

# S. R. Industries L i m i t e d

Annual Report 2017-18

**c) Details of establishment of vigil mechanism, whistle blower policy and affirmation that no personnel was denied access to the Audit Committee**

The company has formulated and implemented vigil mechanism / whistle blower policy and the same is also disclosed on the website of the company at [http://www.srfootwears.com/uploads/8/3/9/7/8397024/whistle\\_blower\\_policyvigil\\_mechanism.pdf](http://www.srfootwears.com/uploads/8/3/9/7/8397024/whistle_blower_policyvigil_mechanism.pdf) and displayed at the conspicuous place in the company. Further, we hereby affirm that no personnel were denied access to the Audit Committee.

**d) Details of compliance with mandatory requirements and adoption of the non-mandatory requirements**

All the mandatory and non-mandatory requirements have been duly complied with by the company to the extent applicable to the company.

**e) Web link where policy for determining 'material' subsidiaries is disclosed**

Your company does not have any subsidiary / associate / joint ventures within the meaning of Companies Act, 2013 and Accounting Standards.

**f) Web link where policy on dealing with related party transactions**

[http://www.srfootwears.com/uploads/8/3/9/7/8397024/related\\_transaction\\_policy.pdf](http://www.srfootwears.com/uploads/8/3/9/7/8397024/related_transaction_policy.pdf)

**g) Disclosure of commodity price risks and commodity hedging activities**

At present there is no commodity price risk in the company.

**DISCLOSURES WITH RESPECT TO DEMAT SUSPENSE ACCOUNT / UNCLAIMED SUSPENSE ACCOUNT**

No physical shares are lying as undelivered / unclaimed.

**CEO CERTIFICATE ON COMPLIANCE WITH CODE OF CONDUCT OF BOARD OF DIRECTORS AND SENIOR MANAGEMENT**

As provided under Regulation 26(3) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, all members of the board of directors and senior management personnel have affirmed the compliance with the code of conduct of board of directors and senior management for the year ending 31<sup>st</sup> March, 2018.

Place: Mohali

Date: August 14, 2018

For S. R. Industries Ltd

Sd/-

(R. C. Mahajan)

Managing Director

**COMPLIANCE CERTIFICATE ON CORPORATE GOVERNANCE TO THE MEMBERS OF S. R. INDUSTRIES LTD**

I have examined the compliance of conditions of Corporate Governance by S R Industries Ltd ("the Company"), for the financial year ended 31<sup>st</sup> March, 2018, as stipulated in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [applicable w.e.f. 1<sup>st</sup> December, 2015].

The compliance of conditions of Corporate Governance is the responsibility of the management. My examination was limited to a review of the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In my opinion and to the best of my information and according to the explanations given to me and the representations made by the Directors and the management, I certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Regulations and / or Listing Agreement.

I state that such compliance is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company

Sd/-

Date: August 6, 2018

Place: Chandigarh

Sanjiv Kumar Goel

C. P.: 1248

**CEO / CFO CERTIFICATE UNDER REGULATION 17(8) OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015**

To,

The Board of Directors

S R Industries Ltd

1. We have reviewed the financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:

(i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading

(ii) These statements together present a true and fair view of the listed entity's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

2. There are, to the best of our knowledge and belief, no transactions entered into by the listed entity during the year which are fraudulent, illegal or violative of the Company's code of conduct.

3. We accept responsibility for establishing and maintaining internal controls for financial reporting and we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting. We have not come across any reportable deficiencies in the design or operation of such internal controls.

4. We have indicated to the Auditors and the Audit Committee:

(i) That there are no significant changes in internal control over financial reporting during the year

(ii) That we have adopted new IND-AS for preparation of financial results during the year 2017-18, and

(iii) That there were no instances of significant fraud of which we have become aware.

Sd/-

(R. C. Mahajan)

Managing Director

DIN: 00038661

Sd/-

(Amit Mahajan)

Chief Financial Officer

DIN: 00038593

**OVERVIEW**

**I) INDUSTRY STRUCTURE AND DEVELOPMENTS**

Indian footwear industry holds a crucial place in the Indian economy for its potential for employment, especially for weaker sections of the society and for supporting economy through its foreign exchange earnings. This sector has been showing good growth in the past few years due to ready availability of raw materials and manpower. India is the second largest global producer of footwear after China. India's annual footwear consumption is the third largest globally after China and USA and has recorded a healthy growth over the past decade driven by rise in income levels, higher disposable income, growing fashion consciousness and increasing discretionary spending. The same has also led to a change in perception of the footwear industry from a basic need based industry to a fashion style industry. However, the average per capita footwear consumption in India continues to be low in comparison to the global average consumption and developed countries average. This gap coupled with increasing disposable income, rising middle class and changing consumer preferences provide a tremendous opportunity for the Indian footwear market to grow at a rapid pace going forward.

The Indian footwear industry is highly fragmented with almost 15000 small and medium enterprises operating largely in the unorganized segment; and limited presence of organized segment. The competitive intensity is high between the two segments and currently, both are estimated to have an equal share of the overall domestic market in value terms. Though, unorganized segment dominates the market in sales volumes due to its presence majorly in the low cost rubber / plastic footwear. Unorganized sector gains its prominence in the Indian context due to its price – competitive products which are more suitable and attractive to the price conscious Indian consumer. Their products are cheaper due to involvement of cheap household labour, lax

implementation of tax & labour laws and limited investment in assets. Further, with almost 2/3<sup>rd</sup> of India's population covered under the food security bill which aims to provide daily nutrition needs to an individual at subsidized prices, such category of population presents a huge market for the unorganized sector to cater to. Nevertheless, with increasing brand consciousness amongst Indian consumers, influx of large number of global brands and increasing penetration in Tier – II and III cities by the organized footwear companies, organized players' market share has made significant gains in the recent past and it continues to be on an uptrend. The Footwear Industry further underwent a dramatic structural shift in the past year with the implementation of the new GST tax structure. The GST regime has expedited the shift from unorganized to the organized sector, and many unorganized players are being forced to either close down, or accept the shift into organized trade. Your Company, being a part of the organized sector, stands to benefit from this trend in the long term, even though there is short term pain due to the changes in business environment.

The Company is manufacturing cemented sports shoes and sandals, in addition to lifestyle products such as Flip Flops. The Indian Sports footwear business is dominated by MNC companies such as Puma, Adidas, Nike and Reebok at the higher end of the market, whereas the lower end of the market is dominated primarily by Local Brands. Till late 1980s, this industry was dominated by South Korea and Taiwan. Busan, a port town on the southern tip of South Korea was the manufacturing hub. There were companies in Korea with manufacturing capacity in excess of 60 million pairs, and sales turnover between USD 150 to 600 million. The exodus of this industry from South Korea started in early 90s, due to increase in manufacturing costs, specifically, labor costs. The major beneficiary was China initially. The virtual monopoly of China led to increases in costs and compelled the leading international sports footwear companies to develop alternative sources. This led to the development of Vietnam, Indonesia, Thailand and subsequently, Bangladesh and India. The sports footwear manufacturing business in India started with the import of Completely Knocked Down kits from China, Vietnam and Indonesia, which were being assembled locally. However, in the past few years, with the increasing costs in all other countries, there is a focus on moving towards integrated manufacturing facilities which can serve the domestic requirements of these international brands. The past few years have seen an increasing number of international brands entering the Indian market to sell their products, and these brands are increasingly looking to source a larger part of their requirements from Indian manufacturers. Hence the opportunities for business are increasing steadily, apart from the natural shift into higher value products and newer technologies.

## II) OPPORTUNITIES AND THREATS

As eyed in the 19<sup>th</sup> UTIC International Technical Footwear Congress, India is on the threshold of a great leap forward with respect to its economic growth with major path breaking initiatives taken by our dynamic Prime Minister like "Make in India" as well as "Skill India" programmes. The "Leather, Leather products and Footwear sectors have been identified as one of the sectors for intervention under Make in India programme which would further provide huge momentum for growth of footwear sector in India.

The domestic footwear market has been largely concentrated in the unorganized / unbranded segment. However, the pace of reforms in India has accelerated the pace of reforms, including implementation of GST. This is widely expected to benefit the organized sector by creating a unified marketplace. There is also a change in customer expectations with the Indian consumer becoming more and more quality and brand conscious. The per capita consumption of footwear in India is expected to increase show good growth in the coming years, and organized segment should benefit from this. This rise in demand and move towards quality products is expected to benefit the company in the coming years.

The Company continues to invest in Research and Development to be in a position to further substitute higher value imported footwear with its own manufacturing. The greatest opportunity continues to be the growing Indian footwear market where the demand for Branded footwear is rising rapidly. This demand is further increased by the potential for greater import substitution of expensive imported product

with indigenously manufactured products. Furthermore, international sports brands are continuing to make an entry into the Indian market to sell their products, and the Company is working towards establishing relationships with new brands to increase its business prospects. There is a growing opportunity for the overseas footwear manufacturers to tap the increasing potential in India for sale of footwear. Thus, the Company is also witnessing interest from foreign buyers and is exploring opportunities for exports which will give further boost to these sales.

The threats are mainly from competition in the domestic industry and also that a slowdown in the economy can lead to reduction in demand for its products. The strength of India in the leather footwear sector originates from its large reserves of bovine population, strong network of tanneries, skilled and low cost of manpower, and a well-established presence in export markets. However, India has been unable to optimally utilize resources evident from the low recovery rate of the livestock, use of outdated technology by most tanneries and footwear manufacturers, weak footwear components industry and limited presence of large scale manufacturing units. These factors along with steep cost of doing business in India and high inflationary trends since the past few years have reduced India's cost competitive advantage against the other low cost footwear producing countries like China, Vietnam, Myanmar, Indonesia, etc. Further, revival of production in Italy, Portugal and establishment of new production centres in east Europe have further pose a challenge for Indian footwear industry. Scarcity of skilled labour can be an area of concern for the footwear industry. Your company is focusing on talent management and training of manpower to meet with its requirements .

## III) SEGMENT-WISE OR PRODUCT- WISE PERFORMANCE

Presently, the company has one product namely – Footwears. The performance of the company is discussed separately in this report.

## IV) OUTLOOK

The outlook for the company remains positive. The present order book position of the company is excellent and demand is continuing to grow. The Company is continuing its efforts to broaden the customer base and increase its product range.

## V) RISKS AND CONCERNS

Macro-economic factors such as a downturn in the economy, structural and procedural problems associated with moving to new tax structure (GST), unforeseen political events, natural calamities, below average monsoon can affect the business of Your company as also industry in general. Further, the profitability of footwear players has also been affected due to adverse foreign currency movements, under absorption of fixed expenses and increase in raw material prices which could not be entirely passed on to the clients.

However, the company has not been significantly impacted by the forex fluctuations since the exports do not form a noteworthy part of the company's sales. Further, the company has proper monitoring mechanism and proactive actions against anticipated hindrances in place and the same are reviewed from time to time.

## VI) INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company has established control system to ensure that-

- Assets are adequately protected
  - Transactions are authorized, recorded and reported correctly
  - Operations are conducted in an efficient and cost effective manner complying with the applicable laws
- A qualified independent audit committee of the board of directors also reviews the internal audit and adequacy of internal controls.

## VII) DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

The gross turnover during 2017-18 decreased from 44.39 Cr. in 2016-17 to 37.78 Cr. The company during the year sold 0.83 million pairs as against 1.07 million pairs of footwear during last year. The production during the financial year was 0.81 million pairs of footwear as against 1.05 million pairs during previous year.

The duty drawback not received during the year was 6.08 lacs consistent with the previous year figures. Further, rigorous monitoring

of operating overhead remained under control.

*Profit before depreciation, interest and taxation during the financial year decreased from 925.35 lacs to 242.84 lacs. The depreciation for the year was 213.42 lacs as against 207.87 lacs during last year. The financial expenses during the year 2017-18 decreased from 618.42 lacs to 429.32 lacs.*

The loss before tax during the year is 394.31 lacs as against a profit 122.37 lacs in the previous year.

The Earning per share (EPS) during the year was (2.93) as compared to 0.96 for last year. The diluted EPS of (2.93) was arrived at by conversion of the weighted average no. of shares that may be issued on conversion or convertible warrants on account of requirements of the accounting standards.

The company has posted a net loss of 394.31 lacs during the year as against net profit of 122.37 lacs during last year.

**VIII) MATERIAL DEVELOPMENT IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED**

The employees of S R Industries Ltd are the backbone and this resource is very efficiently utilized. The company nurtures its employees through greater knowledge, opportunity, responsibility, accountability, innovation and discipline. The company is dexterous in motivating its employees to stretch out the hand of effort and hard work towards attainment of its objectives. All the policies concerning the employees are made keeping in view the fact that manpower is the most precious resource for the company.

As on 31<sup>st</sup> March, 2018, the company employed 236 employees.

The relationship between the employees and the management continued to remain cordial during the year under review.

**IX) SAFE HARBOUR**

Statement in this Management Discussion and Analysis report describing Company's objectives, estimates, projections and expectations may be treated as "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ from those materially expressed or implied therein.