1. OVERALL REVIEW

The overall performance of the Company for the year under review improved in line with the business re-engineering work undertaken in the previous year. Conversion of two step nylon tyre yarn manufacturing process to one step process was successfully completed at Pune site. At Bharuch site, few more polyester spinning lines were converted for Nylon Textile Yarn production and operating process parameters were improved and stabilised. In addition to this, two other important factors which improved the performance were (a) savings in energy cost and (b) higher sales in quantitative term.

Purchase of power under bilateral agreement at Pune site since October, 2015 and captive power plant operation at Bharuch site since August 2015, resulted in the energy cost being lower at both the sites.

Continuous polyester operations which were suspended in November, 2013 continued throughout the year. After detailed study, the Continuous Polyester Polymerisation Unit (CPU) was written down by ₹ 754 Lacs as an exceptional item during the year.

Against the demand of ₹ 22927 Lacs from the Central Excise Department alongwith equal amount of penalty and interest on demand amount, the Tribunal has admitted the appeal of the Company and, on deposit of ₹ 700 Lacs, granted stay from further proceedings in the matter by the Department until the appeal is decided by the Tribunal. The Company has filed an application for early hearing and the Tribunal conceded the request.

2. INDUSTRY STRUCTURE, DEVELOPMENT, THREATS, OPPORTUNITIES & OUTLOOK

Industry Status:

In Synthetic Yarn segment of Textile Industry, the Company is engaged in the production of Nylon Yarn, both for Tyre Industry as well as Apparel Industry. For Tyre Industry, it caters to the demand of Nylon Tyre Cord Fabric (NTCF) a reinforcement material for bias tyres. These tyres are mainly used for commercial vehicles (Truck & Bus).

Radialisation of tyres is catching up fast due to improvement in road condition allowing higher mileage per tyre. NTCF is not used in radial tyre. In case of bus and truck tyres, it has already reached 35% penetration in the year 2015 and it is expected to reach a level of around 50% by 2020, thus impacting NTCF demand adversely. On the other hand, use of bias tyres is increasing in two wheelers and farm vehicles. On balance, the demand is likely to remain more or less stagnant.

Anti dumping duty on NTCF imports from China though provides some relief but imports from ASEAN (Association of South East Asian Nations) countries at reduced import duty continues to put pressure on product margin for domestic NTCF industry.

The demand of Nylon Textile Yarn for Apparel Industry has witnessed a good growth during last two years due to lower raw material prices. Part of the demand is also coming from growth in warp knitting, narrow weaves and high speed automatic weaving looms sector. However, cheap imports of yarn and fabric from China and other ASEAN countries continue to be a cause of concern.

With GSFC being the sole supplier for Caprolactam and no other domestic supplier for nylon polymer (chips), extremely high level of dependency on imports and maintaining higher inventory of raw material is another major area of concern for the entire Nylon Industry.

Company Status:

In case of NTCF, after conversion of two step conventional process to one step process at Pune site successfully and enhancing the dipping capacity at Bharuch site, the Company has been able to increase its customer base and could sell higher quantity during the year. NTCF plants at both the sites are operating at full capacity.

On Nylon Textile Yarn front, the Company has increased its sales in quantitative term by about 17% during the year by reaping the benefits of re-engineering and liquidation of inventory. Towards the end of the year, the Company has also commissioned Nylon Mother Mono Yarn capacity which should contribute to the bottom-line. Due to heavy imports and low entry barrier in spinning of Nylon Textile Yarn, the margins are under pressure. The Company is, therefore, cautiously watching these developments together with the impact of Government policy of lower duty on yarn imports from ASEAN countries and take appropriate steps in working out its growth trajectory. The Company also engaged a German consulting firm to study our existing equipments at both the sites, Pune & Bharuch and suggest manufacture of value added products.

On raw material front, GSFC being the only domestic supplier of raw material, the Company is aggressively working with various international suppliers and co-operating on technical know-how exchange to strengthen its contacts for a long term and continued supply of raw material.

To further strengthen the Company’s drive on cost optimisation, the Company has hired the services of a well reputed consulting firm for a detailed cost study.

Polyester yarn operations remained suspended throughout the year.

Company Outlook

Despite threats and concerns pertaining to cheaper imports, high power cost, dependency on imported raw material, non level playing field for same products due to differential duty structure across different states, the outlook remains cautiously positive. The Indian economy is well placed on the growth trajectory amid global crisis which can support the growth plans of the Company.

3. RISK MANAGEMENT

Risk Management is an important business aspect in the current economic environment and its objective is to
identify, monitor and take mitigation measures on a timely basis in respect of the events that may pose risks for the business.

The Company has a robust Risk Management Policy and Procedure in place for effective identification and monitoring of risks and implementation of mitigation plans. The Risk Management Committee reviews and monitors the identified risks and mitigation plans at regular interval. Some of the risks identified and analysed by the Management are as under:

**Decline in raw material prices:**

The prices of raw material, mainly Caprolactam and Nylon Chips, are petroleum based and are closely linked with crude oil prices. Falling of crude oil prices in the international market has adversely affected the carrying cost of inventory. To mitigate the risk, the Company is now procuring imported raw material on spot basis instead of long term contracts, and is maintaining minimum inventory to reduce losses in the event of further fall in crude oil prices in the international market. The situation is uncertain.

**High energy cost:**

The denial of power purchase for Bharuch site through open access by Power Transmission Company due to technical constraint in transmission network from March 2014 continues. To reduce the impact of energy cost, the Company is constantly working on cost benefit analysis to generate power from captive power plant vis-a-vis purchase from the State Electricity Board and is taking appropriate action. In the year under review, the Company has been able to contained the increasing risk of energy cost by purchasing power from open access for its Pune site with effect from October 2015.

**Technology risk:**

Obsolescence of technology may affect the production process and technical support from original equipment manufacturers. The Company monitors such issues and makes investment in technology upgradation on regular basis. This, in turn, helps the Company to stay at par with the global practices. The Company also does process re-engineering and improvisation to enhance efficiency.

**Nylon Textile Yarn Business risk:**

There is a serious pressure on margins for Pune site operation. Cost is comparatively high due to Local Body Tax (LBT) and wages. The Company is constantly reviewing this risk and taking all possible steps to avoid falling in negative margin territory.

The Audit Committee and the Board are apprised of the significant risks and mitigation efforts made by the Management in its quarterly meetings.

4. **HEALTH, SAFETY AND ENVIRONMENT**

The Company accords significant importance to Health, Safety and Environment and related issues are taken up on priority basis. The Company ensures compliance of all statutory regulations related to Health, Safety and Environment.

For the year 2014-15, Bharuch site received a Certificate of Honour from Gujarat Safety Council and a Certificate of Appreciation from Directorate of Industrial Safety & Health (Government of Gujarat) for safe man-hours.

Safety week is celebrated at both sites with enthusiasm and involvement of employees. Various training programmes, contests and other activities are conducted during the safety week not only for the employees but also for their families.

The Company takes keen interest and engage itself by imparting safety training to small & medium scale companies in the neighbourhood and providing services of its fire tender.

The safety risk is managed by regular Training & Awareness, Permit to Work system, Emergency Planning, Preparedness & Drills, Management of Change, Safety Promotional & Motivational activities, Incident investigation and Analysis and such other practices.

Occupational Health Management is practised by pre-employment health check up and periodic health check up of employees including contractual labour. First Aid training is provided on regular basis and personal protective equipments are made available to employees. High level of emphasis is placed on cleanliness and hygiene within and outside the plant area.

The Company believes in environmental protection and maintaining ecological balance. All discharges are closely monitored and were well within the statutory norms during the year under review.

Extensive efforts are made to use bio-fuel instead of fossil fuel (FO/LNG/LD). This helps in conservation of natural resources and reduction of SO2 emission.

The Company is seriously working on possibility of using appropriate technology to reduce its hazardous waste generation and also tying up with Pollution Board’s approved users for its use as bio-fuel substitute.

Tree plantation programmes were conducted during the World Environment Day celebration.

5. **HUMAN RESOURCE AND INDUSTRIAL RELATIONS**

The Company strongly believes in the importance of Human Capital and nurturing the same. To match with the fast paced technological changes and also the changes in their business environment, the employees are provided regular training for upgradation of skills. The Company understands the importance of multi-skilling and job rotation and hence scientifically moves its employees in various roles thereby creating a versatile work force.

The Company engages with its employees through reward based suggestion schemes for participative growth. Team spirit among employees is garnered through celebration of various festivals, Independence & Republic Day
celebrations, sports tournaments etc. Employees are also involved in CSR activities thereby sensitising them towards the betterment of society as well.

The industrial relations at both Pune and Bharuch sites are cordial.

The strength of permanent employees was 1,500 Nos. on 31st March 2016 as against 1,496 Nos. on 31st March, 2015.

6. INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The Company has a robust internal control system commensurate with the size and scale of its operations. Roles and responsibilities are clearly defined and assigned. Standard operating procedures are in place by way of built in controls in ERP system and have been designed to provide a reasonable assurance. Apart from self-monitoring of internal controls, Internal Auditors have expressed their satisfaction about the adequacy of the control systems and the manner in which the Company is updating / upgrading its systems and procedures.

The Audit Committee takes due cognisance of the observations made by the auditors and gives their suggestions for improvement. The suggestions of the Audit Committee further ensure the quality and adequacy of the control systems.

7. INFORMATION TECHNOLOGY (IT)

Information Technology has played key role in supporting business operations of the Company. The Company leverages Information Technology systems for designing, implementing and maintaining the controls over an organisation’s business processes and has a critical role in collecting, processing and efficiently transacting data that is summarised and reported in financial statement.

In order to further enhance business process capabilities, the Company plans to invest in modern and latest ERP system in the year 2016-17. New ERP system will support real time operations, help in smarter decision making and is expected to deliver better intelligence on data analysis for efficient and effective business process.

8. FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

<table>
<thead>
<tr>
<th>Highlights</th>
<th>₹/Lacs</th>
<th>2015-16</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales / Income from Operations</td>
<td>114364</td>
<td>121853</td>
<td></td>
</tr>
<tr>
<td>Profit Before Depreciation, Financial Cost, Exceptional Item and Tax</td>
<td>14609</td>
<td>12269</td>
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<tr>
<td>Depreciation</td>
<td>(4024)</td>
<td>(4275)</td>
<td></td>
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<tr>
<td>Finance Cost</td>
<td>(956)</td>
<td>(1732)</td>
<td></td>
</tr>
<tr>
<td>Exceptional Item</td>
<td>(754)</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Taxation (Net)</td>
<td>(2929)</td>
<td>(2605)</td>
<td></td>
</tr>
<tr>
<td>Net Profit After Tax</td>
<td>5946</td>
<td>3657</td>
<td></td>
</tr>
<tr>
<td>Earnings Per share (in ₹)</td>
<td>27.21</td>
<td>16.74</td>
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</tr>
<tr>
<td>Cash Earnings Per Share (in ₹)</td>
<td>45.63</td>
<td>36.30</td>
<td></td>
</tr>
</tbody>
</table>

A. Sale:

Sales volume (Ton) of Nylon Textile Yarn and Tyre Cord Fabric taken together is higher by about 12%. It is partly on account of liquidation of inventory. However, in value term, it is lower by about 6%, mainly on account of fall in per unit (kg.) sale price because the Company had to pass-on the drop in raw material cost to customers.

B. Profit Before Depreciation, Financial Cost, Exceptional Item and Tax (PBDFET):

PBDFET is higher mainly on account of increase in sales volume and reduction in energy cost due to power purchase under open access and fall in price of furnace oil used for generation of power and steam.

C. Exceptional Item:

The Management, based on the business scenario with respect to the Continuous Polyester Polymerisation Unit (CPU), concluded that the carrying amount of CPU needed to be written down by ₹ 754 lacs with no further write down is expected. The write down has been classified as an Exceptional Item.

9. CORPORATE SOCIAL RESPONSIBILITY (CSR)

Under the guidance of the Board of Directors, CSR activities are planned keeping the communities around the factory sites at the core. A synopsis of CSR activities taken up during the year are as follows:

1. EDUCATION

   a. Vocational Training Institute (Skill Development):

Skill Development has become a critical national agenda and is a primary requirement for channelising the youth and to support industrial growth. The Company continued its support in the establishment of a Government recognised Vocational Training Institute near its Bharuch site (Gujarat). The institute completed its first phase as per schedule with state-of-art facilities for practical training and commenced first academic session in August 2015 with about 40 students under two trades. The construction work for phase two had already begun and three more trades are slated to begin in August 2016 and expecting students strength to increase substantially.
b. Distribution of Educational Materials and School infrastructure:

The Company again participated with the Gujarat Government in the annual school enrolment programme called ‘Kanya Kelvani Mahotsav’. Educational materials were distributed to children in 17 government schools, located in the vicinity of the Company’s Bharuch site, benefiting more than thousand students. The Company also organised an educational tour for the students of a Government primary school near its Bharuch site.

The Company supported, in betterment of school infrastructure by providing furniture in a school in Maharashtra.

2. HEALTH AND MEDICAL PROGRAMMES

a. Dental Check-up and Treatment for Rural Children:

Taking account of the success and benefit of dental check-up camp conducted last year, the same was repeated in the year. This year the focus was not only on check-up but also on treatment. A week-long programme was conducted for the children in the vicinity of the Bharuch site covering 9 villages. About 650 children were examined and 539 were thoroughly treated.

b. Eye Check-up and Cataract Operation Camp:

Eye check-up and cataract operation camps are another annual activity carried out by the Company. In the year under review, about 320 patients were checked and more than 60 cataract operations were carried out free of cost.

3. COMMUNITY AND ENVIRONMENT

Various activities were taken up in villages near Bharuch site towards Community welfare and Environment, such as:

a. Drinking Water Programme:
   - Installation of hand pumps in a village
   - De-scaling of canal and ponds.
   - Cleaning of water bodies.

b. Street Lighting: Provided 354 street lights to 7 villages.

c. Road: Construction and levelling of roads and pathways at 2 Villages.

d. Tree plantation: 750 trees were planted in nearby villages.

CAUTIONARY STATEMENT

The report contains forward looking statements describing expectations, estimates, plans or words, with similar meaning. The Company’s actual results may differ from those projected, important factors that could make the difference to the Company operations include prices of raw material, energy and finished goods, changes in Government regulations, economic developments globally and within India and labour negotiations. The Company cannot guarantee that the assumptions and estimates in the ‘forward looking statements’ are accurate or will be realised.