

Dear Shareholders,

Your directors hereby present the 57<sup>th</sup> Annual Report of your company along with the financial results for the year ended 31<sup>st</sup> March 2019.

### State of affairs of the company

#### a. Financial results

	(₹ In lakhs)	
Particulars	31.03.2019	31.03.2018
<b>Revenue from operations</b>	<b>79,012</b>	<b>70,915</b>
<b>PBIDT</b>	<b>5,735</b>	<b>2,069</b>
Less: Finance cost	4,053	4,079
<b>Profit from Operations</b>	<b>1,681</b>	<b>(2,011)</b>
Other Income	629	541
<b>PBBDT</b>	<b>2,310</b>	<b>(1,470)</b>
<b>Less: Depreciation and Amortisation</b>	<b>3,137</b>	<b>3,257</b>
<b>PBT (Before Exceptional item)</b>	<b>(827)</b>	<b>(4,727)</b>
Exceptional item	-	4,150
<b>PBT (After Exceptional item)</b>	<b>(827)</b>	<b>(577)</b>
Less: Tax expenses	-	-
MAT Credit	-	-
Deferred Tax	-	-
<b>Profit After Tax</b>	<b>(827)</b>	<b>(577)</b>
Other Comprehensive Income	44	43
<b>Total Comprehensive Income</b>	<b>(783)</b>	<b>(534)</b>
Add: Opening balance in Retained Earnings including OCI	15,873	16,407
Less: Transfer to General Reserve	-	-
Less: Provision for proposed dividend (including dividend tax)	-	-
<b>Closing balance in Retained Earnings including OCI</b>	<b>15,090</b>	<b>15,873</b>

#### b. Dividend and transfer to reserves

Your directors, considering the fact that the company has incurred a loss during the year under review, have not recommended any dividend. No amount was proposed to be transferred to reserves.

### Industry Overview

It was a year of two halves for the spinning industry in general. Demand for yarn was robust in the first half of the financial year from both domestic and export markets. This resulted in better price realisation and lower inventories of yarn leading to better profitability. However demand, especially in exports, waned from October resulting in an over supply position and lower prices in the domestic markets. This position continues until the present with spinning mills still trying to liquidate unsold inventories. Further, yarn exports have become less profitable due to the reduction of duty drawback incentive and elimination of MEIS for yarn.

Cotton prices have been very volatile since the start of the season. Indian cotton output is expected to be lower than the last season due to insufficient rainfall and reduced acreage. Currently Indian

cotton prices are ruling higher than global prices and import of cotton into India has been significantly higher than the past few years. Global cotton prices have tumbled due to the US - China standoff on tariffs. The long term effects are still not clear as China has traditionally been the biggest buyer of US cotton and the US is the largest market for Chinese textile goods.

### Review of operations

Your company had registered a turnover of Rs.790 crores during the FY 18-19, an increase of 11.4% compared to the previous year. Profit from operations has increased to Rs.16.8 Crores compared to a loss of Rs. 20.1 Crores in the prior year. During the year under review, your company has continued to take steps to improve the productivity and product mix in the spinning business. Your company has reduced its share of exports and increased its domestic customer base to improve price realisation. The compact yarn capacity of the company has increased further in line with our business plan and will reach 60% of total cotton spinning capacity in the current year. More stringent banking norms and reluctance of banks to lend to the textile sector has led to a liquidity crisis and has impacted the payment system in the entire supply chain.

The technical textiles division has completed five years of operations and is now starting to show positive returns. As compared to a turnover of Rs.73 Crores for the year ended 31<sup>st</sup> March 2018, this division achieved a turnover of Rs.92 crores during the year in review. During the year, this division has consolidated its marketing presence in countries like the US, Korea & Australia. Due to operational issues caused by an unexpected bunching of two large orders and the required production ramp up, there were delivery delays leading to additional freight and selling expenses which eroded operational profit in the second half of the year.

### Outlook for the current year

A smaller than usual Indian cotton crop and lowering of output forecasts by all Indian cotton bodies caused cotton prices to rise sharply in April. In this same period, tensions between US and China has caused international cotton futures markets to fall sharply. However, physical cotton prices have not reacted to the same extent. All these conflicting factors have increased uncertainty in the trade. While international buyers of garments are looking at the futures markets and expect a decrease in garment prices, spinners are holding on to higher priced physical inventories. Polyester and Viscose yarns are also under pricing pressure as significant capacities have been added in China causing a crash in international prices of these fibres. All these factors point towards an uncertain outlook for the current year from a spinner's point of view.

The technical textiles division has got a good foothold now in the US market. Our market base has also grown due to development of new markets such as Korea, Australia and South Africa. Considering the orders in hand and improved utilisation of

capacities, we are confident of achieving sales of over Rs.120 crores for FY 2020 with an estimated profit of 15% at PBDIT level.

**Personnel**

The company has been able to continue maintaining cordial relations with its labour force in all its units. The company has 994 permanent employees on the roll as on 31-Mar-2019.

**Internal control systems & Risk Management**

The company has adequate internal control systems to monitor business processes, financial reporting and compliance with applicable regulations. The systems are periodically reviewed, by the Audit Committee of the Board, for identification of deficiencies and necessary timely actions are taken to improve the controls at all levels. The committee also reviews the statutory auditors' report, key issues, significant processes and accounting policies.

Risk Management is an integral part of the business process. The company has constituted a Risk Management Committee and adopted a policy on risk management, for identifying and managing risk. The Audit Committee of the Board reviews the risk management policy periodically. The details about composition of the risk management committee, policy and its terms of reference have been provided in the Corporate Governance Report attached to this report.

**Number of meetings of the Board**

Details of number of meetings of the Board and committees thereof and the attendance particulars of the directors in such meetings are provided under the Corporate Governance Report attached to this report.

**Declaration by Independent Directors**

The independent directors have submitted their disclosures to the Board stating that they fulfill the requirements enumerated under section 149(6) of the Companies Act, 2013 (hereinafter "the Act"), and Regulation 25 of Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

**Directors and Key Managerial Personnel (KMP)****Appointments**

Mr A P Ramkumar, and Ms Kavitha were appointed as Chief Financial Officer and Company Secretary of the company respectively and as KMP with effect from 1.06.2018.

**Reappointments**

The term of office of Mr Sumanth Ramamurthi, Dr Jairam Varadaraj, Mr C N Srivatsan and Ms R Bhuvaneshwari, Independent Directors of the company, comes to an end on 31-May-2019.

The members at the 56<sup>th</sup> Annual General Meeting (hereinafter called AGM) held on 07-Sep-2018 appointed Mr Sumanth Ramamurthi and Dr Jairam Varadaraj as Independent Directors

for a second term of 4 (four) consecutive years on the Board of the Company from 01-Jun-2019 to 31-May-2023 and Mr C N Srivatsan and Ms R Bhuvaneshwari as Independent Directors for a second term of 5 (five) consecutive years on the Board of the Company from 01-Jun-2019 to 31-May-2024. They are not liable to retire by rotation.

**Retirements and Resignations**

Mr Suresh Jagannathan, Independent director retired from the company on 31-May-2018 on completion of his tenure. Mr M R Siva Shankar, Chief Financial Officer retired from service on 31-May-2018 and Mr R Nithya Prabhu, Company Secretary resigned from service on 22-May-2018. There are no other retirements, resignations or reappointment of directors during the year under review.

The following are the whole-time key managerial personnel of the company as per section 203 of the Act as on 31-Mar-2019, (i) Mr Ashwin Chandran, Chairman and Managing Director (ii) Mr A P Ramkumar, Chief Financial Officer & (iii) Mrs S Kavitha, Company Secretary.

**Performance Evaluation**

The Board of Directors at their meeting held on 22-Mar-2019, had carried out an annual evaluation of its own performance, Board committees and individual directors pursuant to the provisions of the Act and the corporate governance requirements as prescribed by Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations 2015 (hereinafter "Listing Regulations").

The performance of the Board was evaluated by the Board of Directors after seeking inputs from all the directors on the basis of the criteria such as Board composition and structure, effectiveness of Board process etc.

The performance evaluation of each director was done by the entire Board of Directors, excluding the director being evaluated, taking into consideration inputs received from the other directors, covering various aspects of the Board's functioning such as active participation and contribution during discussions, effective deployment of knowledge and expertise towards the growth and betterment of the company, impact and influence on the growth of the company and performance of specific duties, obligations and governance.

The performance of the committees were evaluated by the Board after seeking inputs from the committee members on the basis of the criteria such as the composition of the committees, effectiveness of committee meetings etc.

In a separate meeting of independent directors dated 22-Mar-2019, performance of non-independent directors, performance of the Board as a whole and performance of the chairman were evaluated, taking into account the views of executive directors and non-executive directors.

The Board also carried out evaluation of Independent Directors performance and fulfillment of the independence criteria as specified under listing regulations and their independence from the management. This evaluation of independent directors was done by the entire Board, excluding the independent director being evaluated.

#### **Policy on director's appointment and remuneration and other details**

The company's policy on director's appointment and remuneration and other matters provided in section 178(3) of the Act has been disclosed in the Corporate Governance Report, which forms part of this report.

#### **Auditors' report and secretarial auditors' report**

The auditors' report and secretarial auditors' report does not contain any qualifications or adverse remarks.

During the year under review, neither the Statutory auditors nor the Secretarial Auditor have reported to the Audit Committee, any instances of fraud committed against the company by its officers or employees.

The report of the secretarial auditor is furnished as **Annexure A** and forms part of this report.

Receipt of any commission by Whole Time Directors from the company or receipt of commission/remuneration from subsidiary company.

Whole Time Directors have not received any commission from company or any commission/ remuneration from subsidiaries during the year under review.

#### **Annual Return**

The extract of the annual return pursuant to section 92 read with rule 12 of the Companies (Management and Administration) Rules, 2014 in Form MGT-9 is furnished as **Annexure B** to this report.

#### **Secretarial Standards**

The Company complies with all the applicable mandatory secretarial standards issued by the Institute of Company Secretaries of India.

#### **Particulars of Employees**

The particulars as required under rule 5 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, is in **Annexure C**.

#### **Consolidation of Accounts**

The company has control of "Suprem Associates", a partnership firm by holding majority of its share in the firm. The accounts of the said firm is consolidated as per the requirement of Indian Accounting Standards (IndAS).

#### **Maintenance of Cost Records**

The Company is maintaining the cost records as specified under section 148(1) of the Companies Act, 2013 and accordingly such accounts and records are made and maintained.

#### **Audit Committee**

The company has constituted an audit committee as per section 177 of the Act and Listing regulations.

The details pertaining to vigil mechanism, composition and meetings of the audit committee are included in the Corporate Governance Report, which forms part of this report.

#### **Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo**

The details as required under section 134(3)(m) of the Act read with rule 8 of the Companies (Accounts) Rules, 2014, is in **Annexure D**.

#### **Corporate Governance**

A report on corporate governance is furnished as **Annexure E** and forms part of this report. This includes other disclosures as required under the provisions of the Act. The company has complied with the conditions relating to corporate governance as stipulated in regulation 34 of the Listing Regulations.

#### **Corporate Social Responsibility (CSR)**

The CSR committee comprises of 1. Mr Ashwin Chandran, 2. Mr Prashanth Chandran and 3. Mr Sumanth Ramamurthi. This committee takes care of CSR policy execution to ensure that the CSR objectives of the company are met. The CSR policy deals with allocation of funds, activities, identification of programmes, approval, implementation, monitoring and reporting. CSR report pursuant to rule 8 of Companies (Corporate Social Responsibility Policy) Rules, 2014 is in **Annexure F**.

For the financial year 2018-19, the company was not required to spend on CSR activities owing to the average net loss for the immediately preceding three financial years as computed under the provisions of the Act.

The CSR policy is available on the company's website <http://www.precot.com/investor-relations/>

#### **Particulars of Loan, Guarantees or Investments**

Details as per the provisions of section 186 of the Act, is given under notes to financial statements.

#### **Related Party Transactions**

None of the transactions with related parties falls under the scope of section 188(1) of the Act. Information on transactions with related parties pursuant to section 134(3)(h) of the Act read with rule 8(2) of the Companies (Accounts) Rules, 2014 are given in **Annexure G** in Form AOC-2 and the same forms part of this report.

The Board has approved a policy for related party transactions which is available on the company's website <http://www.precot.com/investor-relations/>

#### **Directors' responsibility statement**

The directors confirm that:

- a) The applicable accounting standards have been followed and proper explanations provided relating to material departures, if any,
- b) The company has adopted prudent and consistent accounting policies so as to give a true and fair view of the state of affairs of the company,
- c) Proper and sufficient care has been taken for maintenance of adequate accounting records under the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities,
- d) The annual accounts of the company have been prepared on a going concern basis,
- e) The internal financial controls are adequate and are operating effectively, and
- f) A proper system for ensuring compliance of all the applicable laws are put in place and are operating effectively.

#### **Statutory Auditors**

The auditors of the company, M/s VKS Aiyer & Co., Chartered Accountants (Firm Registration No. 000066S) pursuant to the provisions of section 139 of the Act, were appointed as the statutory auditors of the company from the conclusion of the 56<sup>th</sup> AGM till the conclusion of the 61<sup>st</sup> AGM to be held in the year 2023.

#### **Cost Auditor**

Pursuant to section 148 of the Act, read with the Companies (Cost Records and Audit) Rules 2014, the Board of Directors, on the recommendation of the audit committee, appointed Mr R Krishnan, Cost Accountant, as the cost auditor of the company for the financial year 2019-20.

Accordingly, a resolution seeking member's ratification for the remuneration payable to Mr R Krishnan, Cost Auditor is included as Item No. 4 of the AGM notice.

#### **Secretarial Auditor**

Pursuant to Section 204 of the Act, the Board of Directors appointed BGS MISHRA and Associates, Company Secretaries LLP, Chennai as the secretarial auditors of the Company for the financial year 2019-20.

#### **Insider Trading Regulations**

Based on the requirements under SEBI (Prohibition of Insider Trading) Regulations, 2015, the 'Insider Trading Code' to regulate, monitor and report trading by insiders and the 'Code of Practices and Procedures for fair disclosure of Unpublished Price Sensitive Information' are in force.

#### **Change in nature of business**

There was no change in the nature of the business of the company during the year under review.

#### **Deposits from public**

The company has not accepted any deposits from public and as such, no amount on account of principal or interest on deposits from public was outstanding as on the date of the balance sheet.

#### **Material Changes**

No material changes or commitments affecting the financial position of the company occurred between the end of the financial year (i.e. 31-Mar-2019) and the date of this report.

#### **Vigil Mechanism/ Whistle Blower Policy**

The company has formulated and published a Whistle Blower Policy to provide Vigil Mechanism for employees including directors of the company to report genuine concerns and to ensure strict compliance with ethical and legal standards across the company. The provisions of this policy are in line with the provisions of the section 177(9) of the Act and Listing Regulations, are available on the website of the company at <http://www.precot.com/investor-relations/>. The details of Whistle Blower Policy forms part of the Corporate Governance Report annexed with this report.

#### **Disclosure under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013**

The company has constituted an internal complaints committee to address the complaints regarding sexual harassment. All employees are covered under this policy. The company has not received any complaints during the year under review. The details relating to Complaints forms part of the Corporate Governance report annexed with this report.

**Unclaimed Shares**

In accordance with the requirement of Regulation 34(3) and Schedule V Part F of Listing Regulations, the details in respect of equity shares lying in the suspense account is as follows.

<b>Particulars</b>	<b>Number of share holders</b>	<b>Number of Equity Shares</b>
Aggregate number of shareholders and the outstanding shares in the suspense account as on 01-Apr-2018	296	55050
Number of shareholders approached the company for transfer of shares from suspense account during the year	23	3550
Number of shareholders to whom shares were transferred from suspense account during the year	23	3550
Aggregate number of shareholders and outstanding shares in the suspense account as on 31-Mar-2019.	273	51500

The voting rights on the shares outstanding in the suspense account as on 31-Mar-2019 shall remain frozen till the rightful owner of such shares claims the shares.

**Acknowledgment**

Your directors thank the shareholders, customers, suppliers and bankers for their continued support during the year. Your directors also place on record their appreciation of the contributions made by employees at all levels towards the growth of the company.

Coimbatore  
22-May-2019

By order of the Board  
**Ashwin Chandran**  
Chairman and Managing Director