

MANAGEMENT DISCUSSIONS AND ANALYSIS

MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT

ECONOMY

Global

When the pandemic struck, the world was totally unprepared to deal with a contingency of such magnitude and was caught napping. Global growth projected at 6% in 2021, is moderating to 4.4% in 2022. The projections for 2021 and 2022 are stronger than in the October 2020 World Economic Outlook(IMF). The upward revision reflects additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility. Thanks to extraordinary policy support and progress on vaccination, the global economy is beginning to emerge from the worst phases of the pandemic across countries to near normalcy. The Corporate sector in many countries is gradually recovering from the pandemic over-indebtedness. Therefore, ongoing support remains necessary. However the emerging subsequent wave of pandemic surrounds this outlook with little uncertainty which we have to wait and watch.

India

India, one of the major emerging nation, has so far avoided extensive disruption due to pandemic. The reason is that India has accumulated a massive pile of foreign currency reserves in the last few years and relatively have low inflation*. This means that, unlike many of its peers, India can afford to allow a decline in reserves in order to stabilize its currency without resort to raising interest rates. In the past, Indian business investment has been stalled, in part, due to high costs of capital. India is now in a good position to change this and allow for an acceleration in investment. However, after a period in which many observers were confident that India was on the verge of herd immunity, the country faces yet another serious outbreak of the virus which is likely to hurt economic growth. Although vaccinations are under way, the speed of distribution has not been sufficient to offset the transmission of new variants.

(*Global economic insights - Deloitte)

TEXTILE INDUSTRY

Global

The COVID-19 pandemic has challenged the textile industry drastically in 2020. The largest markets for the textile industry in the world, has suffered from the prolonged lockdowns and restrictions in the majority of countries along with the sudden drop in international demand for their products. The global

industry also suffered several supply chain disruptions due to the shortages of cotton and other raw materials. However, the textile industry being an ever-growing market, with key competitors, the rapid industrialization in the developed and developing countries and the evolving technology are helping the textile industry to have modern installations which are capable of high-efficient production. Moreover the abundance of natural fibers especially cotton, in China, India, and the United States is contributing significantly to the growth of the global textile market. The increasing consumption of natural fibers such as cotton, silk, wool, and jute will also drive the global textile markets.

INDIA

The Indian textile and apparel sector has become the most severely affected among manufacturing sectors due to the novel corona virus pandemic, which has challenged the Nation on every front. To slow the spread of the virus, lockdown seemed to be the only viable option. India also announced a nationwide lockdown in late March 2020. The brunt of this lockdown was borne by the migrant workers, who in no time saw their dreams and livelihood shattered as factories stood idle. With no work in hand, migrant workers started moving back to their native places and the country witnessed a mass exodus of workers from cities and industrial hubs unseen in post-partition era. However, consequent on various relaxations the situation returned to normalcy gradually with the support from the Government. As the demand pipeline was empty due to the pandemic, after relaxations of restrictions all over the world, the domestic requirements and Export orders started piling up creating a good demand for Yarn and Garments.

Cotton

India, the world's biggest cotton grower, has the distinction of having the largest area under cotton cultivation which is about 41% of the world area under cotton cultivation between 12.5 million hectares to 13.0 million hectares (Source:CCI) Prompted by the raise in the Minimum Support Price for cotton by the Centre, the Indian farmers have switched over to cotton crop. Prices of Cotton that remained subdued during the first half year, due to pandemic impact, started rising due to surge in demand and bullish trend in International prices. With a view to help farmers, the Government has imposed a 10% duty on imports of Cotton. As in every year, India continues to be a cotton surplus Country thereby ensuring adequate availability of cotton to the Indian Textile industry. Global cotton harvest area as well production is also reported to have risen in 2021-22.

MANAGEMENT DISCUSSIONS AND ANALYSIS

INDIAN COTTON BALANCE SHEET FOR THE SEASON 2020-21

As on 31.03.2021	(In Lakh Bales)
Opening Stock	120.95
Production	371.00
Imports	11.00
TOTAL SUPPLY	502.95
Consumption	330.00
Exports	75.00
TOTAL DEMAND	405.00
Closing Stock	97.95

(Source: Cotton Advisory Board)

YARN

The cotton yarn production which declined sharply on a y-o-y basis during the period April-June 2020 due to Covid-19 induced lockdown, witnessed an improvement in the following months backed by easing of lockdown restrictions and a traction in demand from domestic and export cotton yarn market. Cotton yarn prices in India have also been increasing because of dried-up inventories as supplies have failed to match demand since resumed operations late across the country. There is a huge shortage of yarn globally, with capacities shrinking and acute power and labour shortages in geographies where there is good quality spinning capacity. However, Indian yarn prices continue to be lower than international prices. Economic activity has picked pace after the lockdown restrictions were lifted, due to which robust demand for garments (casuals and knit wear) has been registered from rural India. Increased demand for cotton yarn, while the supply shortage with spinners reducing yarn output, has led to spike in yarn prices, for all the categories.

GARMENTS

Due to the pandemic, all economic activities except for the essential goods and services came to a standstill. The textile and apparel industry was no exception to this. It impacted the markets and supply chains globally. The industry faced a complete shutdown for around 2-3 months, while a few manufacturers who dedicated their production systems for PPE manufacturing were permitted to function. However, most of the units operated at sub-optimal utilization levels for next several months. Disrupted logistics and frozen external trade affected the entire value chain alike. The global apparel consumption is estimated to have shrunk by 22% in 2020. India's April and May 2020 net trade were around 50% lower month-on-month compared to that of

the previous year. Slump in the retail sales of apparel for at least 4-5 months including in the festive and wedding season have deeply impacted. New consumer emerged India's e-commerce sale of goods and apparel saw a steep rise in 2020, thanks to an increased market. Work-From-Home drove the demand for casual wear apparel over formals. However, 2021 looks brighter given the onset of vaccination drives, growth in e-commerce sales of apparel, and resumption of global supply chains. The sustained quality and time delivery enabled KPR to attract more orders from the customers whose activities revived after relaxations. We could also expedite execution of orders with the backing of our excellent infrastructures, dynamic management and dedicated work force.

INTERNAL CONTROL

The Internal control process consists of the policies & procedures adopted by the Company for ensuring the orderly and efficient conduct of its business, including adherence to Company's policies, the safeguarding of its assets, the prevention and detection of frauds & errors, the accuracy and completeness of the accounting records and the timely preparation of financial statements for external purposes in accordance with generally accepted accounting principles and reliability of financial reporting. Our Internal control System is fully equipped with necessary checks and balances ensuring that the transactions are adequately authorized and reported correctly. The Internal Auditor conducts regular Audits of various departments and Units to ensure that necessary controls are in place.

The Audit Committee while reviewing the system and the Internal Audit Report, call for comments of Auditors on internal control systems and discuss any related issues with the Auditors and the Management of the company before submission to the Board.

The independent Directors also satisfy themselves on the integrity of financial information and ensure that financial controls including Signature controls, Budget Controls, Data control and systems of risk management are in place. The systems and procedures are documented by way of Manual.

EMPLOYEE WELFARE

Ensuring safe, healthy and happy workplace is the essence of good HR Practice in any Organization. Moving several steps ahead, KPR had designed and implemented one of the best HR Policy, ever since inception, which is admired by people from all walks of life and adjudged as a 'trendsetter' to the Industry. As you are well aware more than 90% of the Employees are women.

MANAGEMENT DISCUSSIONS AND ANALYSIS

The employees' trust gained over years enabled KPR to enjoy their sustained support even during the pandemic time also. The entire employees chose to stay with KPR during pandemic instead of moving back to their Native places. Commencement of production immediately after relaxation as well reaching Pre-Covid level production at the earliest with improved productivity were possible only with the unstinted support of our dedicated Employees and Stakeholders. Our ability to attract and retain the best and the well trained employees ensure competitive advantage over peers.

During the year, rewarding the value addition gained by the Employees through our Higher education facilities (Master piece of the HR Policy), we have even arranged for campus placements at our Units wherein the deserving candidates were selected by some of the reputed Organizations for higher positions. Our aim is not only to grow KPR but also to grow the People involved therein.

PERFORMANCE

Though Covid-19 restrictions played a spoilsport during the first quarter, after relaxations, with the support of all stakeholders the operations have accelerated to pre-covid level in subsequently. The Management's strategy, which has over three decades of experience in the Market, in procurement of cotton, the goodwill earned over years with the customers, surge in market demand for yarn & garments both domestic and export enabled a better performance during the year. The courage, confidence, ability to meet any eventualities and the strong team work enabled the Company to farewell in all segments even during a difficult year, proving toughness during tough times.

RETAIL BUSINESS

The unique featured FASO products are available online across the Country. During the year its launch in almost all big cities of South India has been completed. The market's response has been good and encouraging. As you all know, one of the worst hit Textile Markets by COVID was the retail market due to movement restrictions. We have been planning to widen its reach during the current year, but the sudden surge of second wave is deterring the Pan India plan. In view of special quality features we are much confident of FASO's successful reach to the quality seekers, however we are very cautious in our approach with frugal marketing.

EXPANSION

Responding to the market demand we are expanding our garment capacity by establishing a new factory near Tirupur. Enthused by the Customers' persistent demand, we were looking

for the right time to expand and the current market is ripe to expand in Garments. The factory is coming up near Tirupur with a capacity to produce 42 million garments per annum; almost the largest among the factories that KPR already has. Upon implementation, the total garment capacity of KPR will reach to 157 million garments per annum, by strengthening its ranking as one of the largest Garment Manufacturers in India.

RISKS AND THREATS

Risk relating to Raw material

As India continues to be cotton surplus Country the availability of Cotton is rest assured. Though price fluctuation remains, the same is expected to normalize soon. However, the increase in yarn prices is able to absorb the higher cotton cost to some extent. We always source Shankar 6, the best Quality Cotton suitable for Knitted segment, by following strategic procurement policy and that too through our own dedicated Personnel who visits Cotton growing areas regularly and keeping us posted of the entire information on the Market trend then and there.

Risk relating to Technology obsolescence

We always buy the new advanced Technology Machinery and Equipments only. Regular updation of technology advancement in the machinery and production process continues, thereby automation, wherever possible, is introduced which also entails production and supply of high quality goods and services.

Market Risks / Industry Risks:

As informed earlier, the sudden fluctuation in the market due to Covid-19 pandemic restrictions imposed all over the world has been well handled with the dynamic approach of the management which has over 3 decades of experience in the industry. Our attitude towards stakeholders has secured their whole-hearted support during the difficult times. This enabled us to commence the production activities after relaxation of pandemic restrictions much earlier than others in the Industry and registered better performance also. This evidences our ability to face such eventuality with the support of our well drawn principles and systems. The second wave of the pandemic has started spreading all over the Nation recently. But the same is also handled meticulously by the strategic team efforts of the Management and the Work force. Similar situation in the last year has taught more lessons and the effective ways and means to tackle the ordeals efficiently. The Company assessed the impact of this whole situation on its capital and financial resources, profitability, liquidity position, etc., and is of the view that this situation may not have adverse impact on the financials for the current year.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Logistics Risks:

The logistic issue resulted from pandemic has been handled efficiently by our logistic team and we did not face any major issue on account of this. The problem faced by the Industry relating to container shortage is expected to ease by the mid-2021 with the balancing of trade.

Political environment risks:

The Government has been paying due attention to the problems faced by the industry. The industry associations have also brought before the Government all major issues faced by the industry then and there.

Disaster Risks:

The properties of the Company are insured against natural risks like fire, earthquakes, etc. with periodical review of adequacy, rates and risks covered. Fire extinguishers have been placed at fire sensitive locations. First aid training is given to watch and ward staff and safety personnel.

Financial Risks:

Proper financial planning evolved by qualified and competent Personnel is put in place with detailed Annual Business Plans. Annual and quarterly budgets are prepared and put up to the management for detailed discussion and analysis. The Projects and expenses are regularly monitored. Preparation of daily and monthly cash flows ensures utilization of funds in an effective manner. The Budgets are regularly placed at Audit Committee and the Board.

- i. **Credit Risks:** Systems are put in place for assessment of creditworthiness of customers before admission into dealing. Continuous and periodical monitoring of outstanding, appropriate recovery management system including legal course of action and vigorous follow up are adopted by the Company to mitigate this risk.
- ii. **Foreign Exchange Risks:** We have foreign currency exposure in Exports and Imports, significantly in US Dollar & Euro. Foreign currencies are exposed to risk on account of adverse currency movements. Exchange rate fluctuations could cause some of our costs to grow higher than the proportionate revenues. To manage our foreign exchange risk arising from commercial transactions and recognized assets and liabilities, we use forward contracts and selectively enter into hedging transactions to reduce the risks of currency fluctuations. To manage the Forex related matters we have a competent team consisting of qualified and experienced Personnel.

Labour Shortage

Though the industry continues to face labour shortage due to dislocation of the employees during pandemic, slowly this

situation is returning to normalcy. However KPR's best HR policies like best work environment, hygiene living, feel like home accommodation, higher education, vocational training, hygienic food etc., helps to manage the labour shortage.

Stiff competition from low cost Countries enjoying duty concessions

Mega FTAs that exclude India may pose a threat to Indian exporter. However, India is vigorously pursuing multilateral trade arrangements with major markets that were pending for a longtime due to various issues relating to other major Industries. 'In-house' cotton strength, availability of labour with high efficiency, good quality products, growing support from government policies, better compliance of code of conduct norms, initiative towards expediting FTA are some of the encouraging factors that would mitigate the stiff competition from low cost countries.

CYBER RISK AND SECURITY

With the increase in technology adoption, there is a rapid increase in the prevalence and sophistication of cyber-crime and cyber espionage, compromising organizational networks and data, thereby increasing an organization's risk. Understanding these cyber threats and towards developing specific measures to address this risk, the Company had already formed a cyber-security Team consisting of Tech Savvy Personnel and a Director who has wide knowledge in the IT field. The team analyses the various existing security measures periodically and suggest further measures to strengthen the security systems.

FUTURE PROSPECTS

The turnaround with positive growth is happening in the Indian Textile industry with abundant arrival of raw material. In fact we are the world's number one in producing cotton. Strengthened by healthy infrastructure and skilled labour force, KPR's performance continues to be good and the prospects are bright. KPR continues to enjoy the sustained support from all its Stakeholders - thanks to its passive & active adaptive management and its dynamic approach. The sudden surge of the second wave of pandemic is posing challenges to the Government that has been administering the vaccination drive. New restrictions have been implemented this month which are likely to temporarily stifle growth. A country where urban areas are densely populated and where a large share of the urban population works in service enterprises, it is difficult to contain the spread. However the spread should be contained by adopting all means by the Government and the responsible support from the Public is essential.

For and on behalf of the board
K.P. Ramasamy
Chairman
DIN : 00003736

Coimbatore
28.04.2021