

Board of Directors' Report

2021 was another challenging year with the world still grappling with the Covid-19 pandemic and its variants. Businesses globally had to adapt to the new normal, fraught with significant volatility, a situation with significant risks – and opportunities.

The MCFI Group was resilient and able to adapt to the new economic paradigm, which led to improved results in 2021. The Group recorded a 39% increase in revenue over the previous year on the back of a rebound from lower activities in 2020 due to the lockdown and a full-year contribution in 2021 from the recently acquired entity, Suchem Limited, compared with only a five-month one in 2020.

To alleviate the impact of supply-chain disruptions, the Group increased its investment in inventory to minimise the risk of stock shortages for its customers. The synergies, generated from the Group's re-organisation and business consolidation exercise started in 2019, resulted in a considerable decrease in operational expenses as well as efficiency gains, thereby translating into a Rs 14 million operating profit for 2021, compared with the Rs 72 million operating loss in 2020.

On the local market, the performance of both the Agricultural and Industrial Clusters improved on the back of a closer relationship with customers and an enhanced customer experience through better service offerings.

On the international front, MCFI International (Zambia) performed well in 2021 by ensuring stock availability and acting on sales opportunities. Travel restrictions, lockdowns and supply-chain disturbances affected the overall operations of MCFI International & Co, which recorded revenue levels similar to 2020.

2021 also saw a review of the operating model of MCFI International (Tanzania), which now focuses on the provision of chemical storage facilities and allied stock-management services. This is expected to generate a stable stream of income in 2022.

Revenue optimisation strategies based on new projects were again unfortunately delayed by the economic repercussions of the pandemic, but management remains confident that these new ventures should start generating revenue within the next 18 months. A research and development department was set up in 2021, with a mandate to drive the Group's development of new business lines within the existing and new pole of activities.

SEGMENTAL REVIEW

Agriculture Segment

Our Fertiliser segment registered an increase of 30% in revenue, despite sales volumes remaining close to the previous year's level. This is attributable to higher selling prices due to increased import costs as both raw material costs and freight rates rose significantly in 2021.

Sales of fertilisers to regional markets were below that of the previous year due to reduced orders from customers, who were heavily impacted by the pandemic and subsequent lockdowns.

Industrial Segment

The Industrial segment rebounded in 2021, with revenues for Chemco and Bychemex increasing by 45% over the previous Covid-19 year as activities picked up towards the end of the year.

Water Segment

The Water Treatment segment achieved higher revenues in 2021 as the result of a diverse and increasingly service-oriented portfolio.

International Segment (Regional Markets)

MCFI International's revenues amounted to Rs 102 million, as the business was impacted by international travel restrictions and a significant disruption in supply-chain logistics in Africa. Despite this revenue shortfall, forex gains enabled the company to achieve a profitable outcome.

MCFI International (Zambia)

Our subsidiary in Zambia posted positive results in 2021 with turnover increasing from Rs 153 million in 2020 to Rs 186 million in 2021, leading to profit after tax amounting to Rs 23 million in 2021, compared with a loss of Rs 1 million the previous year.

MCFI International (Tanzania)

MCFI International (Tanzania)'s focus in 2021 was on sales of existing stock while formalising its new operating model. The company realised turnover of Rs 22 million and posted a loss after tax of Rs 1 million, compared with a loss after tax of Rs 48 million in 2020.

ASSOCIATES

Biofert Company Limited, which is managed by MCFI, remains a key contributor to MCFI's environment-friendly and sustainable offering.

Our share of results from the Group's remaining share of net assets in Rehm-Grinaker Construction amounted to a loss of Rs 13 million for 2021.

OVERALL

Overall, the Group posted a profit after tax of Rs 11 million for the year ended 31 December 2021 compared with a net loss of Rs 123 million for the previous year. Earnings per share for 2021 amounted to Rs 0.51 per share, compared with a loss per share of Rs 5.58 in 2020.

CORPORATE GOVERNANCE AND SUSTAINABILITY

The Board remains firmly committed to the best corporate governance practices. They lie at the centre of our concerns and characterise our engagement with all our stakeholders. The Board also ensures that the activities within the Group are managed ethically and responsibly to enhance business value for all stakeholders. In terms of sustainability, we focus on ensuring that all our processes, products and services comply with local regulations and are designed to be environment-friendly. Additionally, 2025 targets for inter alia water usage, waste emission, energy consumption and diversity were defined as part of a larger Harel Mallac Group "Planet Goals" initiative, with action plans to be set up by each business unit to achieve the set objectives.

LOOKING AHEAD

The Russia-Ukraine crisis, adding to the impact of the ongoing Covid-19 pandemic, is increasing the volatility and uncertainty of the global economic environment. As a consequence, import costs are expected to rise further and supply-chain disruptions are also likely to worsen already high international procurement lead times. However, the Group will continue with its revenue optimisation and efficiency strategies and initiatives, building upon the positive results of 2021.

In 2022, the Agro segment (Fertilisers and Crop Protection) will focus on providing full-package service solutions to customers, combined with a larger offering of environment-friendly and sustainable products. Additionally, management aims to achieve continued operational excellence in its fertiliser manufacturing activities through the implementation of already identified efficiency optimisation initiatives.

The Industrial segment (Chemicals) will focus on accompanying customers and the provision of technical guidance and specialty products, coupled with the upgrading of its chemicals operations. The Water Treatment & Solutions segment will further build on the experience it has acquired in the market and consolidate its offering from specialised partners, while aiming to generate business from regional markets.

MCFI International & Co is looking at developing long-term trade links with customers from both anglophone and francophone African nations. Management aims to sustain a similar level of performance at MCFI International (Zambia) as 2021, while ensuring a stable stream of rental income from MCFI International (Tanzania).

The Group also plans to undergo a restyling exercise in 2022 to mark its transition from a mono-product supplier to a multi-solutions partner for regional agricultural and industrial operators, driven by technology, ecology and continuous research and development.

ACKNOWLEDGEMENT

We would like to express our gratitude to all of the MCFI Group's stakeholders, including employees, customers, business partners and investors, for their ongoing support. The Covid-19 outbreak has ushered in new ways of doing business and has hastened the pace of digitalization, with a greater emphasis on sustainability and resilience. In this context, keeping employees safe and ensuring agile servicing of customer demand and robust operating cash flows were the three key priorities in 2021.

We would also like to thank Yanis Fayd'herbe and the management team for their commitment and hard work. The challenges of 2021 have only strengthened our resolve to ensure the long-term progress of the MCFI Group along the path of profitable growth.



Antoine L. Harel
Chairman