectives of the company.

The company has also made progress on quality circle activities and has become an institutional member of Quality Circle Forum of India. The management welcomes suggestions from the employees. Therefore, Suggestion Boxes have been introduced where the respective employees can give their suggestions. The management reviews the suggestions and if found suitable for the organization are being put into force immediately.

**d) Welfare Activities**

Welfare activities by way of supporting Works Recreation Club, Sports Club and Social Club of the employees by sponsoring their activities and expenses. House keeping has been a continuous activity and the apex and works to ensure a safe, clean and hygienic and congenial work environment for the employees at their work.

**e) Industrial Relations situation :**

Jessop is well aware of the fact that good industrial relations is the backbone for effective and smooth functioning of the organization. Therefore, the Company continuously endeavours to maintain cordial industrial relations.

There has been reduction in Multi-union situation, and now only two Major Unions, affiliated to CITU and INTUC are now actively functioning. The relations with the Unions have been established on transparency, mutual trust and co-operation. There has been perceptible change in the attitude of the Unions and workmen towards Management. There was no loss of Mandays on account of direct actions by the Unions. Unions have extended fullest co-operation in enforcing Shop floor discipline, Safety measures, housekeeping and productivity.

Industrial relations remained normal and there were no significant labour issues outstanding or remaining unresolved during the year. Issues of concerns of employees are resolved through mutual collaboration and participative discussions. The total number of manpower deployed as on 31.03.2008 is 1373.

## **Report on Corporate Social Responsibility**

### **Health, Safety and Environment**

The issues relating to health, safety and environment are always placed on top priority at Jessop. The aim is to provide a comprehensive health care services, high level of safety to the personnel and a congenial working environment.

#### **1. Health**

Occupational Health and Safety remains our foremost concern and priority. It is the company's continuous endeavour to maintain good health of the personnel working at the factory level. The Company maintains a comprehensive first aid facility so as to meet any untoward consequences. All work places are well-equipped with medical facilities and qualified doctors at hand in the event of any emergency. The management continuously ensures that fresh and pure drinking water is available and also ensures proper canteen facilities are made available to the employees. Further, it is also taken into account that proper system is followed for effective discharge of effluents, keeping in mind the safety of workers and also nearby locality where the factory is situated.

#### **2. Safety**

The foremost objective of the company is to ensure safety of its employees at work. Various measures have been taken in this regard. The measures include training on safety measures for shop floor employees, incorporation of "safety clauses" in purchase orders, testing of equipments whether they have been purchased from authorized dealers, conducting regular safety meetings and thereby upgrading the employees on the latest safety measures. Jessop believes in the maxim "Safety first is safety always".

The company has taken various steps to ensure safety of personnel at plants. A National Safety Day was observed and safety badges and leaflets were distributed to the employees and Safety Banners and Posters were displayed. The need for an all out efforts on our part is to achieve zero accident. Safety Management Systems are constantly reviewed and upgraded to reduce the possibilities of accidents.

As a part of commitment to maintain and continuously improve its overall performance in Occupational Health and Safety, the company has taken steps to obtain OHSAS 18001 Certification. Jessop is committed to provide a harm-free work environment.

#### **3. Environment**

Jessop is having a leading role in delivering reliable and quality products and services to all its customers and is conscious of its responsibility towards safe and clean environment for sustainable development.

It is complying with the necessary pollution control measures and has obtained necessary consents from the Pollution Control Board. The company has also been certified to hold and operate an Environmental Management System in

compliance of ISO 14001:2004 for its manufacturing activities as certified by BSI Management System, UK.

Jessop believes in the maxim “ Cleanliness is next to godliness”. Keeping this in mind various initiatives have been taken like formation of housekeeping committees for each workshop for discussion regarding a safe, clean, hygienic and congenial work environment for the employees at their places of work, regularly painting of machineries & equipments/walls/roof, planting of trees and issue of PPE's.

### **Cautionary Statement**

Statements in the management Discussion and Analysis describing the company's objectives projections, estimates, expectations may be “forward-looking statements” within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the company's operations include economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors.