

Welspun USA Inc.

**Financial Statements for the fiscal year
ended 31 March 2019**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Welspun USA Inc.

Opinion

We have audited the consolidated financial statements of Welspun USA Inc. (hereinafter referred to as "the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), which comprise the consolidated special purpose statement of financial position as at March 31, 2019, and the consolidated special purpose statement of comprehensive income, the consolidated special purpose statement of changes in equity and the consolidated special purpose statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as "the consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at March 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America ('US GAAP').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of Preparation and Restriction on Distribution

We draw attention to Note 2(a) to the financial statements which describes the basis of accounting. These Consolidated financial statements are prepared solely for the purpose of submission to the bankers and potential business partners of the Holding Company and its subsidiaries. As a result the financial statements may not be suitable for another purpose. It is not to be used for the any other purpose, or referred to in any other document, or distributed to anyone else without our prior written consent. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



Welspun USA Inc.

Page 2 of 3

In preparing the consolidated financial statements, the management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation



Welspun USA Inc.

Page 3 of 3

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matters

The financial statements of the Group for the year ended March 31, 2018, included in these consolidated financial statements, have been audited by the predecessor auditor who expressed an unmodified opinion on those financial statements on April 27, 2018 based on their audit conducted in accordance with auditing standards generally accepted in the United States of America.

S R B C & CO LLP

For S R B C & CO. LLP

Chartered Accountants

ICAI Firm Registration Number: 324982E/E300003



per Vikas Kumar Pansari

Partner

Membership No.: 93649



Place: Mumbai

Date: May 7, 2019

Consolidated Balance Sheet

Fiscal year ended March 31, 2019

(Amounts in thousands USD)

	2019	2018
ASSETS		
Current Assets :		
Cash and Cash Equivalents	\$ 522	\$ 438
Accounts receivable:		
Trade, net	\$61,100	\$ 50,655
Affiliates (Note 13)	\$ 14,572	\$ 10,073
Other receivables from affiliates (Note 13)	\$ 836	-
Inventories (Note 4)	\$ 50,514	\$ 45,306
Prepaid expenses	\$ 1,103	\$ 2,914
Deferred tax assets (Net) (Note 9)	-	\$ 842
Total current assets	\$ 128,647	\$ 110,228
Property and Equipment - Net (Note 5)	\$ 2,163	\$ 1,119
Other Non Current Assets:		
Deposits	\$ 302	\$ 304
Other Assets	\$ 361	-
Deferred tax assets (Net) (Note 9)	\$ 957	-
Total other non current assets	\$ 1,620	\$ 304
Total assets	\$ 132,430	\$ 111,651
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Accounts payable:		
Trade payable	\$ 1,518	\$ 303
Trade payables to related parties (Note 13)	\$ 65,135	\$ 48,780
Bank line of credit (Note 6)	\$ 38,610	\$ 35,497
Current portion of long-term debt (Note 7)	\$ 77	\$ 78
Accrued customer incentives	\$ 6,615	\$ 6,148
Accrued liabilities	\$ 2,955	\$ 5,015
Total current liabilities	\$ 114,910	\$ 95,821
Long-term Debt - Net of current portion (Note 7)	\$14	\$ 90
Other Long-term Liabilities - Deferred rent (Note 10)	\$ 641	\$ 854
Total liabilities	\$ 115,565	\$ 96,765
Stockholders' Equity	\$ 16,865	\$ 14,886
Total liabilities and stockholders' equity	\$ 132,430	\$ 111,651

See accompanying notes.


JULIE MCKENZIE
PRESIDENT & CEO

RADHIKA SHRINIVAS
DIRECTOR, FINANCE

ANKIT GUPTA
SR. MANAGER - FIN. &
COMPLIANCE

Welspun USA, Inc.**Consolidated Statement of Income**

Fiscal year ended March 31, 2019

(Amounts in thousands USD)

	2019	2018
Revenue		
Net Sales	\$ 256,832	\$ 236,200
Commission income (Note 13)	\$ 5,160	\$ 2,693
Total Revenues	\$ 261,992	\$ 238,893
Cost of Sales	\$ 229,584	\$ 212,654
Gross Profit	\$ 32,408	\$ 26,239
Operating, selling, general and administrative expenses	\$ 29,115	\$ 23,898
Operating Income	\$ 3,293	\$ 2,341
Non operating Income (Expense)		
Other income	\$ 214	\$ 4
Interest expense	(\$ 1,601)	(\$ 1,187)
Total non-operating expense	(\$ 1,387)	(\$ 1,183)
Income - Before income taxes	\$ 1,906	\$ 1,158
Income Tax Expense (Note 9)	\$ 426	\$ 828
Net Income	\$ 1,480	\$ 330

See accompanying notes.

JULIE MCKENZIE
PRESIDENT & CEORADHIKA SHRINIVAS
DIRECTOR, FINANCEANKIT GUPTA
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Welspun USA, Inc.

Consolidated Statement of Stockholders' Equity

Fiscal year ended March 31, 2019

(Amounts in thousands USD)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance -April 1, 2017	\$ 217	\$ 8,683	\$ 5,656	\$ 14,556
Net income	-	-	\$ 330	\$ 330
Balance - March 31, 2018	\$ 217	\$ 8,683	\$ 5,986	\$ 14,886
Net income	-	-	\$ 1,480	\$ 1,480
Stocks issued during the year	\$ 7	\$ 491	-	499
Balance - March 31, 2019	\$ 224	\$ 9,174	\$ 7,466	\$ 16,865

See accompanying notes.



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Welspun USA, Inc.
Consolidated Statements of Cash Flows

Fiscal year ended March 31, 2019

(Amounts in thousands USD)

	2019	2018
Cash Flows from Operating Activities		
Net income	\$ 1,480	\$ 330
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortisation	\$ 550	\$ 257
Unrealised foreign exchange gains	(\$ 3)	-
Deferred income taxes	(\$ 115)	\$ 194
Deferred rent	(\$ 213)	\$ 252
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable and other receivables	(\$ 15,780)	(\$ 10,114)
Inventories	(\$ 5,208)	(\$ 2,051)
Prepaid expenses and other assets	\$ 1,450	(\$ 2,287)
Deposits	\$ 2	(\$ 72)
Accounts payable	\$ 17,570	\$ 8,500
Accrued customer incentives and liabilities	(\$ 1,593)	\$ 250
Net cash used in operating activities	(\$ 1,860)	(\$ 4,741)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(\$ 1,593)	(\$ 794)
Net cash used in investing activities	(\$ 1,593)	(\$ 794)
Cash Flows from Financing Activities		
Proceeds (repayment) on long-term debt	(\$ 77)	\$ 168
Proceeds from Issue of Equity Shares	\$ 498	-
Net proceeds from revolving credit facilities	\$ 3,113	\$ 3,196
Net cash provided by financing activities	\$ 3,534	\$ 3,364
Effect of exchange rates on cash and cash equivalents	\$ 3	-
Net (Decrease) Increase in Cash	\$ 84	(\$ 2,171)
Cash and cash equivalents at beginning of year	\$ 438	\$ 2,609
Cash and cash equivalents at end of period	\$ 522	\$ 438
Supplemental Cash Flow Information		
Interest paid	\$ 1,601	\$ 1,183
Income taxes paid	\$ 641	\$ 662

See accompanying notes.



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Note 1 - Nature of Business:

Welspun USA, Inc. (the "Company" or Welspun USA) was incorporated in the state of Delaware on August 11, 2000. The Company is a subsidiary of Welspun Global Brands Limited (formerly known as Welspun Retail Limited) (the "Parent" or Welspun Global), a foreign corporation incorporated in India, which owns a 66.90 percent interest in Welspun USA. The remaining 33.10 percent is held by Welspun India Limited (Welspun India).

Welspun USA is engaged in the business of importing and distributing terry bath towels, beach towels, bath rugs, bed sheets, area rugs, and other bedding products. Most of the Company's inventory is sourced through related parties. The Company also sells to department stores and hotels throughout the United States, Canada, Europe, and the Middle East.

Note 2 - Summary of Significant Accounting Policies

a) Basis of preparation

These special purpose consolidated financial statements for the year ended March 31, 2019 have been prepared in accordance with accounting principles generally accepted in the United States of America ('US GAAP') for submission to the bankers and potential business partners of the Holding Company and its subsidiaries and may not be suitable for any other purpose.

b) Principles of Consolidation

The Consolidated Financial Statements include the accounts of Welspun USA Inc. and its 100% subsidiary as of and for the fiscal year ended March 31, 2019. Intercompany accounts and transactions have been eliminated in consolidation.

c) Use of Estimates

The Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles. Those principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Management's estimates and assumptions also affect depreciations and amortisation, current tax and deferred tax, customer incentives, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

d) Cash and Cash Equivalents

The Company classifies all investments, with an original maturity at the date of purchase of three months or less and that are readily convertible to known amounts of cash, to be cash equivalents.

e) Borrowings and Borrowing costs:

Term loans and short-term borrowings under Line of credit are classified as borrowings and interest cost for the period is classified under finance cost.

f) Trade Accounts Receivable

Trade accounts receivable represent amounts owed to the Company which are expected to be collected within the next twelve months. Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All amounts deemed to be uncollectible are charged against the



allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts on accounts receivable balances was \$0 as of March 31, 2019 and 2018.

Trade receivables are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Changes in the estimated collectability of trade receivables are recorded in the period in which the estimate is revised. The Company generally does not require collateral for trade receivables.

The Company has an agreement with an insurance company to insure all its receivables except Costco, Walmart, and related party receivables. Approximately 60 and 78 percent of receivables was not covered by insurance for the years ended March 31, 2019 and 2018. A fixed percentage of sales is payable to the insurance company as a premium. The Company recognizes such premium expenses in the statement of income at the same time as revenue for sales of goods is recognized. The Company has incurred insurance premium expenses totalling \$267 and \$227 for the years ended March 31, 2019 and 2018, respectively, which is included in operating expenses.

g) Credit Risk and Major Customers

Sales are predominately to retail companies in the textile industry located throughout the United States and Canada. The Company extends trade credit to its customers on terms that are generally practiced in the industry. Two major customers accounted for approximately 71 and 76 percent of accounts receivable and 56 and 64 percent of sales as of and for the years ended March 31, 2019 and 2018, respectively.

h) Inventory

The Company values its inventories at the lower of cost, determined by the weighted average cost method, or net realizable value. A valuation allowance is provided for obsolete and slow-moving inventory to write cost down to net realizable value (market), if necessary.

i) Prepaid Expenses and Other Current

Assets Prepaid expenses include advance payments made by the Company for routine expenses, including inventory purchases, office expenses, insurance premiums, marketing expenses, and lease payments.

j) Property and Equipment

Property and equipment are recorded at cost including betterments which materially increase the useful lives or values of the assets. Repairs and maintenance are charged to income statement when incurred. When property and equipment are sold or otherwise disposed, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is included

In Income statement. Both straight-line and accelerated methods are used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives.

Estimated useful lives are periodically reviewed and, when warranted, changes are made to them.

Leasehold improvements are amortized on the straight-line basis over the shorter of the remaining lease term and estimated useful life of the asset. Amortization is included in depreciation and amortization expense. See Note 5 for further discussion of property and equipment.



k) Leases

The Company has entered into lease arrangements primarily for equipment, office, and warehouse space, expiring at various dates. The lease term begins on the date of initial possession of the leased property for purposes of recognizing lease expense on a straight-line basis over the term of the lease.

l) Income Taxes

Income taxes are accounted for under the balance sheet method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases ("temporary differences"). Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date.

Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the extent that a portion is not more likely than not to be realized. Many factors are considered when assessing whether it is more likely than not that the deferred tax assets will be realized, including recent cumulative earnings, expectations of future taxable income, carry forward periods, and other relevant quantitative and qualitative factors. The recoverability of the deferred tax assets is evaluated by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates.

In determining the provision for income taxes, an annual effective income tax rate is used based on annual income, permanent differences between book and tax income, and statutory income tax rates. Discrete events such as audit settlements or changes in tax laws are recognized in the period in which they occur.

The Company classifies interest and penalties associated with tax liabilities as income taxes in the accompanying financial statements. See Note 9 for further discussion of income taxes.

m) Revenue Recognition

Revenue is recognized when it is realized or realizable and has been earned. The Company's policy is to recognize revenue when risk of loss and title to the product transfers to the customer, typically when shipped. Net product sales are composed of gross sales, less expected returns, trade discounts, and customer allowances, which include costs associated with off-invoice mark-downs and other price reductions, as well as trade promotions. These incentive costs are recognized when the Company recognizes the related revenue. The Company regularly reviews and revises, when deemed necessary, its estimates of sales returns based primarily upon the historical rate of actual product returns.

The Company earns 2 percent commission on sales by Welspun Global Brands Limited directly to customers located in the United States. The Company recognizes the commission income when earned as sales are made to customers.



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n) Cost of Sales

Cost of sales primarily includes the cost of goods including the related expenses such as freight-in and custom duties. The Company records shipping and handling costs for the delivery of finished goods in cost of sales in the statement of Income. One major vendor accounted for more than 90% of the purchases of the company for the years ended March 31, 2019 and 2018.

o) Operating, Selling, General and Administrative Expenses

Operating, selling, general and administrative expenses include all operating costs of the Company, except cost of sales, as described above. Operating expenses generally include compensation expenses to sales, management, and other personnel, travel costs, royalty, credit insurance expenses, distribution expenses, depreciation on assets, rent, repairs, utilities, general insurance, advertising and marketing, professional fees, and other general expenses not attributable to cost of sales.

p) Fair Value Measurement

FASB ASC Topic 820, Fair Value Measurements, established a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring the fair value.

The Company uses fair value to measure financial assets and liabilities and certain non-financial assets and liabilities measured or defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

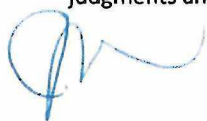
The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Company did not elect the fair value option for the measurement of any eligible assets or liabilities.

q) Currency translation

The Company uses the U.S. dollar as its functional currency. Assets and Liabilities denominated in Non-US dollar are revalued into US dollar at current exchange rate for momentary assets and liabilities, and historical exchange rates for non-monetary assets and liabilities. Gains or losses from foreign currency transactions are included in the consolidated statement of income.

r) Recent Accounting Pronouncements - not yet adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfil a contract. The new guidance will



be effective for the Company's year ending March 31, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Company is in the process of evaluating the implications of this standard and application method it will use.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new guidance will be effective for the Company's year ending March 31, 2021. The ASU permits application of retrospective application methods. The Company is in the process of evaluating the implications of this standard and application method it will use.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), which modifies the measurement of expected credit losses of certain financial instruments. The Company will adopt this ASU on April 1, 2020. Management is currently evaluating this ASU to determine its impact to the Company's consolidated financial statements.

s) Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 7, 2019, which is the date the financial statements were available to be issued.

Note 3 - Change in Accounting Principle

As of April 1, 2018, the Company adopted Accounting Standards update (ASU) No.2015-17, Balance Sheet Classification of Deferred Taxes, and has applied the update prospectively by classifying all deferred taxes assets and liabilities as at March 31, 2019 as noncurrent. Accordingly, prior periods have not been restated.



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Notes to Financial Statements

Fiscal year ended March 31, 2019

(Amounts in thousands USD)

Note 4 - Inventories

Inventory at March 31, 2019 and 2018 consists of the following:

	2019	2018
Raw materials	-	\$ 12
Trading Goods	\$ 50,396	\$ 45,173
Packing Materials	\$ 118	\$ 121
Total	\$ 50,514	\$ 45,306

As of March 31, 2019 and 2018, the Company recorded reserves for obsolescence and potential close-outs of inventory of \$1,124 and \$440, respectively. As of March 31, 2019 and 2018, the Company recorded in-transit inventory of \$20,902 and \$15,214, respectively

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018	Depreciable Life - years
Furniture and fixtures	\$ 555	\$ 520	2-7
Leasehold improvements	\$ 1,459	\$ 724	3-10
Office equipment	\$ 266	\$ 226	5-7
Machinery and equipment	\$ 925	\$ 740	7
Computer hardware	\$ 839	\$ 607	5
Computer software	\$ 240	\$ 240	3
Construction in progress	-	\$ 177	
Total cost	\$ 4,284	\$ 3,234	
Accumulated depreciation and amortisation	\$ 2,121	\$ 2,115	
Net property and equipment	\$ 2,163	\$ 1,119	

Depreciation expense for 2019 and 2018 was \$550 and \$257, respectively.

Note 6 - Line of Credit

The Company has line of credit with Citibank. Under the line of credit arrangement, the Company has available borrowings of \$50,000,000. Interest is payable monthly at a rate ranging from 1.6 percent above the one-month LIBOR and a rate of 0.6 percent above the prime rate depending on the borrowing levels (effective rates from 4.08 percent to 6.10 percent at March 31, 2019 and an average interest rate of 4.11 percent for the year ended March 31, 2019). Outstanding borrowings are \$38,610 and \$35,497 as of March 31, 2019 and 2018, respectively. The line of credit is collateralized by inventory, receivables and other current assets of the Company.

Under the line of credit agreement with the bank, the Company is subject to financial covenants, including a quarterly minimum fixed-charge coverage ratio and a minimum accounts payable to related party balance.

Note 7 - Long-term Debt

At March 31, 2019, the Company had financed equipment payable to a bank, collateralized by the equipment financed with a fixed rate of interest at 3.88 percent with a monthly payment of approximately \$7. The equipment payable is financed over a term of 36 months, with a current portion of \$77 and a long-term portion of \$14.

Interest expense for the long-term debt and the line of credit discussed in Note 6 for 2019 and 2018 was \$1,601 and \$1,187, respectively.

Note 8 - Capital Stock

Common stock consists of 3,000 authorized shares of \$100 par value stock. As of March 31, 2019 there were 2,242 shares of \$100 each were issued and outstanding respectively. (As of March 31, 2018 there were 2,168,706 shares of \$0.10 each were issued and outstanding.) The company has one class of equity shares, each shareholder is eligible for one vote per share held. In the event of liquidation, the equity shareholders are eligible to receive remaining assets of the company after distribution of all preferential amounts, in proportion to their shareholding.



Note 9 - Income Taxes

The components of the income tax provision included in the statement of operations are all attributable to continuing operations and are detailed as follows:

	2019	2018
Current tax - Federal	\$ 468	\$ 563
Current tax - State and foreign	\$ 74	\$ 71
Deferred tax (recovery) — Federal	(\$ 97)	\$ 194
Deferred tax (recovery) - State and foreign	(\$ 18)	\$ 0
Total income tax expense	\$ 426	\$ 828

The Tax Cuts and Jobs Act was signed into law effective December 2017. The reduction of the corporate tax rates decreased the valuation of deferred tax assets and deferred tax liabilities at March 31, 2018. A reconciliation of the significant differences between the U.S. statutory tax rate and the effective income tax rate on pretax income is as follows:

	2019	2018
Income tax expense, computed at 21% percent of pretax income for 2019 and 30.5% for 2018	\$ 396	\$ 353
Effect of nondeductible expenses	\$ 11	\$ 6
Effect of state and foreign taxes	\$ 41	\$ 48
Changes to statutory tax rates	-	\$ 434
Adjustments for change in estimates and others	(\$ 22)	(\$ 13)
Total provision for income taxes	\$ 426	\$ 828

The details of the net deferred tax assets are as follows:

	2019	2018
Net deferred tax assets:		
Deferred rent	\$ 203	\$ 205
Inventories	\$ 906	\$ 709
Depreciation and amortization	(\$ 409)	(\$ 92)
Deferred finance charges	\$ 26	\$ 20
Foreign Tax Credit	\$ 145	-
Allowance for bad debts	\$ 24	-
Interest Expense	\$ 62	-
Net deferred tax asset	\$ 957	\$ 842

Deferred income taxes results from the temporary difference between the tax basis of assets and liabilities and the reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply when these temporary differences are recovered or settled. No valuation allowance has been recognized for the deferred tax assets as management believes all deferred assets will be recoverable.

No valuation allowance has been recognized for the deferred tax assets as management believes all assets are recoverable.

Note 10 - Operating Leases

The Company is obligated under operating leases primarily for equipment, office, and warehouse space, expiring at various dates through 2025. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs. The Company expenses the net minimum lease costs on the straight-line method over the life of the lease. The difference between lease expense and amounts payable under the lease agreement is recorded as deferred rent of \$641 and \$854 as of March 31, 2019 and 2018, respectively. The current portion of deferred rent is included in accounts payable. Total rent expense under these leases was \$3,526 and \$2,914 for 2019 and 2018, respectively.

The Company during the year has entered into a sub-lease agreement to lease warehousing space within the warehouse to a third party against which the company will receive income through 2022.

a) Future minimum annual commitments under these operating leases are as follows:

Year ending 31 March 2019	Amount
2020	\$ 2,266
2021	\$ 2,299
2022	\$ 1,906
2023	\$ 1,429
2024	\$ 997
Thereafter	\$ 84
	\$ 8,981

b) Future minimum annual income under the sub-leasing are as follows:

Year ending 31 March 2019	Amount
2020	\$ 153
2021	\$ 158
2022	\$ 80
2023	-
2024	-
Thereafter	-
	\$ 391



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Note 11 - Commitments and Contingencies.**a) License Commitments**

The Company has trademark licensing agreements under which it can utilize certain trade names in marketing its products. The Company has future commitments to pay of \$4,060 and \$3,200 as of March 31, 2019 and 2018, respectively. Minimum royalties, image fund fees, and merchandise coordinator fees were paid under these agreements.

Royalty expenses were \$1,428 and \$563 for the years ended March 31, 2019 and 2018, respectively.

b) Contingencies

During the year ended March 31, 2017 four putative class action suits, relating to the traceability issue, filed in USA against the Company and Welspun India Limited (WIL) (Holding Company of the Parent company) by certain consumers were later consolidated in one of the courts and are proceeding as a single putative class action. The court proceedings are in a preliminary stage and at present it cannot be determined whether class action will be permitted to proceed. The Company has been given an assurance by WIL that any financial impact arising out of the above suit will be borne / reimbursed by holding/parent company.

c) Company has unused letter of credits amounting \$ 680 as at March 31, 2019.

Note 12 - Retirement Plans

The Company provides a defined contribution savings plan for substantially all employees. The plan provides for the Company to make a discretionary profit-sharing contribution and a required matching contribution. Expenses under the plan amounted to \$290 and \$254 for the years ended March 31, 2019 and 2018, respectively.

Note 13 - Related Party Transactions

Name of the related parties where control exists irrespective of whether transaction have occurred or not:

Ultimate Holding Company	- Prasert Multiventure Private Limited
Holding company of Parent Company	- Welspun India Limited
Parent Company	- Welspun Global Brands Limited

Name of the other related parties with whom transactions have taken place during the year

Fellow Subsidiaries	- Welspun Flooring Limited
	- Christy lifestyle LLC.

The following is a description of transactions between the Company and related parties:

Sales and Purchases

Sales/services and Inventories are sold/purchased to/from Parent company, Holding company of the parent company and fellow subsidiaries. Amounts due from related parties are on account sales of product, services, claim and rebates, commissions, and other receivables. Amount due to related parties are on account of purchase of inventory. The following is a summary of transactions and balances with related parties for 2019 and 2018:

	2019	2018
Sales and services to related parties	\$ 5,249	\$ 3,738
Claims and rebates	\$ 12,363	\$ 11,924
Reimbursements of expenses incurred on behalf of related parties	\$ 1,361	-
Accounts receivables due from related parties	\$ 14,572	\$ 10,073
Other receivables due from related parties	\$ 836	-
Purchases from related parties	\$ 249,415	\$ 196,035
Due to related parties	\$ 65,135	\$ 48,780

The Company also earns a commission on sales to Welspun Global Brands Limited's customers in the United States. Amounts earned under the commission agreement were \$5,160 and \$2,693 for the years ended March 31, 2019 and 2018, respectively. These amounts are included in the sales to related parties in the above table.

