Management Discussion and Analysis

This discussion covers the financials results, operational performance and other developments for the financial year ended March 31, 2022 in respect of AYM Syntex's business. The Management Discussion and Analysis (MD&A) should be read in concurrence with the Audited Financial Statements of AYM Syntex Limited, and the notes for the financial year ended March 31, 2022.

Cautionary Statement

Statements in this Management Discussion and Analysis that describe the Company's objectives, plans, estimates, and expectations may be considered 'forward-looking statements' under the laws and regulations that apply. These statements discussing future performance and outcomes are based on the Management's plans and assumptions using currently available information, and are subject to risks, uncertainties and even inaccuracy of assumptions. These statements can be identified by the use of words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance.

While we have been prudent in our assumptions, we cannot guarantee that these forward-looking statements will be realised, and undertake no obligation to publicly update any such statement, whether as a result of new information, future events or otherwise.

ECONOMIC OVERVIEW

Global Economy

With the impact of the COVID-19 pandemic slowly waning, the global economy seemed to be on its way to recovery in the first half of FY 21-22. However, the war in Ukraine has thrown up a new set of supply chain and economic challenges that have left very few industries untouched, thereby offsetting most of the post-pandemic progress. This development has coincided with other economic events and trends, such as the gradual withdrawal of fiscal support from governments and regulators along with growing fears of inflation and reduced consumption.

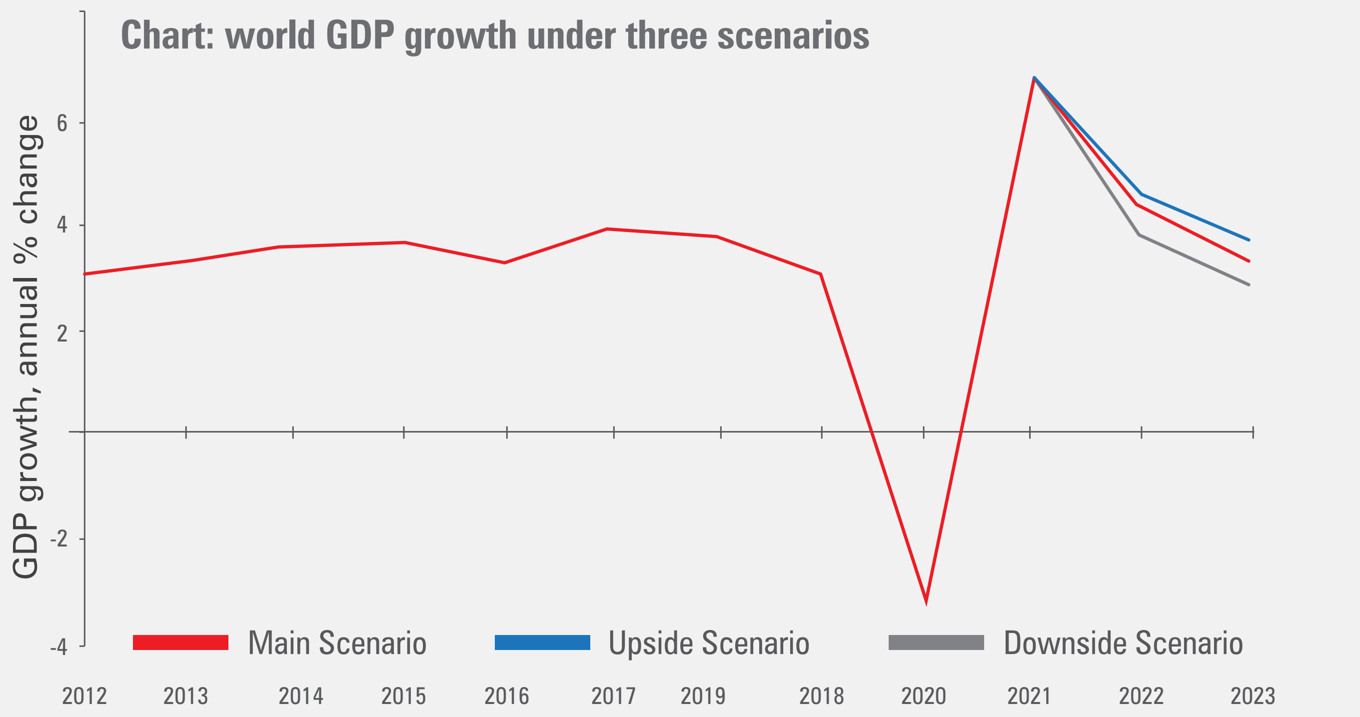
The biggest impact of these events — especially the global conflict — is the increase in the price of oil and gas, of which Russia has been the predominant supplier. The cascading effects of these changes in energy prices will predominantly affect the global economic growth. Since the resolution of the Russia-Ukraine conflict and the rest of the world's ability to cope with the same are fairly uncertain, the IMF projects that growth in the global economy will slow down from 6.1% in 2021 to 3.6% in 2022 and 2023. This would also impact employment and output which are expected to be below pre-pandemic trends through 2026.

While the unprecedented support provided by fiscal and monetary policies around the world enabled us to live through peak pandemic quarters with a lighter-than-potential economic impact, the same, along with supply side challenges, is driving inflation to historic levels.

For 2022, inflation is projected at 5.7 percent in advanced economies and 8.7 percent in emerging markets and developing economies. Just as recovery from the pandemic-induced global economic collapse appeared in sight, war and inflation have erased all the gains.

Since there is still the uncertainty, KPMG has estimated three scenarios that estimate the GDP growth to be between 2.5-3.2% in FY 22-23, lower than the World Bank's estimate of 4.1% for FY 21-22. In any scenario, the expectation is a reduction in the rate of global GDP growth over the next year.

The slowdown is expected to be exacerbated in part by tightening of monetary policies by governments and increased higher interest rates by central banks across the world in response to inflationary pressures. Nevertheless, the global economy is expected to witness a spike in inflation before stabilising in the subsequent years. However, the upcoming period can also lead to opportunities for the countries vying to fill the gaps opened up by the ongoing international conflict.



Source : KPMG, Global-Economic-Outlook

Indian Economy

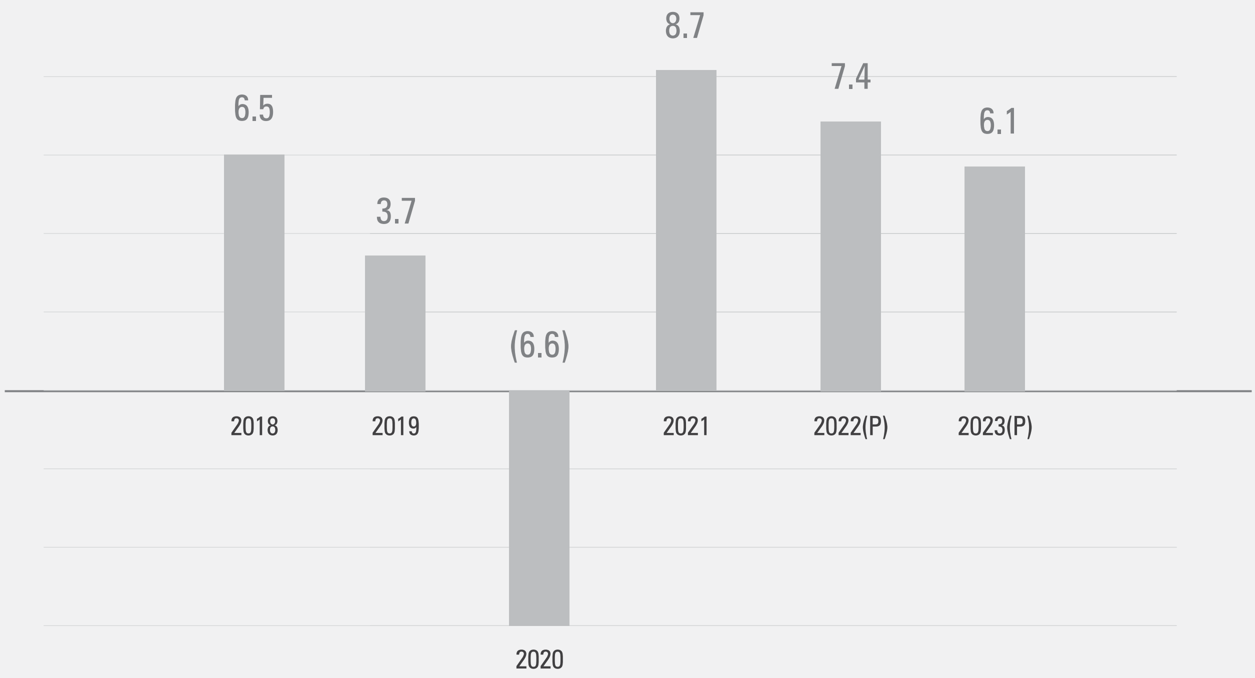
Owing to a fairly successful vaccination campaign, a shorter-than-expected Omicron wave, and practical diplomatic policies, India is expected to continue its recovery towards pre-pandemic levels of economic growth. The good news is that the country remains among the fastest growing economies in the post-pandemic and conflict-ridden era. Having projected the country's GDP growth to be around 7.4% for FY 21-22, the IMF expects the growth to be slightly slower at 6.1% in FY 22-23. The growth in FY 21-22 was mostly driven by exports, government consumption, and gross fixed capital formation, followed by private consumption, which has picked up after dipping to historic lows in the first half of FY 21-22.

FICCI also projects similar growth trends for the upcoming years. It forecasts the growth for industry and services sectors at 5.9% and 8.5%, respectively, during the fiscal year. While inflation and low consumer confidence impacted the domestic demand for goods and services, the shortage in the supply of electricity, coal, and semiconductor chips has led to supply-side disruptions. India's growth has also been hit by the recent war with rising prices of crucial imports like crude oil, wheat, fertilisers and edible oil.

However, the Indian economy has strong fundamentals to not just recover from the transitory setback but also continue with its pre-pandemic ascent. The impact of growth-focused policies and schemes such as production-linked incentives, along with increased infrastructure spending, will start kicking in from 2023. This will lead to a stronger multiplier effect on jobs, while leading to higher productivity and more efficiency across industries, culminating in accelerated economic growth. Furthermore, pent-up demand is expected to pick up in the upcoming period, albeit slowly, as the pass-through increase in food and oil prices weighs on consumers' sentiments and pockets. India's measure of diversifying crude oil suppliers also meant that its crude oil imports weren't severely impacted, with Iraq, Saudi Arabia, and UAE remaining its largest sources.

From a policy perspective, the future bodes well for Indian businesses as the government continues to invest in infrastructure and other initiatives to increase the ease of doing business. At the same time, the RBI also expects to keep inflation at manageable levels, to restore and boost consumer confidence.

Real GDP India



Source : IMF, World Economic Outlook, 2022

Surviving Economic Challenges by Leveraging Market Opportunities

	Challenges	Opportunities
Global Economy	Supply chain disruptions for key products and commodities Increased volatility due to geopolitical uncertainty	Reduced competition in select industries Opportunity to strengthen domestic capabilities
Indian Economy	Shortage of raw materials Low private consumption	Increased export opportunities Improved infrastructural support

INDUSTRY OVERVIEW

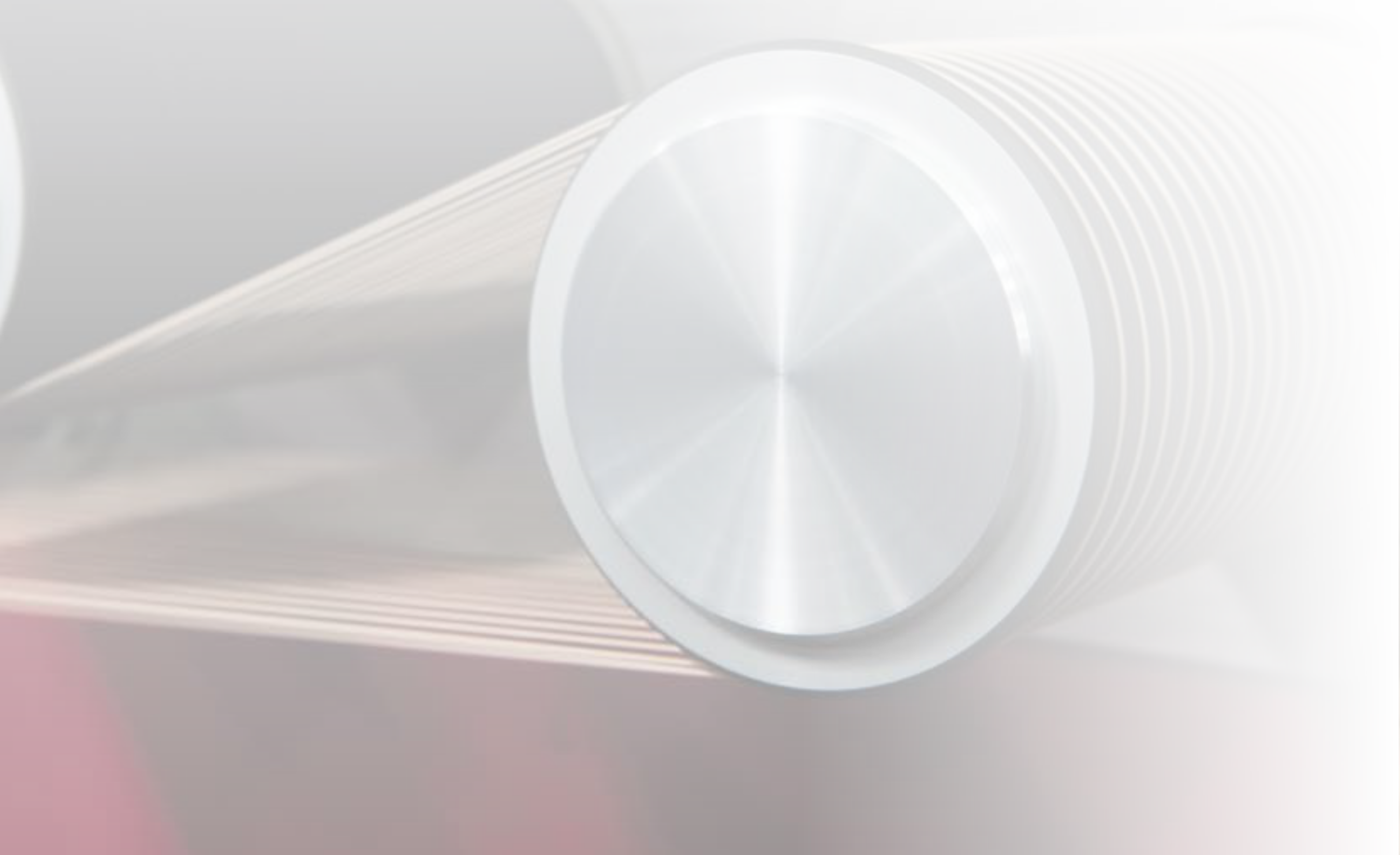
Global textile Industry

The pandemic continued to act as a massive restraint on the textile manufacturing market in 2021 as supply chains were disrupted due to trade restrictions and consumption declined due to lockdowns imposed by governments globally. This was followed by widespread geopolitical tension and economic concerns as a result of the Russia-Ukraine conflict. Despite international tensions and rising concerns of inflation and recession, the global textile industry is expected to show robust growth in the coming years. The global textile market is expected to grow from $530.97 billion in 2021 to reach $760.21 billion in 2026 at a compound annual growth rate (CAGR) of 7.2%. This growth is expected to continue in the coming years, with more than half of the demand for synthetic textiles like polyester and nylon. With applications in the global apparel and technical textile industries, synthetic materials will be high in demand, tightly linked to the demand for apparel and interior decor products.

Changing trends in the apparel industry, such as increased demand for fabrics that offer greater functionality such as wicking and stretching properties means that the demand for synthetic yarn will see continued rise in the coming period. As the demand for functional as well as fashionable apparel increases internationally, the demand for nylon and polyester is also expected to continue to grow in the foreseeable future.

Currently, China is the leading exporter in the textile industry and a dominant exporter of synthetic textiles, due to its capacity to offer low production costs and large output capacity. However, the country's grip on the global textile market is loosening, allowing other players, like Bangladesh, Vietnam, and India to increase their share in global exports. The geopolitical events from the first half of this year, specifically the war in Ukraine, has further accelerated this trend. Global supply chains are expected to undergo a significant reshuffle, forcing retailers to diversify their sourcing channels to avoid reliance on a single supplier.

India can capitalise on this gap left by the ebbing of the global dependence on Chinese exports. The growing demand in the international markets will be accompanied by the Indian Government's push to increase production and export volumes, making the future a hopeful one for Indian textile and yarn manufacturers.



Indian Textile Industry

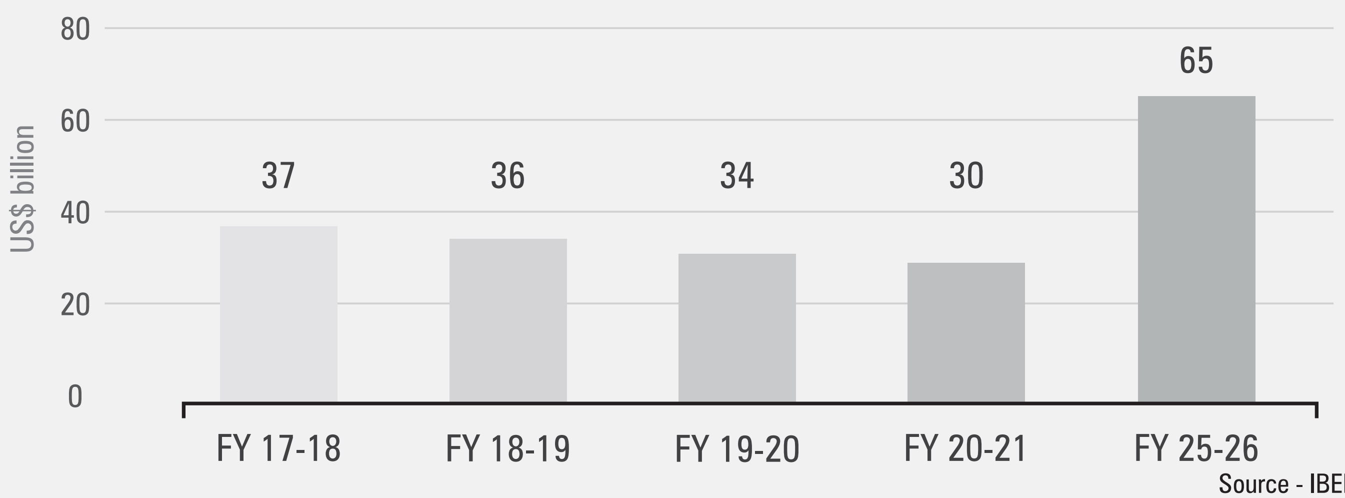
India is the second largest producer of man-made fibres (MMF) after China and among the top exporters of textiles in the world. As a leader in textile manufacturing its textile exports far outweigh its imports. The synthetic textile industry is a rapidly growing segment and receives support from the government in the form of production-linked incentives and infrastructural aid. However, with the end to the existing geopolitical uncertainty nowhere in sight, the synthetic textile industry in India will continue to face challenges in the form of high raw material prices and slowdown of demand due to fears of inflation and recession.

While the textile exports, like most other commodities, dipped during the pandemic, the industry has shown significant growth in the recent months and is expected to more than double its exports from $30 billion to $65 billion between FY 20-21 and FY 25-26. Initiatives from the states as well as central governments, such as textile parks, increase in incentives for exports, the National Technical Textiles Mission, approval for 100% Foreign Direct Investment (FDI) in the textile industry, Scheme for Capacity Building in Textile Sector (SCBTS) launched by the Cabinet Committee, Production-linked incentive (PLI) schemes for promoting the Textile and apparel industry, Prime Minister Mega Integrated Textile Region and Apparel (PM MITRA), among others, are going to provide a massive fillip to the industry. This along with simplified tax structures are expected to boost further growth in the sector.

Moreover, the global sentiment against relying solely on China for manufacturing, or "China Plus One" policy is also lending India a favourable position as global companies look at sourcing and manufacturing destinations outside the "factory of the world". The first alternatives were Bangladesh and Vietnam, which have now become saturated. For the last few seasons, many programs have migrated their sourcing to India, and have stayed that way, indicating a permanent shift.

Although the global environment looks challenging, the markets in India look poised to fare much better. The industry-specific support provided by the government, favourable geopolitical equations and the resilience of Indian entrepreneurs will likely hold the Indian economy and the Textiles and Apparel sector in good stead.

Textiles and apparel exports from India



Source - IBEF

Surviving Industry Challenges by Leveraging Trade Opportunities

	Challenges	Opportunities
Global Economy	Supply chain disruptions Geo political challenges	Increased trading opportunities Robust global demand
Indian Economy	Rising raw material cost Reduction in demand	Relatively low labour cost Government support and schemes

BUSINESS OVERVIEW

The world has witnessed some unprecedented events in the last 2 years. Most impactful amongst those have been the COVID pandemic wherein the cases started to increase in the last quarter of FY 19-20. It was anticipated then that all the world economies will slow down significantly and businesses would be affected as countering the threat to human life will take precedence over business and GDP growth. Through this period of uncertainty, the Company has been resilient and has worked hard to enhance the long-term value of the business and emerge stronger.

FY 21-22 was unprecedented in many ways and possibly had a lasting effect on us. The year gone by has been a pivotal one that has seen numerous interventions vital for accelerating the pace of our business. This year marks our unrelenting efforts of several years of putting the company on a strong growth pedestal through robust fundamentals ensuring the transformation towards sustainability. The measures to deliver in terms of value creation for our shareholders have delivered results. FY 21-22 closed on a high note for us with the Company recording the highest ever Top Line and EBITDA levels. Post the second wave of Covid 19 in the first quarter of last year, performance improved significantly in the last three quarters that saw the best year ever. The growth was driven by a strong increase in sales across all businesses in both domestic as well as export markets. For the year, our revenue from operations stood at ₹ 1491 Crores - a strong 57% growth over previous year revenues of ₹ 947 Crores. Highest EBITDA was achieved with ₹ 166 Crores and a margin of 11% of Net revenue.

Our strategy to focus on the core and recalibrate the fundamental metrics such as revenue, cost and working capital have reaped rich dividends. The profitability and working capital management have helped in generating free cash flows, thereby reducing our debts. During the course of the year, there were key affirmative actions taken for our business that have laid a strong foundation in shaping a stronger tomorrow for AYM.

Textile Yarn - POY/TEX

Over the last couple of years, like other sectors, the textile sector got impacted by the pandemic along with a changing market, competitor dynamics and industry pricing pressures. Most of these changes were expected to dampen the pace of growth. However, it had least impacted AYM due to our focus on exports along with the induction of value-added products. With an extraordinary focus on exports, AYM has been consistently increasing its Global outreach with its presence across 55+ countries. Textile Exports have grown considerably YOY due to the addition of new geographies and increased sales in Gulf and Latin America. This has been aided by new application development.

AYM also witnessed an increase in the sale volumes of strategic products, thus contributing to the share of exports' overall profitability. Growth in sales for our products like Wonderfeel, Comfeel, and automotive solutions were observed. Sales increase in the developed European market has led to better profitability in exports. The export share is now expected to further grow in the coming years. We will also continue to invest towards developing new export markets and scaling business profitably. IDY business showed consistency with good potential for growth. Focus on new customer acquisition has been the key to the success of this business along with the strong operating indices. The domestic Nylon business has also grown with the added product range. Capex plan for FY 22-23 to target capacity expansion in some of these value added products.

Export logistics was a biggest challenge during the year as freight rates were at an all-time high. With the help of freight contracts, we were able to keep the freight component in the customer acceptable range to reduce the impact on margin. Cost of raw materials also increased throughout the year and reached its peak before getting normalised. Raw material price fluctuations were extreme at the end of the year due to crude oil price fluctuations, as a result of the global political situation.

Bulk Continuous Filament (BCF) Yarn

Our floor-covering yarns, predominantly the micro and BCF yarns used in residential floor-covering, was the segment which would have been impacted the most as buying carpets for residential use was expected to be the last preference for any household amidst such a gloomy situation. Contrary to all this, we witnessed a good demand in FY 20-21 which also continued in FY 21-22. We believe that this has come on the back of a strong consumer sentiment and the main reason for this was the lockdown and the work from home effect. Also, few governments in the world gave stimulus and money in the hands of their citizens through some direct and indirect schemes which also helped maintain the consumer sentiment. As a result of all this, we witnessed a strong demand from carpet producers world-wide. The segment witnessed higher growth that was achieved through higher volumes and realisations. During the year we have expanded further in flooring yarns and the utilisation of the enhanced capacity will be visible in the later half of the next year.

The current situation is very dynamic and challenging with some segments like automotive showing a good demand although the space is recovering from the semiconductor crisis. But, at the same time, we see the residential business slowing down as COVID restrictions have been relaxed worldwide and people are spending more time travelling for business and pleasure rather than staying at home. For next 1-2 quarters, we see a subdued demand & rationalisation of pent-up demand which was seen in the last 2 years due to COVID. We see the North-America & Australia business, which are major contributors to our sales currently, to slow down at least for the next 2 quarters.

During the last 2 years, the company invested a lot of time and capital in making new Innovative products. At the core of these innovations is the intention in developing products that would replicate natural looking products but at the same time provide functional properties like better performance and some other functional attributes like anti-microbial, flame-retardant properties, etc. All these products Viz: Kashmere, Game-Changer, Synergy, Assura, Ecose, Silkenza, Wonderfeel, Hygeia, Innoveda, etc. will act as key differentiators for AYM in the market-place and will form the bulk of the sales going forward and will also improve gross margins for the company.

AYM is well positioned in the market and is looked upon by customers as a reliable supplier who can deliver quality products at the right price and on time. Leveraging on the relationship built with all the leading carpet companies world-wide all these years, the company is pitching all these innovative patent-pending products and trying to garner a lot of interest. We have also expanded our capacities and capabilities in the last 2 years to get market-ready for the augmented demand. This geographic spread will help us to even out sales across all continents to mitigate any regional slowdowns and disruptions. Overall, in the near-term, AYM is well-positioned from a point of view of diversified product offerings, sales across the globe, and across varied product segments.

Packaged Dyed Yarn (PDY)

FY 21-22, saw total Package Dyed Yarns sales registering growth both in domestic and exports sales over previous year however we are yet to achieve pre-Covid levels. Demand suffered in the first half of the year, on account of Covid -19 as there were lots of restrictions on movement and travel, and operations of retail outlets, apart from health concerns. Our Exports volume was steady in all quarters of 2021-22 and grew over 2020-21 despite ocean freights increasing by 2.5 times. These freight rates were at 4.5 times of pre-Covid levels. The situation worsened further on account of poor availability of vessels as well as containers, thereby delaying shipments. Disturbed logistics pushed packing materials, dyes, chemicals and coal costs upwards. These costs put together resulted in significant increase over the previous year, which had to be passed on to our customers. This impacted business volumes.

The Company has also increased its presence in the other parts of the domestic market wherein we have been trying to establish our dyed yarns for floor covering which remained steady in volumes during FY 21-22, as compared to earlier year. Continuous work is being done on new product development, giving us quality products like Silque, Woollike yarns and Recycled Nylon and Polyester yarns.

Business Outlook

The pandemic followed by the ongoing war have both been emotional and economic dampeners that have divided the world and contributed to inflationary pressures and rising commodity prices. It was inevitable that during such situations where uncertainty looms & there is a nervous economic environment world-wide there would be a demand slump that would be seen across various sectors & discretionary spends will go down. This is what we have expected & were getting ready to embrace the difficult business situation that would arise.

With the pandemic altering geopolitical definitions, the time is opportune for India to grab the centre stage and emerge as a preferred factory for the world. Going forward, the broader trends in the economy are expected to have a direct impact on our Company's growth prospects as well. Inflation is expected to remain elevated for the foreseeable future, driven by war-induced commodity price increases and broadening price pressures. In addition, the anticipated increase in interest rates by Central Banks in the coming year are also expected to lower growth and exert pressure on economies particularly those in emerging markets. In these circumstances, the ability to successfully navigate cost pressures would have a significant bearing on the overall performance of the company. Diminishing purchasing power and demand due to the economic circumstances could result in fundamental shifts in consumer behaviours and adversely impact the market for textiles and apparel. However, the emergence of a new world order seems palpable with geopolitical shifts in a bid to evaluate lucrative economic alternatives which shall define the coming decades for the global economy. In spite of the headwinds, India is well-poised for steady progress and is increasingly making rapid strides with numerous global names considering our nation as a worthy manufacturing contender as opposed to China.

At AYM, sustainability has always been at the core of our business strategy so that we ensure a long-term win-win situation for all. In today's age, corporations across the world are confronted with the challenge of achieving the right balance of leveraging opportunities while averting volatility that threatens supply chains. The Company expects to be on a profitable growth momentum. In the domestic market, the overall consumer sentiments are largely positive in the medium term with the wedding season and increased social gatherings. In the exports market, B2B businesses of synthetic yarn are expected to retain healthy order flow barring a few quarters that will face challenges posed by the inflation and the war in Europe.

HR OVERVIEW

At AYM, in line with our people-focused approach, our team has always been a top priority above everything else. We believe that people are superior to employee-ship and hence consciously, all employees are called 'People' and our culture is founded on our core beliefs of trust, transparency, care, inclusion, and teamwork.

Building a Future-ready Workplace

By leveraging our learnings from the COVID pandemic and re-imagining AYM's future, we continue to focus on enabling growth in our new verticals and channels, invest in future-ready digital initiatives, and programmes to enhance leadership and functional capabilities to create the leaders of tomorrow, and attract new-age talent through our purpose-led employer brand.

People Development and Engagement

To help build a healthy pipeline, we launched several training programs to upskill our employees. The primary objective of these programmes is to build functional depth, and increase productivity and stability among people. The journey is planned to build functional and leadership capabilities by defining standards on a competency scale, conducting thorough assessments, and building holistic learning solutions keeping in view current business challenges with help of internal and external facilitators, workshops, etc.

Health and Safety

Though India has not seen major surges after the second wave, AYM had strict Covid protocols for keeping our people safe at the workplace, through periodic sanitisation and frequent in-house testing facilities in line with the government guidelines.

We diligently promote a conducive work environment that enables good work-life balance for all the employees. We have a comprehensive employee well-being plan that includes actions such as socially protecting the families of our people through several benefits. These benefits include pension transfers to the families of deceased employees and continued support of their children through scholarship programmes, as well as medical insurance for immediate family.

Talent Acquisition and Retention

AYM has been constantly engaged in talent Acquisition during the pandemic, and has added 153 new people to our team despite having a low attrition rate of less than 2%. This was the result of constant strategic expansions during the pandemic which saw our business achieve new heights. The new set of policies designed to acquire new talent from the market has been pivotal, and has led to a significant improvement in the quality index of the company's talent.

Positive working environment

AYM has a zero-tolerance policy towards any act of mental or emotional harassment, physical or mental threats, acts of violence or physical coercion, abuse of authority or any other acts of discrimination based upon gender, caste, colour, race etc. Further, we have also adopted a robust Policy on Prevention of Sexual Harassment at the Workplace. The Company has also established an effective complaint and redressal mechanism, which ensures complete safety and privacy to the complainants. The Vigil Mechanism and Whistle blower Policy of the Company also ensures that the employees feel safe and comfortable in raising their voices against any fraudulent activity within the company.

RISK MANAGEMENT FRAMEWORK

Risk management is an integral part of our business strategy. In conducting our business and executing our strategy, we identify the risks, analyse their likelihood, quantify their consequential impact, and prepare our response plan for the same. While managing these risks, we also consider them as opportunities to emerge as a stronger and more agile organisation.

Continuous monitoring of the identified risks is a part of our practice, where we track the effectiveness of our efforts and update the Audit Committee on the progress. Risk related issues, if any, are discussed at review meetings. The Audit Committee looks after strategic as well as operational risks.

AYM has developed a robust risk management system that will enable it to meet its business objectives and deliver long-term growth. Our risk management framework scans through all significant business processes to identify risks that can be classified under various categories. Based on the classification and analysis of these risks, remedial strategies are developed and executed in a structured manner.

Our risk management process uses the following structural approach to identify and mitigate business risks:

The following is a summary of the enterprise risks identified for FY 21-22 and the strategies that were implemented to mitigate them:

Strategic Risks

Risk	Impact	Mitigation Measures
Customer and Product Concentration in the strategic Business	Major contracts with few customers - Any set back at customers' end may adversely affect the Company's financials. Product Concentration: Decrease in sale of products with a significant share in revenue may lead to adverse profit margins.	• Continue to actively seek to diversify its client base and products to mitigate concentration risk. • Develop new products • Conversion of lines, wherever possible
Changing Customer Preferences	Consumer tastes, preferences and behaviours have been evolving over the years. This trend has only accelerated after unexpected events post the outbreak of the pandemic. Our portfolio must evolve in line with consumer demand so that we continue to remain relevant and competitive.	• Invest in consumer in-sighting to adapt to changing consumer preferences • Actively monitor media trends to spot early consumer trends, and quickly respond to these trends with innovative offerings • Develop and build the team and competency required to take it to the next level
Underperformance of New Product Launches	Given that the success rate for new product launches is low, new products may not gain traction among consumers or may fail to scale up as planned. This risk is pronounced in cases where investment is in creating new categories.	• Invest in a new product development process with a funnel approach to ensure continuous flow of new ideas coupled with rigorous governance around scalable ideas • Prototyping approach to new product introductions for accelerated learning and adjustment • Well-defined performance tracking systems for monitoring progress periodically

Operational Risks

Risk	Impact	Mitigation Measures
Product and Quality Risk	AYM is expected to maintain global quality standards in manufacturing as some of the products are directly consumed/applied by consumers. Any deviation with regard to quality compliance of products would impact consumers worldwide, and hence, adversely affect the Company's reputation. .	• AYM has a strong governance and escalation mechanism • Conducting Benchmarking with industry for Cost Competitiveness and adopting initiatives like business process re-engineering • Focusing on quality of products by taking regular plant maintenance and tightening quality control processes
Cyber data and Security	Disruption in business operation due to nonavailability of critical Information Systems through cyber-attack and loss of sensitive information due to unauthorised access.	• Identification of business critical IT systems and having a disaster recovery plan in place and implementation of latest cyber security technologies • Perform periodic internal assessments and mock test runs • Use of data back-ups that include off-site or remote storage. We also use anti-virus, anti-spyware protection, and firewalls

Risk	Impact	Mitigation Measures
Commodity Risk & Supply Chain Disruptions	Unexpected changes in commodity prices and supply could impact business margins and ability to service demand. The overall uncertainty in the environment continues to be high with respect to availability and prices. There is also a risk of quality compromise on account of new vendor introduction	• A comprehensive process drives commodity procurement, which governs norms related to price discovery, inventory policy, and supplier management • The Company policy defines purchase of commodity in line with business requirement in accordance with inventory policy and does not encourage speculative buying or trading • Developing strategic sourcing alternatives from other geographies including domestic alternatives
Talent acquisition and Retention	AYM invests in culture building, employee learning to fuel the company's growth. Key talent attrition may slow down the growth Right talent attraction could be a challenge in this competitive world especially in a post pandemic scenario.	• Promoting culture of diversity, inclusion, openness, transparency, and meritocracy, coupled with growth orientation, to help attract and retain top talent • Investing in 'hiring right', 'talent development and engagement' best practices • Create career growth path and succession plan to retain talented functional experts

Financial Risk

Risk	Impact	Mitigation Measures
Volatility in Interest Rates	Fund requirements arise on account of inventory position building, capital expenditure undertaken or funding inorganic growth. Changes in the interest regime and terms of borrowing could impact the financial performance of the Company. .	• Well-defined framework for capital gearing • Maintain a liquidity chest for immediate working capital requirements • Manage interest rate risk to investments by implementing a Board-approved investment policy
Foreign Currency Exposure	AYM has significant revenues in foreign currencies through exports and foreign operations. Currency fluctuations in these currencies could impact the Company's financial performance.	• AYM has a well-defined hedging framework for managing any foreign exchange risk. The centralised treasury function aggregates the foreign exchange exposures and takes prudent measures to hedge these exposures based on prevalent macroeconomic conditions and in line with applicable regulatory guidelines

Regulatory Risk

Risk	Impact	Mitigation Measures
Regulatory Risk	AYM requires certain statutory and regulatory approvals for conducting business. Any failure to obtain, retain or renew them in a timely manner may adversely affect operations. A change in laws or regulations can also have an impact on operations as well as the competitive landscape.	• The applicable regulatory framework is continuously tracked by various teams • Compliance modules to ensure compliance with all regulatory requirements

INTERNAL CONTROL SYSTEM

Our Company has a robust Internal Control System in place designed to achieve the efficacy of systems, processes, and controls. It is commensurate with the size, scale and complexity of its operations, and is designed to provide reasonable assurance that assets are safeguarded, and transactions are rightly executed and recorded in accordance with management authorisation, accounting and operational policies. It also ensures that our assets are safeguarded and protected against loss due to unauthorised use or disposition, transactions are authorised, recorded and reported correctly and operations are conducted in an efficient and cost-effective manner.

The Internal Control System is regularly tested and reviewed by the Independent Internal Auditor. The internal auditor is appointed by the Audit Committee of the Board. All possible measures are taken by the Audit Committee to ensure the objectivity of Internal Audit process and independence of the Internal Auditor, including quarterly one-on-one discussions. The company also has a management audit team which is responsible for monitoring the implementation of action points arising out of internal audits. The management audit team monitors and evaluates the efficacy and adequacy of internal efficacy and adequacy of internal controls in the Company, as well as its compliance with operating systems, accounting procedures and policies at all company locations. The Audit Committee reviews the adequacy of design and the effectiveness of the internal control systems, takes note of significant audit observations and monitors the sustainability of remedial measures. The internal audit programme is reviewed by the Audit Committee at the beginning of the year to ensure that the coverage of the areas is adequate. Reports of the internal auditors are regularly reviewed by the management and corrective action is initiated to strengthen the controls and enhance the effectiveness of the existing systems. Summaries of the reports and actions taken on audit findings are presented to the Audit Committee of the Board. All audit observations and follow up actions thereon are tracked for resolution by the Internal Auditors and reported to the Audit Committee. The statutory auditors, as part of their audit process, also carry out a systems and process audit to ensure that the ERP and other IT systems used for transaction processing have adequate internal controls embedded to ensure preventive and detective controls.

1. Establishment of business plans and periodic review of the same
2. Identification of key strategy, finance, and operations risks and opportunities
3. Regular reviews by top management and the Board of Directors
4. Clear and well-defined organisation structure and limits of financial authority
5. Continuous identification of areas requiring strengthening of internal controls
6. Standard Operating procedures to ensure effectiveness of business processes
7. Well-defined procedures for evaluation of new business proposals / capex
8. Robust management information system for tracking and reporting

With the new normal of working from home, additional controls and processes have been laid to mitigate the risks of cyber attacks, and ensure data security.

The Company also has a system of Internal Control over Financial reporting (IFC) ensuring the accuracy of the accounting system and the related financial reporting. IFC means the policies and procedures adopted by a company for ensuring accuracy and completeness of accounting records; orderly and efficient conduct of business, including adherence to policies; safeguarding of its assets; prevention and detection of frauds and timely preparation of reliable financial information. The management assesses the appropriateness and effectiveness of these financial controls and are also validated by Internal Auditors as well as Statutory Auditors.

For the year ended March 31, 2022, the Board is of the opinion that the Company has adequate IFC commensurate with the nature of its business operations, wherein controls are in place and operating effectively and no material weakness exists. The Statutory Auditors have also issued an audit report expressing satisfaction on the adequacy and effectiveness of the internal financial control systems over financial reporting.

The management believes that strengthening internal controls system is a continuous process and therefore, it will continue its efforts to make the controls smarter, with a focus on preventive and automated controls as opposed to mitigating and manual controls. The company continues to leverage technology in enhancing system based internal controls through its journey of automation.

FINANCIAL PERFORMANCE OVERVIEW

The operating environment during the year FY 21-22 started off on a concerning note as the Delta variant crippled large parts of India which translated into weak Q1 numbers for most parts of the economy and corporate India. Gradually the situation improved, and the momentum continued through the rest of the financial year. Q3 and Q4 were two of the best quarters that our company delivered.

As the situation improved through the year, we maintained the right balance of leveraging opportunities along tight management of operations and capital expenditures while averting volatility that threatens supply chains. This enabled the Company to continue reducing its long-term debt as planned. Volumes especially in the export markets stayed strong. The domestic market also recovered by the second quarter and remained strong starting from the festival season for the rest of the financial year.

Export logistics was among the biggest challenges during the year as freight rates were at an all-time high. With the help of freight contracts, we were able to keep the freight component in the customer acceptable range to reduce the impact on margin. Another key challenge was continuously rising prices of all input raw materials. Cost of raw materials also increased throughout the year and reached its peak before getting normalised. Raw material price fluctuations were extreme at the end of the year due to crude oil price fluctuations, as a result of the global political situation. Fortunately, the market continued to grant the price increases that helped offset the cost increases, and preserve the absolute margins.

During the year ended March 31, 2022, the Company sequentially picked up in all the operating segments which resulted in highest ever performances Crores which is 57.4% higher compared to the previous year. The sales volume has also recorded a significant growth of 26.8% as compared to the previous year.

The following tables summarize the results of operations for the year ended March 31, 2022:

PARTICULARS	For the year ending March 31			
	2022		2021	
	₹ Crores	% of Revenue	₹ Crores	% of Revenue
Sales Volumes (MT)	63,031		49,697	
Net revenue from operations Expenditure	1491.5		947.4	
Cost of Materials	854.0	57.3%	497.8	52.5%
Employee costs	64.6	4.3%	62.4	6.6%
EBITDA margins	166.1	11.1%	94.2	9.9%
Finance Charges	35.9	2.4%	34.1	3.6%
Depreciation	50.6	3.4%	42.7	4.5%
Tax	28.8	1.9%	3.3	0.3%
Profit after Tax	50.8	3.4%	14.1	1.5%
Other Comprehensive Income	0.1	0.0%	0.3	0.0%
Total Comprehensive Income	50.9	3.4%	13.8	1.5%
Earnings per share (EPS)(in ₹)	10.1		2.8	

Revenue

Revenue from operations stood at ₹ 1491.5 Crores, recording 57.4% growth compared to the previous year. Sales have increased by 26.8% over the previous year in terms of volumes. Company continues to retain focus on throughput improvement, filling up the enhanced capacities and getting the product sales mix right in the current year for sustainable profitable growth in future. The export sales in line with strategy has increased from 42.5% in FY 20-21 to 45.4% in FY 21-22. Exports during FY 21-22 were of ₹ 661.6 Crores as compared to ₹ 395.9 Crores during the previous year.

Cost of Materials

The cost of materials comprises consumption of raw material, packing material, dyes & chemicals, changes in inventories of finished goods, work-in-process. The cost of materials is at 57.3% of Revenue, which has increased by 4.7% as compared to 52.5% in previous year. This increase has been on account of unfavourable movement in the Brent Crude prices from $68 per barrel to $110 per barrel during the year under review. The increase is mainly due to sharp increase in demand for crude post lockdowns and Russia-Ukraine war towards the end of the FY 21-22. However, it is expected that with ease of global tension regarding COVID and Russia-Ukraine war, the crude prices will also streamline along with the raw material prices.

Employee costs

Employee cost includes salaries, wages, annual performance incentives, statutory bonus and gratuity, contribution to provident and other funds and staff welfare schemes expenses (except actuarial gain / (loss) on defined benefit plans). However, it excludes labour engaged on contractual basis. During the year under review, employee cost stood at ₹ 64.6 Crores which has slightly increased compared to previous year, however, as compared to the increase in turnover and sales of Company, it has in actual decreased to 4.3% of revenues compared to 6.6% in previous year.

The Company continuously strives to put in place the adequate team structures to fuel the future growth. With resource optimization in mind, it had earlier worked upon restructuring the roles in FY 20-21 to ensure a focused approach towards key goals which resulted in savings in employee costs without compromising on productivity. With the team structures in place, the employee cost going ahead will not be in proportionate to revenue.

Earnings before Interest, Tax Depreciation & Amortization (EBITDA)

EBITDA (before exception) in FY 21-22 was reported at ₹ 166.1 Crores (11.1% margin) going up in terms of percentage of revenue compared to previous year's 9.9% margin. The Company has recorded highest ever EBITDA margins, despite significant increase in the cost of raw materials and unprecedented increase in the freight cost on account of logistic disruption around the world.

Finance Charges

Finance charges include interest on loans and other financial charges. The finance charges in FY 21-22 has seen a marginal increase on account of increase in the usage of working capital with continuous increase of material prices. Net Financial Expenses in FY 21-22 was ₹ 35.9 Crores as compared to ₹ 34.1 Crores in the previous year. The Company expects and is making efforts to reduce the charges of facility availed with improved financial performance and the money market changes. However, the expected tightening of monetary policy by RBI may impact finance charges in the coming year.

Depreciation

Depreciation has increased from ₹ 42.7 Crores in FY 20-21 to ₹ 50.6 Crores in the current year. The increase is on account of capitalisation of ongoing modernisation and expansion projects. Depreciation is expected to increase further in the coming year on account of the committed capex plan and the fact that a majority of capitalization is done in the last quarter of the current year.

Tax Expense

The Company continued to pay taxes under MAT provision in FY 21-22. However it has utilized all the unabsorbed depreciation and brought forward losses and will start consuming MAT from the coming year. The Company expects to utilize all its MAT credit available and does not foresee the situation of the MAT getting expired without being utilised in the coming years.

Profit after Tax

Profit after Tax has recorded year on year increase of 260.5%. The profits after tax stood at ₹ 50.8 Crores in FY 21-22 as compared to ₹ 14.1 Crores in FY 21-22.

Total Debt

Debt figure includes all the long-term and short-term borrowings, cash credits, Interest bearing acceptances as well as Buyers Credit. Gross Debt as on March 31, 2021, stands at ₹ 220.3 Crores as against ₹ 273.2 Crores at the end of FY 21-22. Cash and cash equivalents of the Company in FY 21-22 stood at ₹ 20.7 Crores as compared to ₹ 30.8 Crores in the FY 20-21,Net Debt as on March 31, 2022, stands at ₹ 252.5 Crores after reducing the cash and bank balance and liquid investment versus ₹ 189.5 Crores at the end of FY 20-21. The debt has reduced on account of improved EBITDA performance and calibrated capex during the year. The Net Debt to EBITDA ratio has improved significantly during the current year and stands at comfortable levels of 1.5 as compared to 2.0 in the previous year. This is expected to remain at similar levels in the coming year.

Fixed Assets

Fixed assets (tangible and intangible) including Capital work-in-progress stands at ₹ 457.6 Crores at end of FY 21-22 as compared to ₹ 430.8 Crores at the end of previous year. There has been no meaningful capex incurred during the year apart from routine operational capex.

Key Ratios

Key capital efficiency ratios for AYM Syntex has been highlighted here which provides a snapshot of the health of Balance sheet. With Improved performance in FY 21-22, the ratios in FY 21-22 has improved over the last year.

Key Ratios	FY 22	FY 21
Return on Capital Employed (ROCE)	17.3%	9.0%
Debt: Equity	0.67	0.62
Net Debt: EBITDA	1.52	2.01
Debt Service Coverage Ratio	2.12	1.44
Interest Coverage Ratio	3.22	1.50
Working Capital (no. of days)	18	17
Current Ratio (Ex Current portion of Long term Debt)	1.38	1.30

Outlook

Our strategic initiatives and continued focus on R&D, innovations and costs made FY 21-22 a year of record breaking performance for AYM Syntex despite cost pressures. This was yet another year where we grew the volumes of value-added products.

Going forward, while the cost pressures have begun to ease, slowing demand is already beginning to dent our volumes. Furthermore, a drop in raw material prices may create an impact on short term profitability as we take stock losses. In the domestic business, the near term demand outlook is uncertain but we will continue to maintain sharp focus on driving penetration and market share gains across our portfolios aided by distribution expansion, aggressive cost controls, and sufficient investment in strategic businesses. The International business has maintained a steady momentum of healthy growth in share of review over the last 5 years and we are confident of maintaining the momentum in the coming quarters.

As the pandemic has subsided across regions, we expect the business environment in the markets we operate in to remain stable, unless any major geo-political concerns flare up. However, if inflation persists, there is a possibility of some currency depreciation in some markets. On the margin front, there is some degree of comfort given that crude prices inflation being largely supply led, some cooling off is possible over the next few months. Therefore, we expect demand and margin trends to improve towards the second half of the next year. We will continue to do what we are doing well in terms of driving sustainable and profitable growth in the core business.

The short-to-medium-term outlook for AYM remains optimistic with constant efforts to drive sustained, profitable, volume-led growth through a focus on strengthening core segments, innovation, and throughput initiatives. With expected favourable government policies towards the textile industry and its efforts to increase exports, demand is expected to rise. However, macroeconomic challenges stemming from the resurgence of COVID-19 or any geopolitical instability in our key markets pose downside risks to our outlook in the near term. Our future growth and value creation will be driven by our differentiation strategy based on innovation, customer centricity, sustainability and focus on the exports market.