

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Overview

Micro Inks limited (MIL) is a Subsidiary of the **hubergroup** which has a history of more than 240 years in Ink business with a network of companies worldwide and over 200 international sales and delivery centres through its subsidiaries, branches and presence of local representatives with an annual sales excluding Micro Inks Limited of about **USD 680 million** in the year 2009.

The **hubergroup** is an international group of autonomous companies that is focused on the manufacture and sale of printing inks, printing varnishes, damping solution additives and printing auxiliaries. Micro Inks Limited headquartered at Vapi (in the state of Gujarat) with manufacturing units at Vapi, Daman (in the Union Territory of Daman and Diu), Silvassa (in the Union Territory of Dadra and Nagar Haveli) and a wholly owned subsidiary, at Kankakee near Chicago, Illinois, USA. The Company has a fully backward integrated, seamless ink manufacturing unit and is present across the value chain of the printing inks industry, viz., Pigments, Flush Pigments, Resins and Varnishes, Additives and Printing Inks. The Company has a wide product portfolio and is the market leader in India.

The combined know-how of a global enterprise and its intensive research and development ensure that our innovative product line remains technologically ahead, with consistent quality. Together with its subsidiaries and affiliates in the **hubergroup**, the Company is one of the world's leading printing ink manufacturers. Leadership and pioneering position have been achieved by implementing state-of-the-art research and production facilities and by offering an innovative product range for the Printing industry.

Total sales of the hubergroup including Micro Inks are about USD 1 billion for 2009.

2009 – Sailing Smoothly in High Volatility

Economy and the Printing Industry

The Global economy has slowly and steadily come out of the recession phase prevalent throughout the year 2008. Major economies including US, Japan, China and India are moving to green zone as reflected by the rising indices and various growth numbers though backed by continuing stimulus packages. EURO Zone is still showing the mixed sentiments. Fear of stimulus withdrawal is still a point of concern for the growing economies.

The Global printing ink market of USD 18.5 billion, split evenly between North America, Europe and Asia-Pacific. While the North American and European sales have flattened out, the Asia-Pacific region continues to grow at a fast pace of about 8%, and should soon become the largest region in terms of ink consumption, driven by economic growth in China, India and other countries.

Printing Ink market domestically continued to grow at about 12%, a market of about Rs. 20 billion saw augmenting its turnover on the back of stable growth and the overall Indian economic stability in its user industries such as FMCG, media, flexible packaging and publishing and with commencement of the utilisation of higher capacities built during the last year by printers on back of newer players entering the Indian market and consumers expecting global quality standards. However, due to the global economic melt-down, the growth trends at the beginning of the year could not be sustained in the second half of the year.

Micro Inks position as a market leader has improved, backed by absorption of global technology upon integration with the **hubergroup**, introducing newer products in the market, giving it an edge over competition. Being a fully backward integrated ink company, it has created for itself a strong platform to perform as mother plant to the rest of the **hubergroup** worldwide apart from servicing its wholly owned subsidiary.

Micro Inks consolidated net revenues stood at Rs. 16,180 million, with 11% growth in Domestic Market and 7% decrease in export markets. Net consolidated Profit for the year was Rs. 968 million up 187% compared to previous year on account of increased profits of MIL by 25% and decreased losses of Hostmann-Steinberg Inc. (HST), USA, by 63%.

Hostmann-Steinberg Inc., USA, a wholly owned subsidiary of the company, witnessed a decrease in sales by 16% in dollar terms to USD 75 million due to restructuring of business. The HST, USA, standalone net loss for the year stood at USD 3.3 million as against USD 8.8 million in the previous year.

Revenues and Operations

Consolidated Revenues:

Consolidated net revenues grew by 7% in volume compared to previous year, stood at Rs. 16,180 million with a growth of 11% in domestic market, however showed a decline of 7% in the international markets.

Revenues from Liquid Inks grew by 11% whereas from Offset Inks lower by 4% as compared to previous year. Printing Inks volumes grew by 5% compared to previous year.

Domestic Revenues:

Domestic net sales up by 11% at Rs. 6,857 million compared to previous year. Revenues from Liquid Inks grew by 12% and Offset Inks by 1% compared to previous year. Printing Inks volumes grew by 8% compared to previous year.

The growth was driven by buoyancy in printing ink industry coupled with sectorial growth in publication and FMCG sectors backed by overall growth in economy. This was further augmented by superior product technology received from the **hubergroup** translating to better printing quality and customer acceptability.

Top 50 customers contributed 49% while single largest customer contributed only 5% of the domestic sales.

International Sales was lower by 7% as compared to 2008, stood at Rs. 9,280 million.

US Subsidiary Sales to end customers were at USD 75 million as against USD 89 million for previous year.

During the year HST, USA, focused on small customers with higher margins as compared to larger customers with lower margins.

As a result of better pricing and reduced fixed overheads, HST, USA, witnessed 63% improvement in bottom line.

The US sales in the Web Ink segment stood at USD 58 million and in Sheetfed segment at USD 10 million as compared to USD 61 million and USD 19 million, respectively, in previous year.

Five key customers (other than associates) in HST contributed to 18.5% and single largest external customer contributed to 4.4% of total sales.

Sales to the **hubergroup** worldwide stood at Rs. 4,772 million down by 6% as compared to previous year, mainly due to recessionary trend in Europe. Captive sourcing is expected to increase in the coming years.

International Sales to Non-Associates evidenced a fall of 3% and stood at Rs. 981 million. Products have been accepted widely in the international market backed by stable technology from the **hubergroup**.

Operations

- Key raw materials such as copper, crude derivatives, mineral and vegetable oils, saw a very volatile run during 2009 and put considerable pressure on margins in the last quarter of the year.
- Consolidated raw material cost stood at 64% of sales, down 1% compared to previous year.
- MIL imports stood at 44% of total consumption on continued sourcing of raw materials at internationally competitive prices.
- Manufacturing and SGA costs were at 23% in line with previous year.
- MIL capacity utilisation for the year stood at 51% as compared to 45% in previous year. R&D expenditure during the year was Rs. 44 million.
- Consolidated capital expenditure amounted to Rs. 248 million for the year for rationalisation and modification to enhance operational efficiencies.

Financials

Profitability

Consolidated (Rs. in million)	FY 2009	FY 2008
Domestic Sales	6,857	6,200
Export Sales	9,280	9,926
Total Net Sales	16,138	16,126
Other Income	42	69
Total Revenue	16,180	16,195
EBITDA	2,110	1,913
EBITDA (%)	13%	12%
Interest	185	775
Depreciation	584	593
Tax	374	208
PAT	968	337
PAT (%)	6%	2%

EBITDA for FY 2009 was Rs. 2,110 million up 10% compared to previous year. This was mainly due to reduction in RMC by 1% and controlled overheads.

Interest Outgo was at Rs. 185 million for the year (including hedge cost) as against Rs. 775 million in previous year. Excluding forex gain / loss, Interest for the year was Rs. 191 million as compared to Rs. 291 million for 2008. Total Interest as percentage to sales stood at 1%.

Tax of MIL for the period aggregated to Rs. 374 million, higher by Rs. 166 million as compared to 2008, due to higher profit and effective tax rate.

Consolidated Profit was at Rs. 968 million mainly due to reduced losses in HST, USA, and supported by increased profits of MIL.

MIL Standalone Profit stood at Rs. 1,125 million as against Rs. 903 million in the previous year.

US Subsidiary's Loss was at USD 3.3 million as against USD 8.8 million in the previous year. Losses were curtailed by exiting non-profitable large supply contracts and reduced fixed costs.

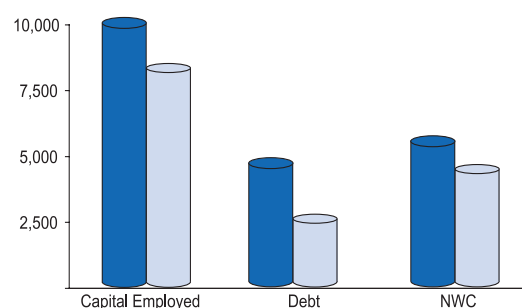
Consolidated EPS at Rs. 38.90 as against Rs. 13.54 in previous year and MIL standalone EPS stood at Rs. 45.25 compared to Rs. 36.30 in previous year.

Capital Employed

During the year the Company has repaid loans amounting to Rs. 2,129 million at consolidated level. The funds were generated from internal accruals and reduction in working capital requirements.

MIL further infused fresh equity of USD 10 million in the nature of preferred stock in its wholly owned subsidiary in USA.

Consolidated Net Worth of the Company was at Rs. 5,829 million as against Rs. 5,074 million in Dec. 08.



	Capital Employed	Debt	NWC
2008	9,440	4,366	5,058
2009	8,066	2,237	3,987

Sales to Capital Employed at 2.0 times as compared to 1.7 times in 2008. Capital employed decreased in absolute terms by Rs. 1,374 million on account of reduction in borrowings and net working capital.

Net Working Capital Cycle was 4.0 times as compared to 3.2 times in previous year.

Debt to Equity was at 0.4 times as compared to 0.9 times in previous year.

Total Consolidated Debt was at Rs. 2,237 million with a substantial reduction of Rs. 2,129 million from 2008.

Total Investment made during the year by MIL in HST, USA, was Rs. 478 million. The net investment stood at Rs. 971 million.

Internal Controls:

Company has a well defined organisation structure, documented policy guidelines, predefined authority levels and an extensive system of internal controls to ensure optimal utilisation and protection of its resources from unauthorised use or disposal, IT security and accurate reporting of financials and legal compliances. The Company also has budgetary control in place. The internal control system is supplemented by internal audit conducted by M/s. Dalal & Shah, Chartered Accountants, to ensure that the assets are properly accounted for and the business operations are conducted in adherence to laid down policies and procedures. The Company uses SAP 4.7 as the accounting, operational and information backbone, which facilitates in-built internal checks and control.

The Company has an Audit Committee of the Board of Directors, which meets regularly to review the risk management policies, adequacies of internal controls and the audit findings on the various segments of the business.

Human Resources:

In order to optimize the contribution of the employees to the Company's business, several training and development programme for all levels of employees have been conducted. Occupational Health, Safety and Environment Management are given utmost importance. We had industrial peace and harmony during the year.

As at Financial Year ending December 2009, the employee strength on permanent rolls of the Company is 1,108 in India and 150 in HST, USA.

Information Systems:

The Company runs on SAP 4.7 to remain updated with the latest system for better operational efficiency and timely information management.

With SAP a reliable, high-end, comprehensive, disciplined and integrated business solution is in place. The Company has gained from the in-built checks and balances and efficient controls by maintaining audit trails.

Outlook:

The Indian GDP is still expected to grow at a rate of about 7-8%. Overall global economic scenario has improved in 2009 but is continued to be volatile. It is expected that the economic conditions may remain volatile for the year 2010 for India as well as other countries.

The Ink industry however, is not expected to see speedy recovery due to worldwide recessionary trends. The input prices needs to be closely watched on back of volatile global situation. In late 2009 input prices witnessed a rising trend and it is expected to continue in 2010. The operating margins are expected to be under pressure globally.

Risks and Concerns

Risks are integral aspects of business. Evaluation of risk and its management becomes more important in the global scenario, especially when your Company is trying to penetrate the global markets. The following risks and concerns are identified and various actions initiated by the management are outlined herein below:

Product Risks:

In Ink Industry product replacement, obsolescence of the product / technology is inherent with the growing applications in print media, books, magazines, brochures, market literatures and packaging of various consumer related products, the Company continuously invests in Research and Development to upgrade its product portfolio to cater to newer applications and customer demand. These efforts will be further supplemented through the global R&D efforts of the **huber**group. It shall further have access to the newer technologies products, processes and best practices of the group which would widen the product basket and improve quality.

Market Related Risks:

The Printing Ink Industry is highly competitive and our products have to compete globally on quality and costs. The Company would continue to benefit from deep backward integration for manufacture of key raw materials like pigments, flushes, resins and varnishes and from combined marketing strengths post integration making it uniquely positioned to cater to international markets with product diversity and minimal customer and market concentration.

Revenues of the Company are expected to be well diversified with dominant presence in key global markets mitigating marketing risks in any particular geography while enhancing brand value and recognition.

Financial Risks and Leverage:

International revenues of the Company which contributes to about 58% of total revenues, imports which are about 29% of total revenue from India and foreign currency loans for long term and working capital financing, which are largely denominated in USD are subject to foreign exchange risks. While it enjoys a natural hedge the Company also takes forward covers on net positions of receivables, payables and loans to partially offset this risk.

The current debt to equity ratio is comfortable. The cash flows of the Company are estimated to be stable on account of diversified and more predictable revenues and profitability.

DISCLAIMER

The discussion, analysis and information in this section have been provided with a view to enable Shareholders to analyse the results of the year with additional information. In certain areas the discussion may cover strategic decision and management expectations from the same. Such forecasts should not be construed as a guarantee of performance and actual results may differ significantly depending upon the operating conditions and external environment.