

OVERVIEW OF THE *operating context*

Table 4: Operating context

Indicator	Scenario/Measure	Impact to DIMO
GDP Growth Rate	The Sri Lankan economy which grew by 3.7% in year 2021, suffered a contraction of 8.7% in year 2022. (Source – The Central Bank of Sri Lanka)	A significant part of the Group's offering consists of capital goods, for which demand is linked to GDP growth rate. Overall, the contraction had an adverse impact on demand for most of the goods and services offered by DIMO.
Interest Rates	The annual average of the Weekly Average Weighted Prime Lending Rate (AWPLR) for Financial Year 2022/23 was 26.61 percent compared to the annual average of 7.01 percent recorded in the previous financial year. As at 31st March 2023, the AWPLR was reported at 21.40. (Source – The Central Bank of Sri Lanka)	The high interest rates impacted the group in more than one way. Firstly, they made the capital goods that we sell less affordable to other businesses and consumers as the cost of leasing/ borrowing became phenomenally high. Secondly, it increased the interest cost of working capital, the full impact of which could not be passed on to the customer. Thirdly, it hindered the Group's diversification and expansion programmes due to the increased cost of funding.
Inflation Rate	Headline inflation measured by the year-on-year (YoY) change in the National Consumer Price Index settled at 49.20 percent in March 2023. (21.50% in March 2022) (Source – The Central Bank of Sri Lanka)	The increase in inflation during the financial year adversely impacted consumer demand, as spending power was curtailed. In addition, it increased the overhead costs of the Group, the full impact of which cannot be passed onto the customer.
Exchange Rates	The Rupee fell by 13% to Rs. 332.50 against the US dollar on March 31, 2023, compared to its closing rate of Rs. 293.87 per USD on March 31, 2022. Meanwhile, reflecting on cross-currency movements, the Sri Lankan Rupee depreciated against the Euro, the Sterling Pound and the Japanese Yen during the year. (Source – The Central Bank of Sri Lanka)	The depreciation of the Sri Lankan Rupee during the first three quarters of the year, resulted in an escalation of import costs for all the sectors of the Group. This led to a substantial price hike, affecting demand.
Import Restrictions	The government began placing restrictions on imports commencing April 2020, with some changes to the regulations since then. As at 31st March 2023, 679 items remained restricted compared to 1,465 items in March 2022. (Source – Sri Lanka Customs)	Import restrictions on vehicles continued to seriously affect revenues of DIMO. The import ban on various other items too had an impact on revenues and growth. With the lifted restrictions on few specific imports, towards the latter part of the financial year, DIMO had the opportunity to import and sell these goods by maintaining its competitive position in the market.
Covid-19 Pandemic	Compared to the financial year 2021/22, the impact of Covid-19 pandemic gradually reduced in the financial year 2022/23. (Source – World Health Organisation)	The gradual recovery from Covid-19 pandemic has helped the Group to get back to business as usual, although other economic factors negatively affected the outcome. The increase in agricultural activities started during the pandemic, contributed positively to DIMO Agri business, which also was a contributing factor towards the Agri business delivering impressive turnovers and results.

Sri Lanka experienced a serious economic crisis during the year that encompassed a lack of foreign exchange, unprecedented levels of inflation, extremely high interest rates, a government liquidity crisis, and the sharp depreciation of the Rupee, all of which triggered knock-on effects on consumers and society.

Overall, it was a period of extreme uncertainty with a dearth of resources to continue business as usual. In this context, the key external factors that were material for the DIMO group are discussed below.



Please refer page 81 - 86 of the Risk Management section for more information about key risk mitigation.



Please refer page 10 - 11 of the Chairman's message and page 12 - 13 of Group CEO's statement for the perception of the management on operating context.



Please refer Business Reports on page 30 - 41 for industry specific external environmental context.

Future Outlook

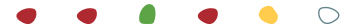
Impact on the Availability, Affordability, and the Quality of Capitals

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Considering the progress that has been made thus far in relation to securing financial assistance from the International Monetary Fund (IMF), the economy, if managed carefully, is expected to gain momentum and lead itself to a path of recovery that will enable a positive economic growth. The latest forecast made by Asian Development Bank (ADB) shows a 4% increase in GDP growth rate for the calendar year 2023.



There is an evident decline in interest rates in the recent past. Public announcements by the Government also point to a desire to bring down the interest rates provided that inflation rates, affordability and other factors allow it.



Based on the latest macroeconomic projections of the Central Bank of Sri Lanka (CBSL) we expect a gradual slowdown in inflation throughout 2023 supported by a decline in global commodity prices due to subdued demand conditions and a similar downward trend in prices locally, which we expect to be primarily driven by a stronger Rupee.



The Rupee saw an appreciation during the period immediately succeeding the financial year. However, the recommencement of foreign debt repayment and the lifting of import restrictions are expected to lead to Rupee volatility. There is no formal guidance by Central Bank of Sri Lanka (CBSL) on the exchange rate.



Although there is no indication of the import ban on vehicles being relaxed, Sri Lanka is expected to relax the remaining import restrictions on various other items in a phased-out manner.



The World Health Organisation (WHO) has officially declared that Covid-19 no longer constitutes a public health emergency of international concern. Therefore, Covid-19 will no longer be considered a factor that would significantly affect Group performance.



PROTECTION

We are armed with distinctive mechanisms designed to safeguard us against adversity.

● High Impact ● Moderate Impact ● Low Impact ○ No Significant Impact

OVERVIEW OF THE OPERATING CONTEXT

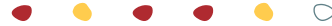
Indicator	Scenario/Measure	Impact to DIMO
Taxation	<p>The corporate tax rate applicable to the company increased from 24% to 30%. The highest rate for personal income tax increased from 18% to 36%, standard Value Added Tax (VAT) rate increased from 12% to 15% and a 2.5% levy was imposed on turnover as Social Security Contribution Levy (SSCL).</p> <p>(Source – The Department of Inland Revenue)</p>	<p>The increase in income tax restricted the distribution of profits and the deferred tax liability of the Group. Increases in VAT and SSCL tax increased the prices of DIMO products to the end customer. The increase in personal income tax significantly affected the take-home salary of the employees.</p>
Energy Prices	<p>On 15th February 2023, electricity prices were increased by 66% in a move that the Government hoped would persuade the IMF to provide urgent support for the crisis-stricken economy.</p> <p>(Source – Public Utilities Commission of Sri Lanka)</p>	<p>The electricity cost of the Group was increased. DIMO's energy business sector had a higher demand for renewable energy resources such as solar panels. The sharp increase in energy cost pushed the Group to consider revising margins. The ability to pass on the full cost was a determining factor of competitiveness.</p>
Human Capital	<p>Compared to the Human Capital Index (HCI) score in 2021 which stood at 60, higher than the South Asian and global averages, the current HCI of Sri Lanka has weakened due to the Covid-19 pandemic and current economic crisis.</p> <p>(Source – Human Capital project Sri Lanka by World Bank)</p>	<p>The staff turnover rate of the Group was 23% in 2022/23 financial year, which was a 10% increase compared to the previous financial year. Migration is seen as a major contributing factor. We have also witnessed an expectation of higher gross remuneration among employees due to the impact of inflation and higher personal taxation.</p> <p>The positive factor regarding Human Capital management at DIMO is, post the outbreak of the pandemic the optimization of Human Capital has been assured through updated learning platforms coupled with virtual technology and the intervention of analytics.</p>
Technological Development	<p>The development in technology has been rapid during the past few years with Robotic Process Automation (RPA), Artificial Intelligence (AI) and the Data Analytics driving organisations to improve efficiency and effectiveness and quality of decision making.</p>	<p>Not keeping pace with technology may make DIMO lose out on cost competitiveness and customer experience.</p>
Foreign Business Operations	<p>Myanmar – due to the political instability the business environment is adversely affected.</p> <p>Bangladesh - Consistent GDP growth rates over 6% have rendered an enabling business environment.</p> <p>Maldives – Attracts high numbers of tourists and is a popular holiday destination.</p> <p>Uganda – Infrastructure development projects will be prioritized in Uganda. The volatility of the Uganda Schilling is seen as a negative factor.</p>	<p>Myanmar – The DIMO business activities suffered a major set-back due to the country's political instability.</p> <p>Bangladesh – Expansions in the construction sector positively impacted DIMO business operations.</p> <p>Maldives – Opportunities in Marine Engineering improved the DIMO business operations in the Maldives.</p> <p>Uganda – The infrastructure development projects carried out by DIMO in Uganda will be completed successfully during the ensuing financial year.</p>

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It appears that these high taxes will prevail for a longer period, requiring our businesses to adjust to the new way of life.



The Sri Lankan Government aims to achieve 70 percent electricity production through renewable sources by 2030. DIMO also has a long-term plan to invest in renewable power plants. With more renewable energy sources in place, electricity prices are expected to go down gradually.

(Source – Sri Lanka Sustainable Energy Authority)



If the current macro-economic conditions in Sri Lanka remain the same, the employee turnover rate may persist and may directly increase the Company's cost of Human Capital.

DIMO will have to seek ways of introducing technology and digitalized tools towards increasing efficiency and effectiveness of Human Capital.



Use of technology is rapidly increasing and DIMO is focused on using technology to compete.



Myanmar – The return to normalcy cannot be forecasted due to the prevailing political and economic instability.

Bangladesh – In future, there will be more opportunities in the construction sector.

Maldives – The increased activity in tourism will positively impact the operations of the DIMO Joint venture.



Uganda – DIMO is seeking more opportunities in Uganda and the African region.

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