



AGILE BY **NATURE**

OPERATING CONTEXT

Operating Context

Opening Remarks for Business Reports

The Political, Economic, Social, Technological, Environmental and Legal aspects that would impact DIMO strategy and value creation are discussed below. This provides the context for the performance of the year as well as the strategies and outlook discussed throughout the report.



Political

Sri Lanka's political stability vastly improved during the year, and it appeared that the government was in a position to execute its will. The announcement confirming that elections will be held during the year 2024 reduces the chances of political unrest although the economic advancements made post-crisis may slow down. On the other hand, the establishment of a stable government post-election augurs well for the economic reforms necessary in the short term.

Impact to DIMO

DIMO's strategic plan envisages further diversification and expansion in Sri Lanka. Therefore, political stability and the resulting economic benefits are imperative to pursue these plans with confidence. Political instability could make decisions harder and risks higher. From an operational point of view, DIMO would like to see a stable government carrying out economic reforms to stabilise markets and remove import barriers.

Future outlook

The presidential election, which is likely to be held during the year 2024, is a key factor in solidifying investor sentiment. In the event the people of Sri Lanka elect a President and Parliament (at the subsequent General Election) that establish a stable government, the business community may benefit from the government's ability to carry out economic reforms, maintain consistency in monetary and fiscal policy, and instill financial discipline in public sector. Needless to say, an unstable government would not only stifle economic growth but would also result in market volatility, which will become a barrier for the private sector to drive their plans in Sri Lanka.



Economic

2023 was a transitional year for Sri Lanka as it continued to recover from its worst economic crisis since independence. Compared to the last financial year 2022/23, the current economy is showing tentative signs of stabilization, with stable inflation, significant revenue-based fiscal adjustments, and reserves build-up.

Impact to DIMO

Fiscal

In terms of GDP, there is a reduction in the rate of contraction in the second half of the financial year 2023/24. It has expanded 4.5% in the fourth quarter over the same quarter of the previous year. This is a prospective sign of recovery for our construction connected businesses.

The revisions in VAT rate and removal of exemptions effective 01 January 2024 impacted the demand and exerted pricing pressures. Increased income tax rates continued to hurt the take home pay of employees.

Monetary

The Group's interest expenses benefit from the decreasing Average Weighted Prime Lending Rate (AWPLR). The reduced borrowing costs were an enabling factor for investments in new business and for acquisitions.

During the year 2023, the Sri Lanka Rupee appreciated against the US dollar by 11.20%. (Source – Central Bank of Sri Lanka). With the rupee appreciation, cost of imports came down, which became a considerable benefit for prices against the background of an increase in direct taxes. The appreciation also had a positive impact on domestic consumer spending and even the cost of capital goods imported, which is a substantial part of DIMO's offering.

Headline inflation, as measured by the Y-o-Y change in the Colombo Price Index was 0.9% as at 31st March 2024, whilst it was 50.3% in March 2023 (Source – Central Bank of Sri Lanka). The lower inflation stabilised the purchasing power of the consumer helping predictability of demand. Stable inflation also allowed the Group to predict costs better, enabling the more efficient planning and implementation of pricing and cost management strategies.

Future outlook

The World Bank has forecasted a 1.7% growth in GDP during the year 2024 with the improvement of overall economic performance of the country. This will lead to an increase in demand for the entire product range offered by DIMO.

Market interest rates continued to adjust downwards in line with eased monetary policy and administrative measures taken to reduce overall market lending rates. There will be further space for market interest rates, especially the lending rates and yields to decline in the period ahead, in line with the current rate reduction policy (Source – Central Bank of Sri Lanka). This will create more space for the Group to look for new opportunities in investment and business development.

As economic activity picks up and import restrictions are phased out, it is natural to anticipate an increase in demand for foreign currency and this increased demand for USD will put pressure on Sri Lanka Rupee. Hence LKR weakness can be expected in next few quarters of 2024 which will have a direct impact on Group imports.

With the increase in VAT rates and a pick-up in economic activity, inflation may increase in the near term but for a short period of time. Over the medium-term it is expected to stabilize around 5% supported by appropriate policy measures (Source – Central Bank of Sri Lanka). The Board and Management of the Group may revisit the Company's strategic plans and make adjustments to capitalize on emerging opportunities or possibilities in mitigating risks.



Operating Context Section

<https://www.dimolanka.com/2023-2024-dimo-annual-report/url.php?id=11>



Social

Social factors play a critical role in shaping the business environment, and businesses that are attuned to these factors can better anticipate trends, mitigate risks, and capitalize on opportunities for growth and innovation.

Impact to DIMO

Due to the increase in taxes and prices of the other goods and services, there was increased financial pressure on employees to match their expenses with earnings. Therefore, there were some instances noted of employees changing employment to better positions in other organisations to adjust their earnings.

The loss of key talent due to migration was a significant concern for the Group. The departure of skilled individuals to other countries, purportedly due to the challenging economic environment, resulted in gaps in expertise and experience within the Group.

Human Resource strategies deployed by the Group for talent retention played a major role in mitigating such risks. This proactive approach towards human capital retention can contribute to the Company's long-term success and competitiveness in the market.

The challenging economic situation in Sri Lanka as a whole, had a significant impact on the communities where our businesses operate.

Future outlook

DIMO is always seeking to improve Human Capital management by maintaining transparent communication with employees about their challenges and plans, prioritizing their well-being, and offering employee assistance programs to help employees cope with financial stress, uncertainty and other challenges.

DIMO is also playing its part in mitigating the impact of economic crisis and building stronger, more vibrant communities for the future.



Dragonflies possess the ability to move in six different directions during flight, demonstrating their remarkable flexibility and responsiveness.



Technology

Technology is a powerful driver of innovation, growth, and transformation for businesses, enabling them to adapt to changing market dynamics, meet evolving customer needs, and seize new opportunities for success.

Impact to DIMO

During the third quarter of the 2023/24 financial year, DIMO was able to implement SAP (Systems, Applications, and Products in Data processing) as the Group's core ERP (Enterprise Resource Planning) system which will have several significant impacts on DIMO's operations and business processes.

SAP integrates various business functions and processes, such as finance, human resources, supply chain management, sales, and procurement, into a single unified stream. This integration will allow the Group to streamline operations and improve visibility and collaboration across the organisation.

Future outlook

DIMO will focus on using technology to streamline operations and improve efficiency through automation, digitization, and process optimization. And the Group will look at implementing more SAP modules to make processes even more efficient. Overall, DIMO will use technology as a powerful driver of innovation, growth, and transformation for businesses.

Operating Context

Opening Remarks for Business Reports



Environmental

Environmental factors significantly impact on our businesses in various ways, influencing the operations, strategies, and performance of the Group.

Impact to DIMO

Extremely heavy rains prior to and during the Maha season (September 2023 to March 2024) had an impact on cultivation in some areas. This had an impact on the sales of tractors, agri-machinery such as harvesters, and of fertiliser, seeds and other agri inputs, though not at a large scale.

To the contrary, the renewable energy sector seeks sunshine as opposed to rain, as all the investments are in the generation of solar power. This, in a way, becomes the risk mitigation factor in the case of a rainy season failing, although the ideal situation sought is rainfall at the correct time, which will make both segments deliver desired returns.

Future outlook

Weather patterns play a significant role in agriculture. Whilst a good season in agriculture presents DIMO with significant short-term opportunities, a season sans rain could be a burden. Diversification is one risk management measure that is adopted to mitigate the impact of such a risk. The Yala season (May 2023 to August 2023) looks promising with inter-monsoon rains already experienced. Several investments made in agriculture inputs and outputs are geared to face the Yala season and the Maha season later this year.



Legal

As a business, DIMO is subject to many legislations and regulations. The legislations relating to VAT and the new regulations issued by the Colombo Stock Exchange are two aspects that would have an impact on DIMO, though the latter is not likely to have an impact from a business sense as it deals with matters relating to corporate governance. In addition, legal restrictions relating to vehicle imports continue to impact DIMO.

Impact to DIMO

The agriculture segment and the vehicle sales segment were the worst affected from the new VAT legislations as it imposed VAT on fertilizer, tractors and vehicle sales among others, which were not previously subject to VAT. The restrictions on vehicle imports limited our business in vehicle sales only to pre-owned vehicles and vehicles assembled locally by DIMO.

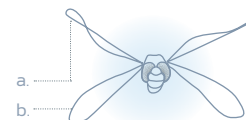
As required, DIMO will comply with all new requirements relating to corporate governance brought about by the Colombo Stock Exchange listing rules by October 2024. This is apart from the requirements the Company has already complied with.

Future outlook

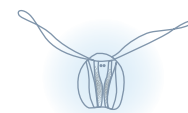
Based on the announcements made so far, the import of vehicles is likely to commence in the year 2025 and any relief from VAT increases do not seem to be forthcoming. Overall, some legislation on the fiscal side providing relief from taxation would be welcome.

Responsive Movement:

Dragonfly wings contain hundreds of sensory neurons, which enable them to control their flight even in unpredictable conditions.



The movement and rotation of each wing can be changed independently of each other. This enables it to fly in any direction, hover and perform flexible, acrobatic movements.



a. Elevator muscles pull wings in an upward direction



b. Depressor muscles pull wings in a downward direction

