

ANNEXURE – B TO DIRECTOR'S REPORT

MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

A) INDUSTRY STRUCTURE AND DEVELOPMENT:

World economy has shown initial indications of recovery after a severe spell of recession. The world economy is expected to grow by 4.2 percent in 2010 and projected to maintain the growth momentum in the next five years. However, the consumer confidence in major importing countries like USA and EU has been lagging behind the economic projections and may take some more time before showing any convincing revival. The partial explanation of increase in textile and clothing imports in USA and Western Countries may be attributed to the pressure on retailers caused by very low inventory levels. It has resulted into creation of demand for textile and clothing products in international market. The domestic market is also showing some signs of improvement leading to overall increase in textile manufacturing in the country. The domestic deliveries of yarn have also been consequently growing consistently showing increased activities in the entire textile value chain.

B) Opportunities and Threats:

The growing Indian economy and growth of organized retail promises greater consumption of textiles. The Government of India has been encouraging modernization of Indian textile industries through several policies such as TUFS. Such measures shall lend support to Indian Textile Industry in becoming competitive and to avail the opportunities in global textile trade. These developments offer opportunities to cotton spinning companies, in particular, and cotton textile manufacturing and exporters in general for growth and development.

There are some areas of concern also, which need to be stated here. Along-with recovery, the textile industry is also facing increase in input prices in sync with the global trends. In addition to appreciating rupee, free export of cotton followed by withdrawal of export incentives on cotton yarn are also causing concern for the sustained recovery in the textile industry. In our view, if any segment suffers from some systemic disadvantages affecting its global competitiveness, it should be overcome through suitable incentive mechanism without affecting any other segment of the industry. We have a firm faith in the bright future of textile industry in India.

C) Outlook:

The general economic outlook globally is getting positive. There is an increasing return of confidence though many experts opine that the recovery is still fragile. Generally speaking, the economic outlook lends optimism, though with caution. With global economic outlook looking positive, the global textile trade is likely to witness an increase of around 10% in the F/Y 2010-2011 over the previous year and this growth trend is likely to fetch positive results to the Indian Textile Sector.

D) Management perception of Risk and Concern:

One of the major challenges for the textile industry is the continued appreciation in the Indian rupee against US dollar, which has serious implication on textile exports. Being highly competitive industry, increase in the external value of rupee would cripple the competitiveness of the industry. Another important issue is availability, quality and the price of power. The availability of good quality power at reasonable prices is critical for financial sustainability of the industry. However, the cost of power has been continuously increasing, adding to the input cost pressure in the industry. We hope that power situation will improve in the coming years. The differentiated treatment for different sectors of textile industry, in government policy, is also a serious development. An integral approach is required for the growth of the industry in the country. We are making all efforts to cope up with the challenges through continuous cost reduction, process improvements and improved customer services to minimize the growing cost pressure.

E) Internal Control System:

The Company has well defined internal control system. The Company takes abundant care to design, review and monitor the working of internal control system. Internal Audit in the organization is an independent appraisal activity and it measures the efficiency, adequacy and effectiveness of other controls in the organization. Regular internal audits and checks are carried out to provide assurance that the responsibilities at various levels are discharged effectively and that adequate systems are in place. The review includes overseeing adherence of the management policies, safeguarding the assets of the Company and ensuring preparation of timely and accurate financial information. All significant issues are brought to the attention of the Audit Committee of the Board.

F) Human Resources/Industrial Relations:

The Company continues to lay emphasis on building and sustaining an excellent organization climate based on human performance. Performance management is the key word for the company. Your Company also conducts in house training programmes at various levels. Industrial relations has been very smooth throughout the year. Pursuit of proactive policies for industrial relations has resulted in a peaceful and harmonious situation on the shopfloors of the various plants.

G) Cautionary Statement:

Statements in this report on Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements considering the applicable laws or regulations. These statements are based on certain assumptions and expectation of future events. Actual results could, however, differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and domestic demand-supply conditions, finished goods prices, raw materials costs and availability, fluctuations in exchange rates, changes in Government regulations and tax structure, economic developments within India and the countries with which the Company has business contacts and other factors such as litigation and industrial relations.

The Company assumes no responsibility in respect of the forward looking statements herein which may undergo changes in future on the basis of subsequent developments, information or events.