

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT:

Global Textile & Apparel Market Overview

Denim is a textile of sturdy cotton warp-faced twill in which the weft passes under two or more warp threads. It is a characteristic of most indigo denim that only the warp threads are dyed, whereas the weft threads remain plain white.

Denim has three types, which include light denim, medium denim and heavy denim. And each type has specific characteristic relatively. With fashion effect of denim, the downstream application industries will need more denim fabrics. So, denim has a huge market potential in the future. Manufacturers engaged in the industry are trying to produce popular and good visual effect denim through improving technology.

The major raw materials for denim are cotton, polyester cotton and chemical fiber. Fluctuations in the price of the upstream product will impact on the production cost of denim. The production cost of denim is also an important factor which could impact the price of denim. The denim manufacturers are trying to reduce production cost by developing production method.

We tend to believe this industry is a rising industry, and the consumption increasing degree will show a smooth growth curve. And the price presents fluctuation according to the economy development status and international competition. Also, there is fluctuation in gross margin.

The global Denim market is valued at 12700 million US\$ in 2018 and will reach 16200 million US\$ by the end of 2025, growing at a CAGR of 3.1% during 2019-2025. The objectives of this study are to define, segment, and project the size of the Denim market based on company, product type, end user and key regions.

Indian Textile and Apparel Market Overview

After quite a few years of facing a glut in the domestic market due to excess capacity, the Indian denim industry may finally see the demand-supply gap narrowing. In addition, with mass consumption demand also expected improve even as denim players go for more premium products, gross margins in the industry are also expected to improve by 3-4 per cent this year.

Denim, mostly fabric, capacity in India had suddenly shot up a few years ago and now stands at roughly 1,700-1,800 million metres a year. However, with annual exports being hardly 200-250 million metres, the rest of the capacity was earmarked for the domestic market, creating a glut. This had led to shrinking margins for even some of the top denim makers.

DENIM MARKET IN INDIA

Denim is of the most promising category in India's apparel market. In 2013 the denim market of India was worth INR 13,500 Cr. which accounts for 5% of the total apparel market of the country. The market is projected to grow at a Compound Annual Growth Rate (CAGR) of 15% to become an INR 27,200 Cr. market in 2018. (Source: Technopak Analysis)

The denim market in India is skewed towards men's segments with 85% contribution coming from it. Women's denim segment contributes 9% to the market and the kids segment the rest 6%. The women's and kid's denim segments are expected to witness higher growth rates due to their lower base and increasing focus of brands and retailers on those segments. (Source: Technopak Analysis)

SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE: DENIM PRODUCT:

The Company has performed well with productivity gains, volume growth and sustained margins notwithstanding rise in input costs. The Company has absorbed cost increases and yet improved margins with purchasing efficiencies, improvement in manufacturing yield/usage and overall expenditure control.



TEXTILE SERVICES

The Indian textiles industry, currently estimated at around US\$ 150 billion, is expected to reach US\$ 250 billion by 2019. India's textiles industry contributed seven per cent of the industry output (in value terms) of India in 2017-18. It contributed two per cent to the GDP of India and employs more than 45 million people in 2017-18. The sector contributed 15 per cent to the export earnings of India in 2017-18.

SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE:

The Company is engaged in the business of manufacturing and sale of textile accordingly this is the only single reportable segment.

OUTLOOK:

As a Company Vishal Fabrics Limited is optimistic about future as well as its growth path. The Company is confident in the ability to grow its business organically with enhance the production and adopt new technology.

SWOT ANALYSIS OF INDIAN TEXTILE INDUSTRY:

Strength/Opportunities

- Latest technology which provides better productivity as compared to industry standards in India.
- Large scale of operations which gives a competitive edge while dealing with large global buyers as the orders are big in volume
- Strong connects with distributors for the domestic market which provides the company to increase its market base in remote locations of India.
- The central government is planning to finalise and launch the new textile policy to achieve US\$ 300 billion worth of textile exports by 2024-25
- Increasing demand of Fabric as growing urbanization and a gradual shift from unorganized to organized.
- Increasing purchased power and changing in Fashions and Lifestyle.
- Fastest growing economy in the world.
- Allows 100% FDI through the automatic route in the textile sector through 'Make in India' initiative;
- Technology Upgradation Fund Scheme launched in 1999 has also given a major boost to this sector; the scheme is continuing through the 12th plan with a massive focus on power looms.
- Financial assistance with lower Interest Rate and also provides subsidies for launching new project.
- Implemented and successfully executed SAP.
- Your Company has strengthened its processes and has been successful in obtaining certificates like ISO 9001:2015, ISO 14001:2015, OEKO-TEX, BCI, GOTS, GRS that build confidence among international brands/buyers

Weaknesses

- Demand of Denim is not increased as compare increased in production capacity has from 800 million meters in 2012 to 1,500 million meters.
- Post-GST, the denim industry has temporarily closed down 30-40% capacity across the board and at present is operating at 60-70% capacity due to slowdown in demand and over-capacity in the industry.
- There is a lot of scope of improvement in right processing and value addition in denim through fashion-led processes and finishes. Establishment of high quality processing and washing units could help to improve the quality of finishes and colours, this attracting more consumers to try denim.



KEY RISKS & MITIGATION MEASURES:

Various risks associated with the Company's business along with proposed mitigation measures have been discussed in the Section below.

Risk		Mitigation Measures
Management Risk	Any changes in key management personnel can cause delays in decision making and information flow which may affect the overall business.	The core management team of the Company is highly experienced in the areas of sourcing, operations, marketing and distribution. Company is also planning to strengthen MIS department for better planning and control to smoothen the decision making process.
Raw Material Procurement	Raw material cost is the major cost of overall operational cost and any major changes in raw material prices could affect the profit margins which affects the overall business of company.	The Company has built long term relationship with the suppliers that will help company to negotiate on prices even in critical situations.
Operation and Maintenance	Company is equipped with latest machinery and technology. However any limitations of working capital availability will cause risk of lack of spare parts, which will cause risk of decrease in productivity of machineries.	Company has a planned mechanism for constant preventive maintenance to keep all the machines functional in good condition.
Market Risk	Demand for Indian textile products is expanding in the domestic and export markets. Further, the Company has a strong marketing and distribution network in the domestic and export markets as well as locational advantage. However the change in different macro-economic and micro economic factors could affect the business.	Company plans to hedge the different market risks by better forecasting of market trends and change in policies and change their business strategy accordingly.
Financial risk	Company has prepared projections for its business based on realistic assumptions and its capabilities. However, due to external circumstances In case of EBITDA falling below the estimated projections, it may have an adverse impact on the company's profitability and eventually impact debt servicing capabilities.	Company is focussed on maintaining its margins at a level where it can balance between its operational requirement and the amount required for debt servicing.
Environmental Risk	The chemicals that are used to bleach and colour textiles can damage the environment. Most of the textile machineries cause noise, sound and air pollution. Over-usage of natural resources like plants, water, etc., depletes or disturbs ecological balance.	Company is meeting the norms and conditions related to environment defined under law.
Power cost	Power cost for the industrial use is constantly increasing over the years and puts the burden on profit margins.	Company in process to plan to utilize its in-house power plant at full capacity to minimize the power cost.



INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY:

The Company has an adequate internal control system commensurate with its size and the nature of its business in order to achieve efficiency in operation and optimum utilization of resources. These controls ensure safeguarding of assets, reduction and detection of fraud and error, adequacy and completeness of the accounting records and timely preparation of reliable financial information. Internal audits are conducted in the Company on regular basis.

FINANCIAL PERFORMANCE:

The detail discussion on financial performance with respect to operational performance is provided in the Chairman Speech and Directors' Report which forms part of this Report.

HUMAN RESOURCES:

Human resources are the backbone and center-stage in terms of company's philosophy. The company considers the manpower as a key variable in achieving its goals and ensures that safe and comfortable working conditions as well as motivating environment is maintained to provide the essential platform for them to perform.

The company organized a Health Check-up from SGVP Holistic Hospital and Center for Sight_ for all employees. Further the company has endeavored to create positive health environment through Denim Fitness Drive to motivate employees to remain fit and lead a healthy lifestyle.

The company takes pride in the commitment and dedication of its employees in all areas of business.

KEY FINANCIAL RATIOS:

Financial Ratio	FY 2018-19	FY 2017-18	Change in %	Reason for change
Debtors Turnover	3.92	4.73	-17.12%	Due to Increase in Credit Provided to Debtors
Inventory Turnover	14.57	15.21	-4.20%	Due to Increase in Production for Future Supply
Interest Coverage Ratio	2.88	2.42	18.93%	Due to Increase in Operational Margin
Current Ratio	1.50	1.14	30.88%	Due to Increase in Value of Debtors with Increase in Sales
Debt Equity Ratio	1.65	1.64	0.17%	Almost equal to Last Year
Operating Profit Margin (%)	7.49%	6.16%	21.51%	Due to Reduction of Cost of Materials
Net Profit Margin (%)	1.81%	1.75%	3.17%	Combine effect of Increase in Operating Margin and Increase in Depreciation for the Year
Return on Net Worth (%)	8.34%	7.87%	5.97%	Due to Increase in Operational Margin

Disclaimer:

Detail provided in the Management Discussion and Analysis describing the Company's projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied.



