

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview and Competition

The Company is a leading manufacturer and distributor offering racks and enclosures, along with accessories and a range of value-added solutions from world-class technology partnerships.

The Company has a well-established business-to-business model, supported through marketing and sales distribution channels, and is focused on the Telecom, IT/ITES and General Electronics industry sectors. The current strategy is to increase thrust on retail sales through channels, and to continue servicing major projects in the enterprise high-end data center market with innovative solutions. For shareholders, the strategy is to create value by increasing profits from operations through business growth, value addition and cost management.

The Company is intensifying its initiatives in several segments, such as high-end data center and IT infrastructure, telecom, contract manufacturing and small and medium business (SMB) segments, as well as entertainment / healthcare and government sectors. Additionally, the company plans to lay emphasis on technical services and solutions and on expansion of its market reach through a channel partnership program.

During the last year a programme to reorient sales and marketing along customer-centric lines was introduced with the creation of three divisions - Enterprise Solutions, Retail Products and Contract Services.

Under the IT/ITES and Telecom sectors, Datacenters are the biggest drivers for the Racks and Enclosures industry. The total data center capacity in India is expected to reach 5.1 million square feet by 2012 and is projected to grow 31 percent from 2007 to 2012, according to Gartner, Inc. The data center industry in India is expected to double its capacity (as on 2008) by 2010, and captive and hosted data centers capacities will grow at comparable rates. In the long term, India has the potential to become a hub for data center hosting for nearby markets such as Middle East, East Africa and Southeast Asia. There is enough capacity and diversity of network connectivity to these regions to allow applications to be managed out of India. [[Gartner Report](#)]

Indian telecom networks have grown to almost 600 million connections as on 31st March 2010. With 565 million wireless connections, Indian telecom has become the second largest wireless network in the world after China. The share of wireless phones has increased from 5.26 percent in 1999 to 92.91 percent in October 2009. India has potential to emerge as a global hub for telecom manufacturing. Favourable factors such as policy moves of the government, incentive offered, large talent pool in R&D and low labour cost can provide an impetus to the industry.

Opportunities and Threats

The Company will continue to maintain its leadership position in the Indian enclosure and infrastructure management industry segments going forward. The Company has expanded its capacity last year and is further investing to meet the demands of significant growth in business. The demonstrated global competitiveness and international quality of products, and its superior logistic capabilities, provide the Company with new opportunities in domestic as well as international markets. The Company will keep examining and pursuing these new opportunities for growth.

The Company faces normal market competition from Indian as well as international companies. The sound business strategies and competitive costs have enabled the Company to retain its leading market position. The Company endeavors to enhance its competitive advantage through a process of continuous improvements in products and processes, cost reduction, enhancing product utility value and by implementing appropriate coherent business strategies. The disciplined financial framework provides stability and a platform for the growth of the Company.

Segment wise Performance

Cabinet Division

The Cabinet Division has achieved marginal increase in turnover. Sales in FY 2009-10 is Rs. 1313 M as compared to Rs. 1303 M for the previous year. Company's sales were adversely affected during last two quarters due to after effects of the slow down in economy which particularly affected the IT segment.

Technology Product Division (TPD)

The domestic sales of Technology Products were Rs.59 M as against Rs.63 M during the previous year, while Commission earned on direct sales was Rs.4 M against Rs.13 M during the previous year.

The sales of this division was greatly impacted by the almost total freeze during the year on capital investments by Corporates and IT companies in Data Center expansions or in new projects.

Outlook

Data center growth will be driven by increasing domestic requirements. Apart from large scale Government initiated projects (such as UID) at the national and state level, growth is also expected from sectors such as financial institutions, telecom operators, manufacturing and services. While large financial institutions and telecom companies are likely to build data centers for hosting their growing data storage needs, data center hosting providers will also put significant investments into growing their capacities to fulfill demand arising from small and midsize users. [[Gartner Report](#)]

The Ministry of Telecommunications has identified new thrust areas for growth of telecom sector such as introducing of 3G telecom services, mobile number portability, value added services and indigenous manufacturing of telecom equipment. There is an opportunity for boosting the manufacturing market for 3G infrastructure, following the 3G auctions this year (2010). The 3G subscriber base is expected to be 90 million by 2013 – about 12% of the entire wireless user base. Also, by 2013 there is an expectation of generating revenues of the order of \$15.8 billion. The annual sales of 3G devices in India are estimated to reach 81.3 million by 2013. So there is a possibility of the annual 3G device revenues going up to \$11.2 billion. [[Voice & Data, '3G to Push Telecom Manufacturing in India.'](#)]

Despite the global recession which has had a significant impact on the Indian economy, the Electronic Hardware market is expected to continue its positive growth trend. This growth has been possible due to the respectable 8.5% growth rate clocked by India's GDP for 2008-09.

By 2012 penetration of telephone users (both landline and mobile) is projected at 500 per thousand while for PCs it will increase to 50 plus per thousand. As market penetration levels are low for all electronic products in India, this growth is expected to sustain for the next 10 years and beyond.

Quality Management Systems

The Company's customized Quality Management System is now highly stable and effective. It covers all aspects of the manufacturing cycle from incoming inspection, in-process inspection, to final quality assurance checks prior to dispatch. Besides, it covers the calibration of all equipment used for manufacturing and inspection, as well as monitoring all customer complaints, transportation damage instances and corrective and preventive action. In the event of a complaint from a customer, or a failure report from the field, our QMS provides traceability through various stages of the manufacturing cycle. During this year new techniques have been introduced for achieving, maintaining and monitoring quality standards in terms of parts per million. Besides these new techniques, the implementation of the Theory of Constraints based production management methods has enabled the company to reach a delivery conformance level of 99% for standard products at both its plants – Bangalore and Pune.

Design Development

The Company designs and develops new products and accessories on a continuous basis. The design styling, look and feel of our products is always current and in step with practices worldwide. The Company has computer-aided design facilities in-house and employs experienced design personnel as well.

During the year the company has undertaken a major project for the design and development of a new "Next Generation" cabinet family which has resulted in the IMPress. The Company plans to launch this product within the next month – both domestically as well as internationally. The IMPress incorporates features and facilities which are truly state-of-the-art and not available with any other major product family currently. The design approach for this important new product has been customer centric and every effort has been made to ensure that the task of the actual user / integrator in installing equipment, managing the cabling and commissioning the project is made as quick and simple as possible. The Company expects the IMPress product family to become a major revenue earner over the next decade.

As an ISO 9001:2000 certified organization, the Company takes the ratification of all its designs seriously. All new products and accessories are extensively tested in order to ensure that they exceed their rated specification by a comfortable safety margin.

Risk and Concerns

Competition: The risk of competition due to cloning of our product range by smaller companies in the unorganized sector remains.

Mitigants: The Company has built a large and established distribution network that should be difficult to replicate by potential competitors. The Company has also changed its approach from Product orientation to Service Orientation in order to get an edge over the competitors. Besides, with the introduction of the IMPress, the company expects to carve out a special niche in the market which will be difficult for copycats to enter as replicating the IMPress will require significant investment in special tooling which will raise the entry barrier significantly. Further, the Company has applied for the registration of the IMPress design name and logo, besides applying for patents for four of its new features.

Supply Profile: The on going fluctuations in the prices for Steel and other key inputs is an area of constant concern to the Company.

Mitigants: The Company continues to develop and maintain a wide supplier network. It also makes continuous efforts to develop alternative sources for major components and strives to develop substitutes wherever possible for reducing the material cost content of the product. Besides, the company does alter the pricing for its standard products from time to time whenever the input costs have varied by more than 5% or so.

Internal Control System and their Adequacy

The Company has a proper and adequate system of internal controls commensurate with its nature and size of its business to ensure that its assets are safeguarded and protected against loss from unauthorized use or disposition, and that the transactions are authorized, recorded and reported correctly. During the year the Company took action to address the several issues that were raised consequent to the independent IT Audit of its systems and security measures that had been conducted earlier. All the major issues with the exception of one have been satisfactorily closed. The one issue which the Company expects to resolve shortly is the setting up of a disaster management and recovery procedure for which it is setting up a near DR facility. Various other measures are being implemented to further improve the quality and effectiveness of the company's internal checks and controls.

These internal control systems are supplemented by an extensive program of internal audits, review by management and established policies, guidelines and procedures. The systems are designed to generate accurate financial statements and other data and for maintaining accountability of assets.

During the year under review the Company has also implemented a major new initiative concerning Risk Management. Under this initiative a programme was launched to identify, assess and evaluate, and identify measures to mitigate the major risks at the two manufacturing plants. The Company now plans to extend this risk management programme to cover other business risks as well.

Discussion on Financial Performance with respect to Operational Performance

The profit before tax for the year under review is Rs. 83 M as compared to Rs. 135 M in previous year. The increase in fixed expenses is due to all round increase in expenses on account of inflationary trend and an increase in utility costs such as fuel, etc. Management has taken steps to meet this challenge by developing alternate suppliers and by taking steps to reduce the material content. The Cash Profit i.e. PBT+ Depreciation for the year under review is Rs. 120 M as compared to Rs. 173 M in previous year.

Material development in Human Resource / Industrial Relations Front

At the factory locations, several activities are undertaken by the Personnel Department on industrial safety and production related aspects. The industrial relations at both units during the year under review were cordial.

There have been some changes in the senior management team during the year.

The Company had 386 employees on its roll as on 31st March 2010 at its production facilities and offices across the country.

Cautionary Statement

The Management Discussion and Analysis Statements made above are on the basis of available data as well as certain assumptions as to Government policies, economic and political developments. The Company cannot guarantee the accuracy of the assumptions and expectation of future events. The Company's actual results, performance or achievements could thus differ materially from projected performance in future.