

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Dear Members,

Your Directors hereby present their 37th Annual Report together with the audited accounts of your Company for the year ended 31st March, 2016.

Summarised Financial Results

The Company's performance during the financial year ended 31st March, 2016 on standalone basis, as compared to the previous financial year, is summarised below.

	(₹ in crores)	
	2015-16	2014-15
Total Revenue (Net)	2385.32	2648.44
Earnings before interest, tax and depreciation (EBITDA)	102.82	116.62
Less: Finance Costs	177.25	183.24
Depreciation	66.82	76.13
Profit / (Loss) before Tax	(141.25)	(142.75)
(Add)/Less: Provision for Tax	(0.64)	0.00
Profit / (Loss) after Tax	(140.61)	(142.75)

Transfer to Reserve

In absence of distributable profits / earnings, it is not proposed to transfer any amount to reserves for the financial year 2015-16.

Dividend

Considering the loss incurred by the Company, your Directors do not recommend any dividend on equity shares for the financial year 2015-16.

Nature of Business

Garden Silk Mills Ltd. is one of India's leading man-made fibre-based textile companies. It is a vertically integrated manufacturer of a wide range of Polyester Chips, Polyester Filament Yarns (PFY), Preparatory Yarns, Woven (Grey) Fabric as well as Dyed and Printed Sarees and Dress Materials. During the year under review, there was no change in the nature of business of the Company.

Review of Operations

At a standalone level, the gross revenue from operations of your Company for FY 2016 declined by about 9.2% to ₹ 2567.31 crore from ₹ 2846.89 crore in the previous year. This was primarily due to a fall in prices across polyester chain in tandem with the fall in crude oil prices. The fall in selling prices was directly related to the fall in raw material prices, which in turn corresponded to the fall in crude oil prices; however, the price of finished goods declined at faster rate compared with the prices of related raw materials.

Your Company achieved higher volume of sale of chips for FY 2016 at 127,419 MT compared to 102,031 MT in the previous year. In value terms, the sale of chips for FY 2016 was marginally higher at ₹ 845.57 crore as compared to ₹ 842.85 crore in the previous year. With better capacity utilization, the overall production of chips and polyester melt was higher at 273,577 MT during the year 2016 as compared to 244,053 MT achieved in the previous year.

The total sale of polyester filament yarn (PFY) improved marginally by about 3% at 154,042 MT as compared to 149,222 MT in the previous year. The production of PFY during the year was maintained at 152,134 MT as compared to 152,275 MT in the previous year. Sale of yarn (including processed yarn) declined to ₹ 1519.01 crore as compared to ₹ 1726.71 crore in the previous year due to fall in prices. In processed yarn segment, FDY market saw better demand during FY 2016 with the Company concentrating on finer deniers and also nylon FDY sales. Processed yarn saw lower sales, since demand for texturized yarns was sluggish.

Efficiency in our chip and yarn plant were at their best ever in the year under review. Productivity of some spinning lines was also enhanced by replacing certain 8-end winders with 16-end winders. An information technology innovation that allows online monitoring of utility data has resulted in reduced costs which should see payoffs in the coming year. Wherever possible coal heating has replaced higher-cost FO and gas heating.

In the weaving segment, your Company achieved grey cloth production of 223.31 lac meters for FY 2016 as compared to 292.89 lac meters in the previous year. The Company had to curtail the production during the year to avoid inventory losses due to volatility of prices of raw material as well as finished goods.

The weaving industry was affected by under-invoiced Chinese imports into the country estimated to be over 50,000 MT per month. Our grey (woven) fabric division suffered as a consequence; however, it was able to maintain profitability due to increased specialties and margins. Your Company continued to maintain its price and product leadership in the polyester weaving industry and we expect this should continue in FY 2017 as well.

Our finished fabric division last year saw a number of large customers shrink sales owing to their financial and market conditions. Sales of high-end natural products fell but a factory restructuring has reduced costs. We have added 25 new authorized showrooms (franchisees) in FY 2016 whose benefits should accrue in the near future. We are also emphasizing export potential, though from a low base.

The overall sale of fabrics for the FY 2016 remained at ₹ 184.33 crore as compared to ₹ 221.69 crore in the previous year.

Despite a competitive and challenging business environment, the income from export for FY 2016 stood at ₹ 339.45 crore compared to ₹ 417.45 crore in the previous year.

Exports have also been affected by global slowdown and excess capacity in China resulting in flooding of its textile products in the international markets coupled with intense competition among Indian yarn and chips producers.

The Earnings before interest, tax and depreciation (EBITDA) for the FY 2016 was ₹ 102.82 crore as compared to ₹ 116.62 crore in the previous year.

The operating margins of the Company have been relatively weak over the last four years. This has been due to large volatility in prices of raw materials and finished goods, sluggish domestic demand growth (especially rural), weak global conditions, large capacity additions by industry players and dumping of goods from China.

In line with volume of business and better working capital management, your Company was able to reduce the Interest cost in FY 2016 from ₹ 183.24 crore to ₹ 177.25 crore. The Finance charges for the year 2015-16 includes ₹ 24.55 crores as mark-to-market (notional) exchange loss on Long Term Export Advance received in March, 2015. (USD-INR: March 16 at 66.255 vs receipt at 62.34)

The overall financial performance of the Company was subdued leading to negative PAT.

Overview of Economy

The Indian economy exhibited significant resilience during the year in contrast to a vulnerable global economy. According to most forecasts, India's GDP growth was expected to have been around 7.5% for the FY 2016. Yet, industrial growth has been extremely poor, with the IIP growth in FY 2016 at 2.45% (2.0% for manufacturing) vs 2.8% (2.3%) in the previous year. In particular, consumer non-durables grew at -1.8%.

India is anticipated to grow at 7.6% in FY 2017, according to the World Bank, retaining its position as the fastest growing major economy in the world. China is forecast to grow at 6.7% after 6.9% last year, while Brazil and Russia are projected to remain in deeper recessions than forecast earlier. The outlook assumes rural income and spending will rebound with a return to normal monsoon rainfall after two years poor rain. The Company anticipates the improved economic conditions will begin to positively impact the polyester industry via improved demand and greater utilization levels.

Industry Scenario

The Indian textile industry is a mainstay of the economy. The industry is the second largest employer after agriculture, providing employment to over 45 million people directly and 60 million people indirectly. The industry contributes approximately 5 percent to India's gross domestic product (GDP), and 14 percent to overall Index of Industrial Production (IIP). India is a major net textile exporting nation and thus a crucial foreign exchange earner as well. The Indian domestic textile market is around USD 110 billion per annum and expected to be the fastest growing major textile market in the world.

Most of the company's products feed the polyester filament yarn and yarn-based textile industry. The PFY industry has been the fastest growing textile category both worldwide and in India though India has experienced an unexpected slowdown over the last four years. Fortunately, however, despite a very weak performance for consumer non-durables in 2015 and 2016, Indian polyester filament yarn industry growth improved to 5.0% in 2016 (projected) versus 3.5% in the previous year (PCI). Growth for the next two years has been forecast at 6.5% which is expected to improve utilisation levels and margins in the industry and for the Company.

The recent years have witnessed very high volatility in prices across polyester chain, in line with the crude oil prices. The last two years in particular have witnessed substantial falls in raw material price which affected demand and resulted in inventory losses throughout the polyester chain. However, the presently low crude oil and raw material prices are expected to stimulate consumer demand due to lower final product prices.

Continuous backward integration by PFY producers in order to reduce the cost of yarn production, had deeply affected the merchant sales of existing polyester chips manufacturers. Further, the dumping of Chinese fabric and apparel imports into Indian markets also affected the demand for locally produced fabric and therefore yarn and chips as well. Under the circumstances, chips and yarn manufacturers have been compelled to price their products at very low margins to protect utilisation levels. Yet, demand for both chips and yarn is expected to grow leading to improved margins and profits in time.

Opportunities, Challenges, Threats, Risks and Concerns

There are several challenges faced by the textile industry in terms of inflexible labour laws, poor infrastructure, and competition from low-cost neighboring countries. Dumping of goods from China remains a persistent problem. The Company is working with industry associations to counter the dumping. The Company's strategic location in the heart of the textile industry of Surat and close to major ports minimizes infrastructural problems. Its thermal power plants keep its power costs significantly lower than grid power costs.

The Company's high debt and interest cost pose a challenge as well. It is presently engaged with its bankers toward a debt-rework.

In the textile and garments industry, the preferences of the customers undergo rapid changes. Moreover the consumer is always seeking something new. The Company has an experienced marketing and design team and is well-positioned to respond to changing and discerning customer needs. In fact, we believe that our innovation and product development capabilities are a core competency that will provide significant opportunities in times to come.

The Company is exposed to currency fluctuations with respect to its raw material imports as well as its finished product exports. Our hedging policies minimize this risk. We do carry a foreign exchange risk on our foreign borrowings but this presently appears small.

The proposed operationalization of Trans-Pacific Partnership (TPP) Agreement among twelve Pacific Rim countries may adversely impact textile as well as apparel exports of our Company. Yet, recent protectionist tendencies within the USA make it probable that the TPP may not be passed in a hurry.

The government had last year started a Merchandise Exports from India Scheme. This allows duty free credits scrips to be transferred or used for payment of a number of duties, including the basic custom duty. Chips has been included under MEIS (2% rate). This has improved the viability of chips exports. Further, a request to include draw texturised Yarn into MEIS and also increase in existing export benefit from its current level is under consideration by the government.

Import of raw materials has been minimised owing to better negotiations with local PTA suppliers who have undertaken capacity expansions. Another large PTA plant is expected to come on-stream in the current financial year further improving the supply conditions for PTA in India and boosting global competitiveness for polyester companies.

Business Outlook

After four years of poor rural demand, the industry is widely expecting improved polyester demand on the back of a good monsoon and greater fiscal transfers to rural areas this year.

Over the next two years we expect business conditions to improve for your Company owing to higher utilisation levels and better margins. This is partly owing to moderate industry growth in volume in the next two years at around 6.5% p.a. (PCI). Yet, while the supply overhang will remain for some time to come, the major reason we are hopeful about the Company's prospects are the breakthroughs we are hoping to make in the specialty chip, yarn and fabric businesses.

Domestic and global markets are uncertain at present. Yet, a trend toward greater aspirational (vs need-based) buying in India, as well as a requirement for stringent quality standards globally are providing some useful opportunities for your company's quality orientation and its innovative products.

The Company has emerged as a leader in specialty chips for polyester film industry as well as in cationic, fine denier, melange, mother yarn, nylon and spandex-based yarns.

Two divisions at CP and Spinning location at Jolva have been merged for administrative purposes to reduce cost of manpower, stores and procurement. The draw warping department at Vareli has been shifted to form a single department at Jolva which will reduce energy and overhead costs. The sizing division is also being shifted from Vareli to Jolva to reduce energy costs. The benefits of these efforts will take shape in the ongoing fiscal year.

Good utilisation and availability of thermal power plants (TPP) and coal heaters are keeping energy costs low. Coal prices are at historically low rates which are keeping operating costs down. Company has shifted from gas and FO based captive power to Coal Based Captive Power to reduce costs.

The actual impact of GST on our industry is not yet known as details are not out. But it is hoped that there will be equalisation in tax treatment between cotton and polyester products which would help demand. Globally, polyester is systematically replacing cotton in its share of textiles and with the tax equalisation the same is anticipated in India as well.

In finished fabrics segment the Company is exploring the new areas like servicing garment industry by supplying bulk quantity with consistent quality and further tapping unexplored export markets like the Middle East, Far East, UK, Canada etc., particularly for our high-value natural (cotton, viscose) products.

Material changes and commitments

There have been no material changes and commitments affecting the financial position of the Company, which have occurred between the end of the financial year and the date of this Report.

Share Capital and disclosure

The Issued, Subscribed and Paid-up equity share capital as on 31st March, 2016 was ₹ 4208.25 Lacs. There was no public

issue, rights issue, bonus issue or preferential issue etc. during the year. The Company has not issued shares with differential voting rights, sweat equity shares, nor has it granted stock options. As on 31st March, 2016, none of the Directors of the Company hold instruments convertible into equity shares of the Company.

Disclosures in respect of voting rights not directly exercised by employees

There are no shares held by trustees for the benefit of employees and hence no disclosure under Rule 16(4) of the Companies (Share Capital and Debentures) Rules, 2014 has been furnished.

Presentation of financial statements

Your Company prepares its financial statements in compliance with the requirements of the Companies Act, 2013 and the Generally Accepted Accounting Principles (GAAP) in India. The financial statements have been prepared on historical cost basis.

The estimates and judgments relating to the financial statements are made on a prudent basis, so as to reflect in a true and fair manner, the form and substance of transactions and reasonably present the Company's state of affairs, loss and cash flows for the year ended 31st March, 2016. The financial statements of the Company have been disclosed as per Schedule III of the Companies Act, 2013.

Subsidiary, Joint Venture and Associate Companies

The Company had two wholly owned overseas subsidiaries namely GAIA International FZE, Dubai and Garden Exim Pte. Ltd., Singapore at the beginning of FY 2015-16. GAIA INTERNATIONAL FZE is a free zone establishment and is registered with the Ajman Free Zone, Ajman, U.A.E. The Company is registered to carry out the business of trading in textile and ready-made garments including import and export.

There being no business activity in Garden Exim Pte. Ltd. since its incorporation, the Company submitted its application for winding up / striking off its name from the records of Accounting and Corporate Regulatory Authority (ACRA), Singapore, the regulator. The said application has been approved by the regulator w.e.f. 22nd March, 2016.

The financial statements of the subsidiary companies are not attached with this Annual Report. The Company will make available the annual accounts of the subsidiary companies and the related information to any member of the Company who may be interested in obtaining the same in accordance with the Section 136 of the Companies Act, 2013. The annual accounts of the subsidiary companies will also be kept open for inspection at the Registered Office of the Company and are also available on the Company's website. Your Company does not have any Joint Venture and Associate Company. The policy for determining Material Subsidiaries formulated by the Board of Directors is disclosed on the Company's website.

Consolidated Financial Statements

The directors also present the audited consolidated financial statements incorporating the duly audited financial statement of the subsidiaries and as prepared in compliance with the Companies Act, 2013, applicable Accounting Standards and SEBI Listing Regulations, 2015 as prescribed by SEBI.

Pursuant to Section 129(3) of the Companies Act, 2013 read with Rule 5 of the Companies (Accounts) Rules, 2014, a statement containing salient features of the financial statements of Subsidiaries is given in Form AOC-1 and forms an integral part of this Report marked as 'Annexure E'.

Finance

During the year FY 2016, your Company repaid term loan from banks and financial institutions aggregating to ₹ 8311.78 Lacs. Your Company also availed ₹ 3382.48 Lacs out of the term loan sanctioned in the earlier year. The consortium of banks headed by Bank of Baroda continued their support in renewing working capital facilities and other facilities during the year. The account remained standard throughout the year 2015-16.

The outlook for the current fiscal is clearly positive compared to the position last year. Yet, in view of the challenging industry scenario, the Company and its lenders are considering a long-term debt-rework. The problems facing the Company have been acknowledged to be due to external circumstances. Consequently, majority of polyester players are going through a difficult period.

Deposits

During the year, the Company has not accepted any deposits, within the meaning of Section 73 of the Companies Act, 2013, read with the Companies (Acceptance of Deposits) Rules, 2014 and as such, there are no outstanding deposits in terms of the Companies (Acceptance of Deposits) Rules, 2014.

Report on Corporate Governance

As per Regulation 34(3) read with Schedule V(c) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, a separate section on Corporate Governance practice followed by the Company, together with a certificate from the Company's Auditors confirming compliance forms an integral part of this Report.

All Board members and Senior Management personnel have affirmed compliance with the Code of Conduct for the year 2015-16. A declaration to this effect signed by the Managing Director (CEO) of the Company is contained in this Annual Report. The Managing Director and CFO have certified to the Board with regard to the financial statements and other matters as required under regulation 17(8) of the SEBI Listing Regulations, 2015. Certificate from Auditors of the Company regarding compliance of conditions of corporate governance is annexed to this report marked as 'Annexure G'.

Extract of Annual Return and other disclosures

Pursuant to the provisions of Section 134(3)(a) of the Companies Act, 2013 read with Rule 8 of Companies (Accounts) Rules, 2014 and Rule 12 of Companies (Management and Administration) Rules, 2014, Extract of Annual Return in Form MGT-9, for the financial year ended 31st March, 2016 made under the provisions of Section 92(3) of the Act is attached as 'Annexure F' which forms part of this Report.

Directors and Key Managerial Personnel

In accordance with the provisions of Section 152(6)(c) of the Companies Act, 2013 and the Company's Articles of Association, Shri Suhail P. Shah (DIN: 00719002), Director retires by rotation at the forthcoming Annual General Meeting and, being eligible offers himself for re-appointment. The Board recommends his re-appointment for the consideration of the Members of the Company at the ensuing Annual General Meeting.

During the year under review, Shri Rajen P. Shah, Non-Executive Director resigned from the Board of Directors of the Company with effect from 1st July, 2015. Further, Shri J. P. Shah, Independent Director also resigned from the Board of Directors of the Company with effect from 8th August, 2015. The Board of Directors wish to place on record their appreciation for the contribution made by Shri Rajen P. Shah and Shri J. P. Shah to the Board and the Company during their tenure as Directors.

On the recommendations of the Nomination and Remuneration Committee, the Board appointed Shri Deepak N. Shah as an Additional Director w.e.f. 5th December, 2015. We seek your confirmation for his appointment as Independent Director for a term up to 5 (five) consecutive years i.e. from the date of the 37th AGM of the Company on non-rotational basis.

During the year under review, due to realignment of role and responsibilities, Shri Alok P. Shah resigned as Joint Managing Director of the Company w.e.f. 31st May, 2016. Further, considering his experience, leadership qualities and operational capabilities, the Board of Directors of the Company on recommendation of Nomination and Remuneration Committee appointed him as Whole-time Director designated as Executive Director, CFO and Chief Operating Officer (COO) for a period

of 3 years w.e.f. 1st June, 2016. Shri Alok Shah has been associated with the Company for more than 15 years as a member of the Board. Shri Alok Shah has contributed immensely towards the operations of the Company.

Shri Praful A. Shah, Managing Director, Shri Alok P. Shah, Joint Managing Director and CFO and Shri Kamlesh B. Vyas, Company Secretary and Compliance Officer were designated as “Key Managerial Personnel” of the Company pursuant to Section 2(51) and 203 of the Companies Act, 2013 read with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014. During the year under review, there was no change in key managerial personnel of the Company.

The necessary resolutions for re-appointment of Shri Praful A. Shah as Chairman and Managing Director of the Company for a period of 3 years w.e.f. 1st September, 2016 and revisions in remuneration of Shri Suhail P. Shah w.e.f. 1st June, 2016 up to the remainder of his tenure ending on 30th November, 2018 are placed for members’ approval.

Declaration of Independent Directors

All Independent Directors have given declarations that they meet the criteria of independence as laid down under Section 149(6) of the Companies Act, 2013 and Regulation 16(1)(b) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and there is no change in their status of independence.

Number of meetings of the Board

During the year, 5 Board Meetings and 4 Audit Committee Meetings were convened and held. The details thereof are given in the Corporate Governance Report. The Directors actively participated in the meetings and contributed valuable inputs on the matters brought before the Board of Directors from time to time. The intervening gap between the Meetings was within the period prescribed under the Companies Act, 2013.

Independent Directors’ Meeting

In compliance with the requirements of Schedule IV of the Companies Act, 2013, a meeting of the Independent Directors was held on 10th February, 2016, without the participation of the Executive Directors or management personnel.

The Independent Directors carried out performance evaluation of Non-Independent Directors and the Board of Directors as a whole, performance of Chairman of the Company, the quality, contents and timelines of flow of information between the Management and Board, based on the performance evaluation framework of the Company.

Familiarisation Programme to Independent Directors

The Company provides suitable familiarisation programme to Independent Directors so as to associate themselves with the nature of the industry in which the Company operates. Directors are periodically advised about the changes effected in the Corporate Laws, Listing Regulations with regard to their roles, rights and responsibilities as Director of the Company. The details of the familiarisation programme have been disclosed and updated from time to time on the Company’s website.

Committees of the Board

The Board of Directors has the following Committees:

1. Audit Committee
2. Remuneration and Nomination Committee
3. Committee of Directors (Stakeholders’ Relationship Committee)
4. Corporate Social Responsibility Committee

The details of the committees along with their composition, number of meetings and attendance at the meetings are provided in the Corporate Governance Report.

Directors' Responsibility Statement

As required under Clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013, the directors to the best of their knowledge and belief state that:

- a) in the preparation of the annual accounts for the year ended March 31, 2016, the applicable accounting standards read with requirements set out under Schedule III to the Act, have been followed and there are no material departures from the same;
- b) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2016 and of the loss of the Company for the year ended on that date;
- c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) the Directors have prepared the annual accounts on a going concern basis;
- e) the Directors have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and are operating effectively; and
- f) the Directors have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems are adequate and operating effectively.

Board evaluation

Pursuant to the provisions of the Companies Act, 2013, the Board has devised a policy on evaluation of performance of Board of Directors, Committees and Individual directors. The policy is also in compliance to Regulation 19 read with Schedule II, Part D of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The Nomination and Remuneration Committee has defined the evaluation criteria for the Performance Evaluation of the Board, its Committees and individual Directors.

In accordance with the provisions of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Board has carried out a formal annual evaluation of its performance and that of its Committees and individual Directors. The evaluation of each of the directors was done, inter-alia, on the basis of their advisory role and contribution in the decision making. Further, the evaluation of the Board as a whole and all the Committees of the Directors was done, inter-alia, on the basis of the overall directions and guidance provided to the senior executives and supervision over their performance.

Adequacy of Internal Financial Control

The Company has in place adequate internal financial controls with reference to financial statements. Periodic audits are undertaken on continuous basis covering all the major operations. Reports of internal auditors are reviewed by management from time to time and desired actions are initiated to strengthen the control and effectiveness of the system. During the year, such controls were tested and no reportable material weaknesses in the design or operation were observed.

The Internal Financial Control with reference to financial statements as designed and implemented by the Company are adequate. During the year under review, no material or serious observation has been received from the Internal Auditors of the Company for inefficiency of such controls.

Related Party Transactions

All transactions entered by the Company with Related Parties were in the Ordinary Course of Business and at Arm's Length pricing basis. There are no materially significant related party transactions made by the Company with Promoters, Directors, Key Managerial Personnel or other designated persons which may have a conflict with the interest of the Company at large.

During the year 2015-16, pursuant to section 177 of the Companies Act, 2013 and regulation 23 of SEBI Listing Regulations, 2015, all Related Party Transactions were placed before the Audit Committee for its approval.

Pursuant to section 134 of the Companies Act, 2013 and Rules made thereunder, particulars of transactions with related parties as required under section 188(1) of the Companies Act, 2013, read with Rule 8(2) of Companies (Accounts) Rules, 2014, there being no 'material' related party transactions as defined under regulation 23 of SEBI Listing Regulations, 2015, there are no details to be disclosed in Form AOC-2 in that regard.

During the year under review, the Board of Directors have revised the existing Related Party Transaction policy in line with the recently introduced SEBI (LODR) Regulations, 2015 and Companies (Meetings of Board and its Powers) Second Amendment Rules, 2015.

The policy on related party transactions as approved by the Board is uploaded on the Company's website. The Company's management ensures total adherence to the approved Policy on Related Party Transactions to establish Arm's Length Basis without any compromise.

Suitable disclosures as required under AS-18 have been made in Note 31 of the Notes to the financial statements.

Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

Information required pursuant to the provisions of Section 134(3)(m) of the Companies Act, 2013 read with Rule 8(3) of the Companies (Accounts) Rules, 2014 in respect of Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo are set out in the '**Annexure A**' forming part of this Report.

Audit Committee

The Audit Committee of Directors comprises of Shri Yatish Parekh (Chairman of the Committee), Shri Arunchandra N. Jariwala and Shri Sunil Sheth. All the recommendations made by the Audit Committee during the year were accepted by the Board of Directors of the Company. The terms of reference and other details of the Audit Committee are available in the Corporate Governance Report forming part of this annual report.

Nomination and Remuneration Policy

On recommendation of Nomination and Remuneration Committee, the Board of Directors have approved a Nomination and Remuneration Policy for the appointment and remuneration of the director, key managerial personnel (KMP) and other employees. The key objectives of the Policy are to lay down the criteria for appointment and remuneration of Directors, Key Managerial Personnel and Executives at Senior Management level and recommend to the Board their appointment, and also to formulate criteria for evaluation of performance of Independent Directors and the Board and to devise a policy on Board diversity. The Policy, inter-alia, includes criteria for determining qualifications, positive attributes, independence of a director, and expertise and experience required for appointment of Directors, KMP and Senior Management.

As per the Policy, the remuneration / compensation to the Whole-time Directors shall be recommended by the Nomination and Remuneration Committee to the Board for its approval. However, the remuneration compensation to Whole-time Directors shall be subject to the approval of the shareholders of the Company and Central Government, wherever required. Further, the Non-Executive Directors shall be entitled to the fees for attending meetings of Board and Committees within the limits prescribed in the Companies Act, 2013. The Nomination and Remuneration Policy is available on the company's website.

Vigil Mechanism / Whistle Blower Policy

Your Company believes in promoting a fair, transparent, ethical and professional work environment. The Board of Directors of the Company pursuant to the provisions of Section 177 of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, has framed 'Whistle Blower Policy' for Directors and employees of the Company for reporting the genuine concerns or grievances or cases of actual or suspected, fraud or violation of the Company's code of conduct and ethics policy. The Whistle Blower Policy of the Company has been posted on the website of the Company.

Risk Management

Pursuant to the provisions of Section 134(3)(m) of the Companies Act, 2013 and Regulation 21 of SEBI (LODR) Regulations, 2015, your Company has voluntarily constituted a Risk Management Committee to formulate a policy for risk management for implementing and monitoring the risk management plan of the Company. This framework seeks to create transparency, minimize adverse impact on the business objectives and enhance the Company's competitive advantage.

Your Company recognizes that the risk is an integral part of business and is committed to managing the risks in proactive and efficient manner. Your Company periodically assesses the risks in the internal and external environment along with treating the risks and incorporates risk management plans in its strategy, business and operational plans.

The business plan for the future are devised and approved by the Board keeping in mind the risk factors which can significantly impact the performance of the particular business. All major capital expenditures commitments are subject to scrutiny by the Board and investments are permitted only on being satisfied about its returns or utility to the Company. There are no risks which in the opinion of the Board threaten the existence of the Company.

Insurance

The Company has taken all the necessary steps to insure its properties and insurable interests, as deemed appropriate and also as required under the various legislative enactments.

Transfer of Unpaid Dividend to the Investor Education and Protection Fund (IEPF)

In terms of the provisions of Section 125 of the Companies Act, 2013 read with the Companies (Declaration and Payment of Dividend) Rules, 2014, all unclaimed / unpaid dividend up to FY 2007-08 has been transferred to the Investor Education and Protection fund. Unclaimed / un-encashed dividend for the FY 2008-09 is due for transfer to IEPF on 29th September, 2016. Those members who have not yet claimed / encashed the same, are requested to claim the same at the earliest before transfer to IEPF.

Statutory Auditors & Audit Report

M/s Natvarlal Vepari & Co., Chartered Accountants (Firm Registration No.123626W) the auditors of your Company, hold office upto the conclusion of the forthcoming Annual General Meeting (AGM) of the Company. Pursuant to the provisions of Section 139(2) of the Companies Act, 2013 read with Companies (Audit and Auditors) Rules, 2014, M/s Natvarlal Vepari & Co. are eligible for appointment as Auditors. Your Company has received a written confirmation from M/s Natvarlal Vepari & Co., Chartered Accountants to the effect that their appointment, if made, would satisfy the criteria provided in Section 141 of the Companies Act, 2013 for their appointment. The Board recommends the appointment of M/s Natvarlal Vepari & Co., Chartered Accountants as the Auditors of the Company from the conclusion of the ensuing AGM to the conclusion of the next AGM.

As regards the comments in the Auditors' Report, the relevant notes to the Accounts are self explanatory and may be treated as information / explanation submitted by the Board as contemplated under provisions of the Companies Act, 2013. The report of the Statutory Auditor does not contain any adverse observation or qualification requiring explanation or comments from the Board under Section 134(3) of the Companies Act, 2013.

Cost Auditors

Pursuant to the provisions of Section 148 of the Companies Act, 2013 read with the Companies (Cost Records and Audit) Rules, 2014, as amended by notifications / circulars issued by the Ministry of Corporate Affairs from time to time and on recommendation of the Audit Committee, the Board of Directors appointed M/s Manubhai & Co., Cost Accountants, (CP No.2502) as Cost Auditors to audit the cost accounts of the Company for the Financial Year 2016-17.

The Cost Auditor has given a Certificate to the effect that the appointment, if made, will be within the prescribed limits specified under Section 141 of the Companies Act, 2013. The Audit Committee has obtained a certificate from the Cost Auditor certifying their independence and arm's length relationship with the Company.

As required under the Companies Act, 2013, the remuneration payable to the Cost Auditor is required to be placed before the Members in a general meeting for their ratification. Accordingly, a resolution seeking member's approval for the remuneration payable to the Cost Auditor is forming part of the Notice convening the Annual General Meeting for their ratification.

Secretarial Auditor & Secretarial Audit Report

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Company has appointed Shri Kunjal Dalal, proprietor of K. Dalal & Co., Practicing Company Secretary (CP No. 3863), Surat to undertake the Secretarial Audit of the Company for the Financial Year 2015-16. The Secretarial Audit Report is annexed as '**Annexure D**' and forms an integral part of this Report. The report of the Secretarial Auditor does not contain any adverse observation or qualification requiring explanation or comments from the Board under Section 134(3) of the Companies Act, 2013.

Internal Auditors

Pursuant to the provisions of Section 138 of the Companies Act, 2013, the Board of Directors of the Company has appointed Shri Piyush Patel, Chartered Accountant (ICAI Membership No.116769) as Internal Auditor of the Company. The audit committee of the Board of Directors in consultation with the Internal Auditor formulates the scope, functioning, periodicity and methodology for conducting the internal audit.

Corporate Social Responsibility (CSR) Initiatives

As required under Section 135 of the Companies Act, 2013 the CSR committee comprising Shri Yatish Parekh, Independent Director as the Chairman of the Committee, Shri Arunchandra N. Jariwala, Independent Director and Shri Suhail P. Shah, Whole-time Director as its members. The CSR committee has laid down the policy which includes the activities covered under the Companies (Corporate Social Responsibility Policy) Rules, 2014.

The Company has been contributing in the development of the surrounding areas of its plant and office. The Company supports and contributes in activities relating to promotion of education, sports, medical and health care, vocational skill development and livelihood enhancement and programmes and activities relating to environment sustainability etc.

The details of amount spent on CSR activity undertaken during the year by the Company are given in the '**Annexure B**' to this Report. The CSR policy of the Company is also hosted on the website of the Company, www.gardenvareli.com.

Particulars of Employees and related disclosures

The information required under Section 197(12) of the Companies Act, 2013 read with Rule 5(2) and (3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 forms part of this report. However pursuant to first proviso to Section 136(1) of the Companies Act, 2013, this Report is being sent to the Shareholders excluding the aforesaid information. Any shareholder interested in obtaining said information, may write to the Company Secretary at the Registered Office of the Company and the said information is available for inspection at the Registered Office of the Company.

Anti-Sexual Harassment Policy

The Company has in place an Anti Sexual Harassment Policy in line with the requirements of The Sexual Harassment of Women at the Workplace (Prevention, Prohibition & Redressal) Act, 2013. The Company has zero tolerance on Sexual Harassment at workplace. No complaint was received from any employee during the financial year 2015-16 and hence no complaint is outstanding as on 31st March, 2016 for redressal. Your Company has laid down Anti Sexual Harassment policy and it is made available on the website of the Company.

Particulars of Loans, Guarantees and Investments

During the year under review, your Company has not directly or indirectly –

- a) Given any loan to any person or other body corporate other than usual advances envisaged in a contract of supply of materials, if any;
- b) Given any guarantee or provided security in connection with a loan to any other body corporate or person; and
- c) Acquired by way of subscription, purchase or otherwise, the securities of any other body corporate.

Significant and material orders passed by the regulators or courts

During the year under review, there were no significant and material orders passed by the Regulators or Court or Tribunal, which can impact the going concern status of the Company and its operations in future.

Indian Accounting Standards (IND AS) IFRS Converged Standards

The Ministry of Corporate Affairs vide its notification dated 16/02/2015 has notified the Companies (Indian Accounting Standard) Rules, 2015. In pursuance of this notification, the Company is required to adopt IND AS with effect from 1st April, 2017 with the comparatives for the period ending on 31st March, 2017.

Green Initiative

Your Directors would like to draw your attention to Section 20 of the Companies Act, 2013 read with the Companies (Management and Administration) Rules, 2014, as may be amended from time to time which permits paperless compliances and also service of notice / documents (including annual report) through electronic mode to its members. To support this green initiative, we hereby once again appeal to all those members who have not registered their e-mail addresses so far are requested to register their e-mail address in respect of electronic holding with their concerned Depository Participants and/or with the Company.

Statutory Information

The Disclosure required under Section 197(12) of the Companies Act, 2013 read with the Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, is annexed as ‘**Annexure C**’ and forms an integral part of this Report. The Company had 4,948 permanent employees as at 31st March, 2016.

None of the directors or Managing Directors of the Company received any remuneration or commission from Subsidiary Companies of your Company.

The details of remuneration paid to the Directors including Executive Directors of the Company are given in Form MGT-9 forming part of the Directors Report.

The Business Responsibility Reporting as required by Regulation 34(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, is not applicable to your Company for the financial year ending 31st March, 2016.

Reward, Recognition & Quality Systems Certification

During the year, your Company achieved Certificate of Recognition as “Three Star Export House” awarded by the Office of Dy. Director General of Foreign Trade, Ministry of Commerce & Industry, Government of India on achieving the required Export targets.

Our IT department works closely with our departments to give them a data-driven edge. One initiative called 3P System (Parameters – Performance – Properties) won a prestigious award: “IDC insight awards 2015” for excellence in transformation category in December 2015 at Hyderabad. Also this Project was in top three nominations in “Digital India Summit Awards-2016” in Good for Business - Manufacturing category in March 2016 at New Delhi.

During the year 2014-15, the Company’s CP Division got certified OSHAS 18001 :2007 by Bureau Veritas. Our quality, health and safety processes are now continuously monitored, assessed and improved to meet internationally recognized standards.

Each raw-material and product is tested extensively and all manufacturing processes are continually optimized with a strong commitment to energy efficiency, occupational health, environmental responsibility and safety.

The Company's Vareli Plant enjoys the unique distinction of being the first in polyester weaving industry to achieve ISO 9002:1994 certification by Bureau Veritas Quality International (BVQI). The processes certified are Draw-Warping and Texturizing, Twisting, Sizing, Warping and Weaving. The scope of audit includes "Manufacture of Woven Greige Fabrics and Processed Yarns".

The manufacturing of Texturized, Flat Polyester Filament, Polyester Partially Oriented Yarn (POY) and Fully Drawn Yarn (FDY) at Jolva are also ISO 9001:2000 certified by BVQI.

Internal Control System and their Adequacy

The Internal Control System provides for well documented policies / guidelines, authorizations and approval procedures. Considering the nature of its business and size of operations, your Company through its Internal Auditors carries out periodic audit based on the plan approved by the Audit Committee.

The summary of the Internal Audit observations and status of implementation are submitted to the Audit Committee. The status of implementation of the recommendations is reviewed by the Audit Committee on a regular basis and desired actions are initiated to strengthen the control and effectiveness of the system. Concerns, if any, are reported to the Board.

On a periodical basis, the Board also engages the services of professional experts in the said field in order to ensure that adequate financial controls and systems are in place.

Health, safety and environment

Your Company continued its focus in creating an aesthetic, environment-friendly industrial habitat in its factory units, mobilizing support and generating interest among staff and labour for maintaining hygienic and green surroundings. The Company continues to focus on maintenance and performance improvement of pollution control facilities at its manufacturing locations. Your Company recognizes protection and management of environment as one of its highest priority and every effort is made to conserve and protect the environment.

The Company has its own Effluent Treatment Plant (ETP) at its Vareli Complex for processing the effluents generated in fabric processing. Further, the Company has ETP at Jolva complex to take care of the effluents generated from its CP, Spinning, Thermal Power and other plants.

The Company obtained necessary approvals from concerned Government Department / Pollution Control Board and all required environment clearances / safety clearances / stipulations are complied with at both Plant facilities of the Company.

Industrial Relations / Human Resources

Your Company maintained healthy, cordial and harmonious industrial relations at all levels during the year under review.

The Company continuously works to nurture this environment to keep its employees highly motivated, result oriented and adaptable to changing business environment. Your Company's value proposition is based on providing value to our customer, through innovation and by consistently improving efficiency at all levels.

Your Directors wish to place on record their appreciation for the dedicated and commendable services rendered by the employees of the Company.

Cautionary Statement

Statements in this Directors' Report and Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations, or predictions may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those express or implied. Important factors that could make difference to the Company's operations include raw material availability and its prices, cyclical demand and

pricing in the Company's principle markets, changes in Government regulations, Tax regimes, economic developments, within India and the countries in which the Company conducts business and other ancillary factors.

Appreciation

Your Directors wish to acknowledge the co-operation and assistance extended to the Company by the Company's Bankers and State & Central Government agencies. Your Directors also wish to place on record their appreciation of the contribution made by employees at all levels.

Your Directors also acknowledge with gratitude the support of the shareholders, other investors, customers, dealers, agents and suppliers for their continued faith and support which has helped the Company to sustain its growth even during these challenging times.

For and on behalf of the Board of Director

Praful A. Shah
Chairman & Managing Director
DIN: 00218143

Mumbai, 28th May, 2016.