MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE & DEVELOPMENT

India's textiles sector is one of the oldest industries in Indian economy dating back several centuries. Even today, textile sector is one of the largest contributors to India's exports with approximately 13 percent of total exports. The Indian textile industry remains the second largest employment generating sector contributing about 5% to India's Gross Domestic Product (GDP) with 10% to overall Index of Industrial Production (IIP).

India is the second largest exporter of textiles products after China, but our share in the global market is only 5% as compared to China which is 35%. Other Asian players such as Vietnam and Bangladesh have grown to similar levels as India in less than 5 years.

The present consumption of global man-made fibre (MMF) textiles is about 70% of the fibre usage with China having a share of over 80% of MMF. Compared to this India has only 47% of its consumption coming from MMF. Globally, apparels account for only 58% of MMF consumption while the rest is consumed for more high end value added home textile and technical textile applications. In India, only 25% of its MMF usage is going for high end applications. India needs to enhance the share of non-clothing applications of MMF.

OPPORTUNITY AND THREATS

Chinese export growth has been slowing gradually, owing to rising labour costs. Also, recently strong yuan against dollar has made exports from China less lucrative. In its effort to curtail unsustainable investments, China is in the process shifting its production capabilities from commodity base to specialty base. All these factors impact the growth of textile industry in China, which opens up space for other players in the market. India can take advantage by boosting its exports by about 15-20% to US and European Union. India is competitively positioned in terms of low labour and power cost against most of the competing countries. However, lack of duty free access to major markets is the major disadvantage India has vis-à-vis many competing countries.

Given the potential of the textile industry, the Government of India has provided an outlay of Rs. 7148 crores for the textile sector in the financial year 2018-19. Funds allocations under Amended Technology Upgradation Fund Scheme (ATUFS), Refund of State Levies (ROSL) and Interest Equalisation Scheme have been increased for F.Y. 2018-19.

In spite of government initiatives to promote Foreign Direct Investment (FDI) in textile sector, the sector has attracted only 0.7% of the total FDI in past 15 years. Complex labour laws, difficulty in starting up a business, highly fragmented structure of the industry, few trade agreements and poor infrastructure are the main hindrances in this matter.

According to a study by World bank, India lags severely on global buyers' perception about quality, lead time and reliability when compared to other Asian players as China, Vietnam, Bangladesh, Cambodia and Indonesia. Lack of investment in research and development, lowering margins due to fierce competition and e-commerce, and volatile raw material prices may pose a threat to progress of textile industry.

SEGMENTAL REVIEW AND ANALYSIS

Your Company continues to operate in one segment only – synthetic yarn. The past year saw your company deal with two significant yet necessary structural changes to the economy – GST & and the lingering effects of demonetization. Though the negative effects of demonetization reduced in FY 2017, they were still felt in cash dominated markets in which your company has a sizeable exposure. However, GST has proven to be a bigger challenge due to the inverted duty structure with no provision for utilization of input tax credit (at the fabric end of the value chain). This led to a sharp rise in working capital requirements and a consequent slowdown in sales. Imports became cheaper due to abolition of Countervailing Duty (CVD) & Special Additional Duty (SAD) since the effective duty post GST was lower. The GST council has reduced the difference and increased import duty on some items, resulting in a mildly positive situation.

Your company decided to modify its existing captive power plant to reduce operating costs & frequent breakdowns as well as to increase equipment life. It led to a 60 day shutdown followed by a 30 day post modification stabilization phase. Your management is hopeful of accruing benefits in the following year.

Your company's production continues to be sustained at satisfactory levels. A reduction in breakdowns in the power plant due a modification mentioned above will help your company in maintaining such levels of output.

OUTLOOK

India's growing population, is a key driver of consumption growth of textiles in the country. It has been complemented by a growing young earning population which is exposed to changing tastes and fashion. Complementing this factor is rising female workforce with higher purchasing power. Rising incomes in rural as well as urban economy has also given way to increase in demand for garments and home textiles. More and more demand for fitness apparel, short fashion cycles, requirement of low cost and high performance material for automotive and industrial use have increased the demand for synthetic and MMF products.

Limited cotton production, relatively high cotton prices and versatile applications of MMF are other contributors to increase in demand for MMF textiles. Also downward revision in GST rates from 18% to 12% in October 2017 and increase in import duties on various MMF fabrics has made the MMF products more cost effective. Under Merchandise Export from India Scheme (MEIS), ihe Government has enhanced the export incentives to 4% from 2% for garment and made up sector.

RISKS AND CONCERNS

MMF yarn and MMF fabric are largely affected by cheaper imports from China, Indonesia, Thailand and North Korea where MMF industry is subsidized substantially to make their products cheaper.

The Indian MMF products are 5% to 8% more expensive in International markets as compared to East Asian countries. This is mainly because of multi-level taxes that are not fully rebated and high interest rates on the loans. The accumulated credit under GST from raw materials and capital goods investments are affecting the industry.

INTERNAL CONTROL SYSTEMS AND ADEQUACY

The Company's internal control systems and procedures commensurate with the size and nature of its operations. These systems are designed to ensure that all the assets of the Company are safeguarded and protected against any loss and that all the transactions are properly authorized, recorded and reported.

In addition to Statutory Audit , Internal Audit at various locations is conducted by independent Chartered Accountants, on a quarterly basis to examine, in addition to the financial controls, the adequacy and compliance with policies, plans and statutory requirements. Internal Auditors report their findings to the Audit Committee of the Board.

The Audit Committee is headed by an Independent Director and this ensures independence of functions and transparency of the process of supervision. The Committee meets on a regular basis to review the process. The management duly considers and takes appropriate action on the recommendations made by the statutory auditors, internal auditors and the independent Audit Committee of the Board of Directors.

FINANCIAL PERFORMANCE

The report of the Board of Directors may be referred to for financial performance.

HUMAN RESOURCES

The employees on roll in the Company as on 31st March 2018 were 2747.

Management recognizes that employees represent our greatest capital assets and it is only through motivated, creative and committed employees that we can achieve our aims. The Company provides to its employees favourable work environment that motivates performance and innovation while adhering to high degree of quality and integrity. Assignment, empowerment and accountability is the cornerstone of all the people led processes. The Company continuously nurtures this environment to keep its employees highly motivated and result oriented.

Industrial relations during the year continued to be cordial and the Company is committed to maintain good industrial relations through effective communication. Customized training programs are conducted on a continuing basis.

CAUTIONARY STATEMENT

Statements in this Management Discussions and Analysis Report describing the Company objectives, projections, estimates, expectations or predictions may be 'forward looking statements' within the meaning of applicable security laws or regulations. These statements are based on reasonable assumptions and expectations of future events. Actual results could however, differ materially from those expressed or implied. Factors that could make a difference to the Company's operations include market price both domestic and overseas availability and cost of raw materials, change in Government regulations and tax structure, economic conditions affecting demand / supplies and other factors over which the Company does not have any control. The Company takes no responsibility for any consequence of decisions made based on such statements and holds no obligation to update these in future.