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## MANAGEMENT DISCUSSION AND ANALYSIS

### Forward looking statements

This management discussion and analysis contains certain forward looking statements and words like "estimates", "intends", "projects", "expects", "will", "believes", "anticipate", "plans" and the like. These statements and the words are made to address the future and to describe the company strategies, growth, product development, market positions, etc., and are thus forward looking. These forward looking statements are based on certain assumptions and expectations of future events. The company would like to caution that these are based on assumptions and hence the company assumes no responsibilities to publicly amend modify or revise any forward looking statements on the basis of any subsequent developments, information or events. The company cannot guarantee these assumptions and expectations. The actual performance, achievements or results can substantially vary and could be materially different than those projected, which the readers may please be vary of. The readers are also cautioned that the management discussion and analysis is to be read as of date along with the financial statements and notes attached to this annual report and these forward looking statements should not be unduly relied on.

### Overview

The post quota regime has put Indian Textiles on a different plateau. There has been surge in demand for textile products manufactured in India and at the same time Indian manufacturers are facing stiff competition from Asia Pacific exporters including China in global markets. There is marked pressure on sales price of all the products. Also during the year Indian exporters have gained considerably due to some of the countries in South East Asia being accorded GSP status by European Union.

For the company the year under review witnessed improvement in performance with concentrated efforts of management. The improvement of performance has been due to broadening of customer base both in terms of number and geographical boundaries. Exports have gone up so is value additions. Overall variable costs have reduced. Improved sales have resulted in better capacity utilisation leading to better economies of scales. During the year company has been able to post positive operating profit.

### Segment analysis and review

The company deals in only one segment namely textiles. The company has been able to show better performance during year under review and operating profit has turned positive. The company has put substantial emphasis on development of new products and new markets with broadening its customer base. This has resulted in development of new customers in both domestic as well as export market. This also helped company in reducing its reliance on few large customers. In order to get better control over the market in terms of consistent orders there was also conscious effort to reduce dependence on job work business. This in turn also helped in improving capacity utilisation of grey knitted fabrics.

All above efforts resulted increase in exports, which is more remunerative market, jumping up by 70% in terms of tonnage and 83% in value terms compared to last period. There has also been marked improvement in value additions of the company during the year under review which has increased to Rs.98/- per kg. from Rs. 93/- per kg of previous period. The higher capacity utilisations have helped in reducing some of the costs and overall operational performance has improved and become more efficient.

The knitting industry is dominated by small scale players and some integrated knit garment manufacturers who have in-house knitting and processing capacities. However your company with its reasonably stabilised capacity utilisation and customer-base looks forward for a better future on long term basis.

### Financial results and outlook:

#### Financial performance

The financial performance of the company has improved reasonably well during the year under review. Increase in exports and broadening of the customer- base, has resulted in increased capacity utilisation of knit-processing by 15%. Overall production has gone upto 1905 tons from 1653 tons (on annualised basis)

## **NACHMO KNITEX LIMITED**

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of previous period. The sales and other income for the year ended March 31, 2007 were Rs. 66.54 crores. During the year under review company has decided to reduce dependence on trading business - being a low margin business, hence trading sales have gone down. This has resulted in top line of the company going down by 11%.

The exports sales of the company during the year had been to the tune of Rs. 1,409 lacs compared to Rs.768 lacs in previous period on annualised basis. The GSP benefits available to Srilanka for imports by European countries, and the capability of the company to supply high value added products like yarn-dyeds, mélange etc., have opened up export market for the company. The manufacturing value additions for the company has increased to Rs. 1,755 lacs against Rs.1,441 lacs of previous period on annualised basis.

The company has posted improved operating profit of Rs. 93.16 lacs compared to loss of Rs. 56.62 lacs in the previous period on annualised basis, on account of higher production and better sales realisations. However due to, one time expense of bad debts written off/provided for Rs.113.97 lacs pertaining to humidification division of the company the reported PBDIT of the company is negative Rs.20.81 lacs.

### **Costs**

The plants of the company are now more than 10 years old and require higher maintenance and repairs. For the year under review, company has been able to reduce its operating costs significantly on account of higher production and the cost saving measures implemented by the company during the year. The company has been able to reduce cost of dyestuffs and chemicals on account of development of alternate cheaper recipes without compromising on quality and procurement of material at better rates from suppliers. The cost of utilities during the year, however, has increased mainly on account of increase in production and marginally on account of increase in prices of fuels like HSD, agro-waste etc. Other manufacturing expenses comprising stores and spares, packing materials, etc., have increased on account of increased volumes and higher maintenance of plant and machinery.

There has been increase in fixed costs during the year 2006-07 compared to the previous period 2005-06 keeping in line with inflation.

The long term outlook for knitted fabrics is positive. There is a growing demand for knits garments like sports-wear, casual-wear, ladies and children's garments world over and considering the capabilities of Indian manufacturers to supply a very wide variety of knitted fabrics to suit the requirements of garments manufacturers, there is vast potentials for Indian manufacturers in quota-free regime. At the same time, the post quota regime has thrown up intense price competition and there is a pressure on profitability in the short to medium term and the recovery is expected to be slow.

The debt-restructuring package sanctioned by CDR has been withdrawn. The company has submitted a request for re-working of the package on the basis of expected profitability considering the current revenue and cost factors and the sustainability of debt.

The management will continue to strive for improving the profitability by better capacity utilisation and optimising value additions.

### **Risks and concerns**

There is no foreign currency debt and hence no currency risks. The company being in textiles business the volatility in prices of cotton-yarn, which is dependent on cotton prices which again is a function of multiplicity of variables like crop of cotton in India, exports from and import into India, Govt. policies etc., could affect the company like any other business. The company having focus on exports markets could face further risk on account of fluctuations in foreign exchange rates. Apart from these there are normal business risks.

### **Opportunities**

Opening up of international market after abolition of quota, increasing demand for knits the world over, organised sector units having capabilities to deliver quality goods have great potential in the long run. With product development efforts matching with the demands of today's fast changing fashion world, the

manufacturers having in-house capabilities to supply entire range of knit goods hold a vast potential to expand and grow in times to come.

**Threats**

The phasing out of quotas has brought in the related threats of competition from China, Pakistan, Bangladesh, Srilanka and Thailand. Further, due to incentives offered by Govt. of India many new capacities are created in India to take advantage of opening of international market after abolition of quota. Due to this intense competition has developed among Indian manufacturers. Finding newer markets, development of new products and increasing cost effectiveness will be imperative to thwart competition.

**Internal control systems**

The company has a good, efficient and well established internal control system, which enables it to react and take corrective action immediately. The internal control systems and management reporting on areas of risks and threats enables the company to take necessary proactive steps and continue to focus on its targets. The systems and procedures are reviewed periodically to identify snags and enable to have better and efficient systems. The company's management has made necessary changes to further stabilise the marketing set up to remain focused on the targets. At present the control systems are adequate considering the size of the company and nature of its operations.

The internal audit department has covered newer areas of audit this year.

**Quality**

The company strives for quality and its continued efforts to improve on quality has enabled it to sustain the market and its customers despite the trying times it is moving through. Your company believes in quality products and its this attitude of "No compromise on quality" has earned it high reputation in both domestic and international market. Your company is considered to be one of the top-notch quality manufacturers of knitted fabrics in the country.

**Research and development**

The drive for quality requires continuous research and development, identifying newer and better products, which are cost effective, environment friendly and customer oriented. The company has developed fabric with special finishes like Teflon coating, moisture management fabric, stain-free, 2 thread fleece varieties, etc. as a result of its product development efforts.

**Health, safety and environment**

The company has already established a safety committee which looks into the issues relating to working environment, prevention of work related health hazards, and provision of proper medical aids. The company continues to have a risk free working environment and history of nil major accidents.

**Environment**

The company is committed to having pollution free environment and strives to work towards it on a continuous basis. We have always achieved as a group high environmental standards. The group has been in past awarded prestigious awards for having achieved and maintained high environmental standards, by The Greentech Foundation. The company has well maintained lush green gardens, green lawns and trees which have been instrumental in curbing pollution and maintaining pollution free working conditions for its employees.

**Human resources development**

The company has been strongly working towards developing and motivating the employees for further growth. The company has been able to recruit and hire best talent in the industry with its strong HR policies. Ongoing management and refresher training programmes have enabled the employees to sharpen their skills for further development. The company has a rigorous selection process to identify best talents in the business and the same are reviewed and assessed periodically. The various employee welfare schemes and measures encourage the employees to work hard and give in their best.