

**21ST
ANNUAL REPORT
2005**

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nakoda textile industries limited

ISO 9001-2000

NAKODA TEXTILE INDUSTRIES LIMITED

Board of Directors

(1) Mr. B. G. Jain	Chairman & Managing Director
(2) Mr. D. B. Jain	Joint Managing Director
(3) Mrs.P. B. Jain	Director
(4) Mr. S. M. Thakkar	Director
(5) Mr. B. L. Maheshwari	Director
(6) Mr. J. K. Patel	Nominee Director (GSFC)

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Registered Office & Plant

Block No. 1&12 to 16,
Village - Karanj,
Taluka - Mandvi,
Dist. - Surat.

Company Secretary

Mrs. Rashmi Bhatt

Corporate Office

738, Ajanta Shopping Centre,
Ring Road, Surat - 395 002

Bankers

Canara Bank
State Bank of Patiala

Auditors

N. M. Singapuri & Co
Chartered Accountants,
O-18, Kanaknidhi Apartment,
Opp. Gandhi Smruti, Nanpura,
Surat.

www.nakoda.co.in



NOTICE

Notice is hereby given that the 21st Annual General Meeting of the members of **NAKODA TEXTILE INDUSTRIES LIMITED** will be held on Friday, the 30th June, 2006 at 12.30 P.M. at the Company's Registered Office at Block No. 1&12 to 16, Village - Karanj, Taluka - Mandvi, Dist. - Surat.

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Accounts for the year ended on 31st December 2005 together with the reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Smt. P. B. Jain who retires by rotation and being eligible, offers herself for re-appointment.
3. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS:

To consider and if thought fit, to pass with or without modification(s), the following resolutions:

4. As A Special Resolution

"RESOLVED THAT under Section 198, 269, 310 and other enabling applicable provisions, if any, of the Companies Act, 1956, approval of the Company be and is hereby accorded to the revision in remuneration of Sh. B. G. Jain Managing Director with effect from 1st April 2006, detailed more specifically in the Explanatory Statement."

"FURTHER RESOLVED THAT the said remuneration shall be payable to the Managing Director irrespective of the fact whether the Company has earned any profit or not, i.e. this remuneration shall be payable as minimum remuneration even in the event of inadequacy or absence of profit."

5. As A Special Resolution

"RESOLVED THAT under Section 198, 269, 310 and other enabling applicable provisions, if any, of the Companies Act, 1956, approval of the Company be and is hereby accorded to the revision in remuneration of Sh. D. B. Jain Joint Managing Director with effect from 1st April 2006, detailed more specifically in the Explanatory Statement."

"FURTHER RESOLVED THAT the said remuneration shall be payable to the Joint Managing Director irrespective of the fact whether the Company has earned any profit or not, i.e. this remuneration shall be payable as minimum remuneration even in the event of inadequacy or absence of profit."

6. As A Special Resolution

"RESOLVED THAT pursuant to the provisions of Sections 81, 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications, amendments or re-enactment thereof for the time being in force) and in accordance with the provisions of the Articles of Association of the Company, and subject to the regulations/rules/guidelines issued by the Securities and Exchange Board of India (hereinafter referred to as "the SEBI") recognized Stock Exchanges in India, Foreign Investment Promotion Board (hereinafter referred to as "FIPB"), Secretariat of Industrial Assistance (hereinafter referred to as "SIA"), Government of India, Reserve Bank of India (hereinafter referred to as "the RBI") and/or under Foreign Exchange Management Act, 1999 (herein after referred to as "FEMA"), such approvals, permissions, sanctions and consents as may be necessary and required under applicable laws, rules, regulations and contracts, and on such terms, conditions, alterations, modifications, corrections, changes and variations, if any, that may be stipulated under such approvals, permissions, sanctions and consents, which may be agreed and accepted by the Board of Directors of the Company (hereinafter referred to as 'the Board', which term shall be deemed to include person(s) authorized or

any Committee(s) constituted/ to be constituted by the Board of Directors to exercise its powers including the powers conferred by this Resolution), the Board of Directors of the Company be and is hereby authorized, on behalf of the Company, to create, issue, offer and allot, on private placement and/or preferential basis in one or more tranches, on such terms and conditions and in such manner as may be deemed fit by the Board, 40,00,000 Equity Shares of Rs. 10/- each at a price of Rs. 20/- per share to:

1	B. G. Jain Investment Pvt. Ltd.	2,49,500
2	P. B. Jain Investment Pvt. Ltd.	2,49,500
3	G. P. Shah Investment Pvt. Ltd.	2,49,500
4	Sujata Synthetics Pvt. Ltd.	22,48,500
5	Saurabh Sales Pvt. Ltd.	10,03,000
	Total	40,00,000

"FURTHER RESOLVED THAT for the purpose of giving effect to this resolution under Section 81 of the Companies Act, 1956, the Board of the Company be and is hereby authorized to take such steps and to do and perform all such other acts, deeds, matters and things and accept any alteration(s) or amendment(s) or correction(s) or modification (s) as it may deem fit and appropriate and give such directions/instructions as may be necessary to settle any question, difficulty or doubt that may arise with regard to offer, issue, allotment of the said Equity Shares, and also to seek the listing of such securities in one or more stock exchanges in India."

"FURTHER RESOLVED THAT the Equity Shares to be issued and allotted shall rank pari passu with the existing Equity Shares of the Company in all respects."

"FURTHER RESOLVED THAT the Board of Directors of the Company be is hereby authorized to delegate any or all the powers conferred upon it by this resolution, to any Committee formed thereof for this purpose or to any individual so authorized by the Board."

"FURTHER RESOLVED THAT the Board of Directors of the Company be and is hereby authorized to seek approval of SEBI and/or any other competent authority, wherever necessary for offer, issue, allotment and listing of the Equity Shares on the stock exchanges where the Company's shares are listed and to do all such acts, deeds, matters, and things as may be necessary and/or expedient for the purpose of giving effect to this resolution."

7. As A Special Resolution

"RESOLVED THAT, in terms of section 81 and other applicable provisions, if any, of the Companies Act, 1956 and in accordance with the provisions of Articles of Association of the Company and subject to the consent of the Securities and Exchange Board of India (SEBI) and all other concerned authorities and departments, if any and to the extent necessary, and such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed in granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company (herein after referred to as "The Board" which term shall be deemed to include any committee of the Board), at its sole discretion, the consent of the Company be and is hereby accorded to the Board to create, offer and issue equity and/or preference shares at premium by way of Public/Rights/Preferential issue/Private Placement or in such other manner, in such trench or trenches in Indian Rupees of an aggregate amount of Rs. 45.00 Crores including premium, if any to such person or persons, whether shareholders of the Company or not and at such time as the Board may, in their absolute discretion and in the best interest of the Company may deem fit."



"FURTHER RESOLVED THAT for the purpose of giving effect to this resolution the Board of Directors of the Company be and is hereby authorized to take such steps and to do all such acts, deeds, matters and things and accept any alterations or modification(s) as they may deem fit and proper and give such directions as may be necessary to settle any question or difficulty that may arise in regard to the issue and allotment of the said shares including the power to allot the unsubscribed shares, if any, in such manner as may appear to the Board of Directors to be most beneficial to the Company."

8. As A Special Resolution

"Resolved that Mr. B. L. Maheshwari who was appointed as an additional director by the Board of Directors and hold office upto the date of Annual General Meeting of the Company, and in respect of whom the company has received a notice in writing from a member under the provisions of Section 257 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company."

By Order of the Board
RASHMI BHATT
Company Secretary

Place: Surat
Date 31.05.2006

NOTES

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote thereat and the proxy need not be a member of the Company. Proxies in order to be effective must be received at the registered office of the Company not less than 48 hours before the annual general meeting.
2. Members/ Proxies should bring the attendance slip duly filled in for attending the meeting.
3. The Register of Members and Share transfer Books of the Company will remain closed from 20th June 2006 to 30th June 2006 (both days inclusive)
4. As required in the terms of paragraph VI(A) of the Clause 49 of the Listing Agreement, the details of the Directors retiring by rotation and eligible for re-appointment are furnished below.
Smt. P. B. Jain, Director of the Company is having a rich experience in textile industry. She has been associated with the Company since 1985 retires by rotation and being eligible offers herself for re-appointment.
5. Pursuant to the recommendation of SEBI Committee on Corporate Governance for appointment of Directors / re-appointment of the retiring Directors, a statement containing details of the concerned Directors forms part of Corporate Governance report.
6. Members are requested:
 - a) to bring their copies of Annual Report and Attendance slip at the time of the meeting.
 - b) to quote their Folio No.(s) in all correspondence.
 - c) who hold share in dematerialization form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.
 - d) to forward their queries, if any, so as to reach the corporate office of the Company on or before 23rd June, 2006 enabling the management to keep the information ready.
7. Members are requested to note that all correspondence relating to share transfer, Change of Address and Dematerialization should be addressed to the Corporate office at 738, Ajanta Shopping Centre, Ring Road, Surat 395002 / MCS Ltd., Neelam Apartment, 88, Sampatrao Colony, B/h Federation Bldg., Alkapuri, Baroda 390 007.

By Order of the Board
RASHMI BHATT
Company Secretary

Place: Surat
Date 31.05.2006

ANNEXURE TO NOTICE

Explanatory Statement Pursuant to Section 173(2) of the Companies Act, 1956:

Item No. 4

In partial modification of the agreement executed by the Company with the Managing Director, the Board in its meeting held on 28th April 2006 made the following modifications in the remuneration of Sh. B. G. Jain w.e.f. 1st April 2006 which is subject to your approval.

1. He shall be entitled to following remuneration and perquisites.
 - a. Salary Rs. 1,00,000/- per month
 - b. Perquisites:
 - i) Provident fund, superannuation and gratuity benefit in accordance with the Company's rules and regulations in force from time to time.
 - ii) Reimbursement of medical expenses actually incurred, total cost of which to Company shall not exceed Rs. 15,000/- in any year.
 - iii) Leave on full pay and allowance as per the rules of the Company but not exceeding four weeks leave for every completed year of service, subject to the condition that leave accumulated but not availed will not be allowed to be encashed.
 - iv) Reimbursement of actual fare for self and family (wife and minor children) once a year to and from any place in India.
 - v) Free use of Company car and driver, monetary value of which may be evaluated as per rule 3 of the Income Tax Rules, 1962.
 - vi) Free telephone facilities at his residence and reimbursement of actual electricity expenses at his residence.
 - vii) Personal accident insurance of an amount premium of which does not exceed Rs. 3,000/-.
 - viii) Reimbursement of entrance fee and subscription for membership of a club.
2. In addition to above, he will be reimbursed entertainment or other expenses actually and properly incurred in connection with the company's business subject to a maximum of Rs. 3,000/- per month.
3. The remuneration aforesaid including the benefits and amenities aforesaid shall nevertheless be paid and allowed as the minimum remuneration, for any year in case of absence or inadequacy of profit of such year.

This Explanatory statement together with the accompanying Notice should be treated as an abstract of the terms of Agreement and Memorandum of concern or interest under section 302 of the Companies Act, 1956.

The Board recommended the passing of resolution as set out in item no. 4 of the notice read with the explanation given above.

Shri B. G. Jain, Smt. P. B. Jain & Shri D. B. Jain directors of the Company are interested in this resolution.

Item No. 5

In partial modification of the agreement executed by the Company with the Joint Managing Director, the Board in its meeting held on 28th April 2006 made the following modifications in the remuneration of Sh. D. B. Jain w.e.f. 1st April 2006 which is subject to your approval.

1. He shall be entitled to following remuneration and perquisites.
 - a. Salary Rs. 80,000/- per month
 - b. Perquisites:
 - i) Provident fund, superannuation and gratuity benefit in accordance with the Company's rules and regulations in force from time to time.



- ii) Reimbursement of medical expenses actually incurred, total cost of which to Company shall not exceed Rs. 15,000/- in any year.
 - iii) Leave on full pay and allowance as per the rules of the Company but not exceeding four weeks leave for every completed year of service, subject to the condition that leave accumulated but not availed will not be allowed to be encashed.
 - iv) Reimbursement of actual fare for self and family (wife and minor children) once a year to and from any place in India.
 - v) Free use of Company car and driver, monetary value of which may be evaluated as per rule 3 of the Income Tax Rules, 1962.
 - vi) Free telephone facilities at his residence and reimbursement of actual electricity expenses at his residence.
 - vii) Personal accident insurance of an amount premium of which does not exceed Rs. 3,000/-.
 - viii) Reimbursement of entrance fee and subscription for membership of a club.
2. In addition to above, he will be reimbursed entertainment or other expenses actually and properly incurred in connection with the company's business subject to a maximum of Rs. 3,000/- per month.
3. The remuneration aforesaid including the benefits and amenities aforesaid shall nevertheless be paid and allowed as the minimum remuneration, for any year in case of absence or inadequacy of profit of such year.
- This Explanatory statement together with the accompanying Notice should be treated as an abstract of the terms of Agreement and Memorandum of concern or interest under section 302 of the Companies Act, 1956.
- The Board recommended the passing of resolution as set out in item no. 5 of the notice read with the explanation given above.
- Shri B. G. Jain, Smt. P. B. Jain & Shri D. B. Jain directors of the Company are interested in this resolution.

ITEM NO. 6 & 7

The Chairman stated that the Company is embarking upon expansion of the activities viz- trading in Chips, PFY, FDY, Spun Yarn. The Company is also proposing to promote a textile park in Surat. In order to augment and raise the financial resources to meet requirements for implementing the proposed expansion and new project the company proposes to issue preferential equity shares to promoters and to the persons not belonging to the promoters' group as detailed in the resolution.

The details of the proposed allotment as required under the guidelines issued by SEBI for Preferential Issues are as under:

(i) **Terms of the Offer/Issue:**

Number of Equity Shares offered is 40,00,000 Equity Shares having face value of Rs.10/- each at a premium of Rs. 10/- per Equity Share aggregating to Rs. 8,00,00,000/- (Rupees Eight Crores).

(ii) **Object of the Issue:** To raise financial resources for expansion and new projects.

(iii) **Intention of Promoters to subscribe to the offer:** The promoters intend to subscribe to the offer up to 4.99% of the post issued capital.

(iv) **Shareholding pattern as on 31st May, 2006 before and after the proposed allotment:**

A	Category	Pre-Issue		Post-Issue***	
		Shares held*	%	Shares held**	%
1.	Promoters' holding				
	Promoters*				
	-Indian Promoters	6105500	55.50	6854000	45.69
	-Foreign Promoters	--	--	--	--
2.	Persons acting in Concert#	--	--	--	--
	Sub-Total	6105500	55.50	6854000	45.69
B.	Non-Promoters Holding				
3.	Institutional Investors				
a.	Mutual Funds and UTI	--	--	--	--
b.	Banks, Financial Institutions, Insurance Companies (Central / State Gov. Institution/ Non-government Institutions)	36400	0.33	36400	0.24
c.	FIs	--	--	--	--
	Sub-Total	36400	0.33	36400	0.24
4.	Others				
a.	Private Corporate Bodies#	1007612	9.16	4259112	28.40
b.	Indian Public	3416679	31.06	3416679	22.78
c.	NRIs/OCBs	433809	3.95	433809	2.89
d.	Any other (Please specify)	--	--	--	--
	Sub-Total	4858100	44.17	8109600	54.07
	GRAND TOTAL	11000000	100.00	15000000	100.00

Notes:

- (1) # The proposed allottees may include their Group Companies and/or associates and/or affiliates.
- (2) * of Rs.10/- (Rupees Ten) nominal value.
- (3) ** Assuming that in the case of allotment of Equity Shares, the allottees would exercise entirely the entitlement for the corresponding Equity Shares.
- (4) ***In the event, the investment by proposed allottees from the category of selected investors comprising of non-promoters and/or nominees, associates or affiliates is not subscribed to by the proposed subscriber or if the Board of Directors in their discretion decide not to allot Equity Shares to any particular proposed allottee under the category of select investors comprising of non-promoters, then in such case respective surplus portion of proposed allotments hereunder would be re-allocated and/or re-allotted, as the case may be, to other proposed allottees in the same category and the aggregate post-



issue shareholding of such proposed allottees would stand changed to the extent of resultant increase in the proposed allotment to him.

(v) Proposed time within which allotment will be completed:

The said Preferential Issue is proposed to be completed/implemented within a period of 15 days from the date of this Annual General Meeting approving such an issue.

(vi) Identity of proposed allottees and the percentage of post preferential issue expanded capital to be held by them:

Names of the Subscribers- Proposed allottees comprising select investors (private corporate bodies)	No. of Equity Shares	% of the Post preferential issue capital
B. G. Jain Investment Pvt. Ltd. (Promoter)	249500	1.66
P. B. Jain Investment Pvt. Ltd. (Promoter)	249500	1.66
G. P. Shah Investment Pvt. Ltd. (Promoter)	249500	1.66
Sujata Synthetics Pvt. Ltd. (Non-Promoter)	2248500	14.99
Saurabh Sales Pvt. Ltd. (Non-Promoter)	1003000	6.69

Section 81 of the Companies Act, 1956 provides inter alia, that when it is proposed to increase the issued capital of a Company by further shares etc., such further shares shall be offered to the existing shareholders of the existing shareholders of the Company in the manner laid down in Section 81 unless the shareholders in general meeting decided otherwise by passing a special resolution.

Hence, consent of the shareholders/members by way of Special Resolution is being sought pursuant to the provisions of Section 81 and all other applicable provisions of the Companies Act, 1956 and in terms of the provisions of the SEBI (DIP) Guidelines 2000 and the listing agreements executed by the Company with the Stock Exchange where the Company's shares are listed.

The certificate from the Statutory Auditors of the Company M/s N. M. Singapuri & Co., Chartered Accountants, Surat regarding the share price arrived at as per SEBI (Disclosure and Investor Protection) Guidelines, 2000 relating to Preferential Issues and in terms of these Guidelines will be placed before the Shareholders/members in this Annual General Meeting. The members are, therefore, requested to accord their approval authorizing the Board to go for the proposed private placement and/or preferential issue as and when deemed necessary as set out in the resolution.

Further, the company has been enabled to have full authority to create, offer and issue equity and/or preference shares by way of either public/Rights/Preferential issue/Private Placement or in such other manner at any stage later on.

The directors of the Company are deemed to be concerned or interested in the resolution to the extent of their share holding in the Company. The Board recommends the resolutions contained in Item Nos. 6 and 7 of the Notice for your approval.

Item No. 8

In accordance with Section 260 of the Companies Act, 1956 Mr. B. L. Maheshwari holds office as a Director of the Company till the forthcoming Annual General Meeting. The Company has received a notice in writing from a member proposing the candidature of Mr. B. L. Maheshwari to the office of Director under the provisions of Section 257 of the Companies Act, 1956.

Mr. B. L. Maheshwari aged 46 years is having a rich experience in textile industry and his introduction on the Board would benefit the Company. Hence, the Board recommends that the resolution set out in item no. 8 be carried out. None of the directors are interested in this resolution.

DIRECTORS REPORT

TO,
The Members,

Your Directors have pleasure in presenting their 21st Annual Report together with Audited Accounts for the period ended 31st December 2005.

FINANCIAL RESULTS

	AS AT 31.12.2005 (Rs.In Lacs)	AS AT 31.12.2004 (Rs.In Lacs)
Turnover & other Income	19061.83	15264.74
Gross Profit (before Financial Charges & Depreciation)	1026.65	903.71
Interest & Financial Charges	422.36	388.54
Profit before Depreciation (Cash Profit)	604.29	515.17
Depreciation	218.21	213.12
Profit for the year	386.08	302.05

OPERATIONAL REVIEW

Your Company has achieved turnover of Rs. 19061.83 lacs compared to Rs. 15264.74 lacs in the previous year. Gross profit for the year is Rs. 1026.65 lacs compared to Rs. 903.71 lacs for the previous year. The gross turnover was higher by 24.87 % at Rs. 19061.83 lacs.

FINANCIAL OVERVIEW

Your Company is presently banking with a consortium of two banks Canara Bank as the leader with 75% share and State Bank of Patiala with 25% share. During the current year Company has started Trading of Polyester Chips, Fibre, Filaments and Spun Yarn. To meet with additional working capital requirement for recently started Trading activities and to achieve higher target of production and sales of manufacturing activities, Consortium of Bankers has increased working capital limits of the company from Rs. 35 crores in 2005 to Rs. 96 crores for 2006.

Company has regularly serviced the repayment obligation in respect of loans of Canara Bank, State Bank of Patiala, GSFC and IndusInd Bank. GSFC and IndusInd Bank loans have been fully paid up during the year.

DIVIDEND

The Board of Directors do not recommend any dividend for the accounting year 2005 to conserve resources.

OVERVIEW AND FUTURE OUTLOOK

The Union Budget 2006-07 provided a reduction in excise duty on POY (partially oriented yarn) from 16% to 8%.

In the past, domestic demand for PFY has grown at a CAGR of around 6 per cent. However, with the increase in polyester capacities, and a relatively comfortable situation on the feedstock supply front, the price of polyester is expected to come down. This would again improve polyester's competitiveness against cotton and cotton yarn, whose prices would go up slightly after a significant drop in price last year mainly due to a bumper cotton crop and removal of excise duty in the cotton chain. Your Company has started Trading of Polyester Chips, Fibre, Filaments & Spun Yarn from January 2006 and proposes to promote a Textile Park near Surat.

DIRECTORS

Smt. P. B. Jain is retiring by rotation at the forthcoming Annual General Meeting and being eligible offers herself for re-appointment.

During the year Shri B. L. Maheshwari has been appointed as an additional director on the Board of the Company and Shri D. R. Patel nominee director GSFC has withdrawn the nomination.

CORPORATE GOVERNANCE

In line with guidelines recommended by Security & Exchange Board of India (SEBI) Committee on Corporate Governance



adequate steps have been taken to ensure that all the mandatory provisions of Clause 49 of the Listing Agreement already complied with. A separate report on Corporate Governance is included as part of the Annual Report. The Auditors certificate confirming compliance of Corporate Governance is included in the said Corporate Governance report.

SAFETY, ENVIRONMENT & POLLUTION CONTROL MEASURES

During the year, due to various safety measures taken, no major accident took place in plant operations. Training programmes for safety awareness and safe working conditions were held round the year. Your Company has complied with various emission standards and other environmental requirements as per pollution control norms.

In order to improve environment tree plantations within the factory complex is being done on a continuous basis. Installation of Bi-fuel kits on DG sets which reduced SPM & sox discharged. The Company has constructed water pond for rain water harvesting thereby increasing ground water table.

LISTING

Securities of your Company continue to be listed with Mumbai Stock Exchange. Annual listing fees have been paid to the Stock Exchange.

EMPLOYEES

There is no employee getting remuneration as prescribed under section 217(2A) of the Companies (Particulars of Employees) rules, 1975 as amended.

STATUTORY INFORMATION

Statutory information required under the Companies (Disclosure of Particulars in the report of Board of Directors Rules, 1988) applicable to the Company and forming part of this report are set out in Annexure to this report.

AUDITORS

M/s. N. M. Singapuri & Co. Chartered Accountants, Surat retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. Your Directors recommend their re-appointment.

DIRECTORS RESPONSIBILITY STATEMENT

DIRECTORS CONFIRM:

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that the directors had 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 at the end of the financial year and of the profit and loss of the Company for that period;
- (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provision of the Companies Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the directors had prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENT

Your Directors express their gratitude and sincere appreciation for the continued co-operation received from bankers and financial institutions throughout the year and for the utmost faith reposed by the investors and shareholders of the Company. They also place on record their sincere appreciation for the efforts put in by employees of the Company at all levels.

For and on behalf of the Board

Place: Surat Chairman & Managing Director Shri B. G. Jain
Date: 01.05.2006 Joint Managing Director Shri D. B. Jain

MANAGEMENT DISCUSSION & ANALYSIS

INDUSTRY STRUCTURE & DEVELOPMENT

Polyester POY making industry is in consolidation process. Existing players are debottlenecking their capacities and modernizing the plants.

New frontiers are opening up for polyester after quota free regime. Technical textile is another area which is getting lot of attention from polyester producers to increase the consumption of polyester.

Production capacities are shifting to south East Asia from developed countries. In the medium term the prospect of polyester industry is bright.

OPPORTUNITIES & THREATS

Polyester growth has been primarily driven by its substitution of cotton yarn, on account of its durability and price competitiveness. However polyester has become more expensive than cotton yarn after a sharp increase in feedstock prices, which pushed up polyester prices.

The operating rate of the industry has traditionally been near 85-90 per cent since 1998. However, the commissioning of large additional capacities by most polyester players has led to a situation of bunching up of capacities in a span of one-and-a-half years. This, at a time when the polyester has become less competitive than cotton, both due to a better crop and a favourable duty structure for cotton, leading to substitution of demand for polyester. The demand for polyester is expected to grow only moderately at around 6 per cent in 2006-07, even after the decline in prices for polyester, leading to lower operating rates in the industry.

FUTURE OUTLOOK

The polyester industry is in the grip of tight feedstock (PTA & MEG) supply, which has caused an upsurge in prices. The fall in feedstock prices in 2006-07 is expected to be only moderate, due to high crude prices. Average crude prices have risen by 45-50 per cent this year over last year. Crude prices are expected to remain at high levels even in 2006-07.

However, with the increase in polyester capacities, the price of polyester is expected to drop to levels where it would be cost competitive against cotton. Thus, polyester producers will continue to face pressure on their margins in 2006-07.

HUMAN RESOURCE DEVELOPMENT (HRD)

Human Resource Development continued to receive focused attention. Industrial relations continued to be cordial throughout the year. Directors wish to place on record their appreciation of the contribution made Companies employees at all levels during the year under review.

ENERGY CONSERVATION

Nakoda has pursued energy conservation measures by installation of invertors on cooling water pumps, energy efficient chips dryers, Bi-fuel kit on two DG sets, Conversion of induction of load into HTM heating, HTM heaters converted from FO to gas fired. All this resulted in reduction of power consumption by about 20% to 35%.

RISK & CONCERNS

Total polyester capacity in India is slated to increase to around 3.2 million tones per annum in 2006-07. With a moderate increase in demand, the operating rates of the industry are slated to come down significantly. The Company manages this risk by maintaining a conservative financial profile and by following prudent business and risk management practices.

CAUTIONARY STATEMENT

Statements in this MDA may be 'forward looking statements' within the meaning of applicable securities laws and regulations. There are several factors which would be beyond the control of Management and as such, may affect the actual results which could be different from that envisaged.