INDIAN RAYON AND INDUSTRIES LIMITED

BOARD OF DIRECTORS
Shri Kumar Mangalam Birla, Chairman
Smt. Rajashree Birla
Shri B. R. Gupta
Shri P. Murari
Shri. Siddhartha Sen
Shri B. L. Shah
Shri H. J. Vaidya
Ms. Tarjani Vakil

MANAGER
Shri K. K. Maheshwari

COMPANY SECRETARY
Shri Ashok Malu

AUDITORS
Lodha & Co., Mumbai
Khimji Kunverji & Co., Mumbai

BRANCH AUDITORS
K. S. Aiyer & Co., Mumbai
S. R. Batliboi & Co., Kolkata
Deloitte Haskins & Sells, Bangalore

SOLICITORS
Mulla & Mulla and Craigie, Blunt & Caroe, Mumbai

BANKERS
State Bank of India
Corporation Bank
Standard Chartered Bank
Bank of America NT & SA
HDFC Bank Ltd.
Punjab National Bank
United Bank of India
Canara Bank
UCO Bank
Hongkong and Shanghai Banking Corporation Ltd.
American Express Bank Limited
Citibank N.A.
ICICI Bank Ltd.
Central Bank of India
State Bank of Saurashtra

REGISTERED OFFICE
Junagadh-Veraval Road, Veraval - 362 266 (Gujarat)

EXECUTIVES

RAYON DIVISION

Shri K. K. Maheshwari	Group Executive President
Shri H. N. Singh	Executive President
Shri S. S. Gupta	Jt. President (Admn. & Mktg.)
Shri D. P. Modani	Sr. Vice President (Fin. & Comm.)
Shri B. K. Kakadia	Sr. Vice-President (Engg.)
Shri S. K. Nanda	Sr. Vice-President (Caustic)

HI-TECH CARBON

Shri M. C. Bagrodia	Group Executive President
Shri Anil Kumar	Sr. Executive President
Shri S. S. Rathi	Sr. Jt. President (Renukoot Unit)
Shri. Girish Singh	Sr. Vice President (Chennai Unit)
Shri S. Balchandani	Sr. Vice President (Project)

JAYA SHREE INSULATORS

Shri B. K. Sethi	Sr. Jt. President
Shri S. S. Baid	Jt. President (Halol Unit)
Shri Anil Chand Lodha	Sr. Vice President (Rishra Unit)
Shri Anil Mehta	Sr. Vice President (Rishra Unit)

TEXTILES

Shri A. N. Choudhary	President (Jaya Shree Textile)
Shri L. N. Rawat	President (Rajashree Syntex)

MADURA GARMENTS

Shri Vikram Rao	Group Executive President
Shri Prakash Nedungadi	President

BIRLA PERICLASE

Shri D. R. Dhariwal	Executive President
Shri K. B. R. Murthy	Joint President (F & C)

GLOBAL EXPORTS & MARKETING

Shri S. R. Dutt	President

CORPORATE FINANCE DIVISION

Shri Adesh Gupta	President & CFO

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The Chairman's Letter to Shareholders

"Indian Rayon will continue to focus on its key businesses. The growth driver will be the Garments business. Insulators will help strengthen earnings further. Alongside, stable contributions from the VFY sector and recovered earnings of the Carbon Black business will beef up growth."

Dear Fellow Shareholders,

For all of us at Indian Rayon, the year has been indeed rewarding both strategically and operationally. Value enhancing strategic moves in the branded apparels coupled with your Company's foray into the insurance sector made it a landmark year in more than one way. The second buyback of shares which is on the anvil is a significant step in this direction.

Leveraging our strengths in the fast growing garments industry, we acquired global rights for key brands such as Louis Philippe, Allen Solly (barring North America) and Peter England (with the exception of U.K. and Ireland) from Coats Viyella Plc, U.K. These acquisitions catapult Indian Rayon's potential overnight to be a world player in the garment sector.

In yet another strategic move, we seized the opportunity in the newly opened up insurance sector in India. The insurance business, offers enormous potential for profitable growth in the long term.

Operationally, Indian Rayon has recorded an all-round superior performance, notwithstanding the economic recession. This success is attributable to the growth that emanated from the full year contribution of the Garments business, enhanced yield and profitability of the Insulator business and an improved export performance of the VFY business. Our endeavours to strengthen market position, improve efficiencies, tighten costs and sweat assets have paid handsome returns. The Carbon Black business has suffered though, more notably during last quarter of the year, due to an extremely challenging business environment resulting from a slowdown in its major customer base, namely the tyre and automobiles segment.

Overall revenues have notched an impressive 32 per cent year-on-year growth to Rs.1416.2 Crores while operating profits have risen from Rs.205.8 Crores last year to Rs.230.2 Crores. Better working capital management across businesses and a reduced debt burden have led to a surge in pre-tax profits by 29 per cent to Rs.74.2 Crores. Net Profits at Rs.68.5 Crores reflect a 19 per cent year-on-year growth, not factoring the exceptional loss emanating from the exit of the sea water magnesia business.

OUTLOOK

Indian Rayon will continue to focus on its key businesses. The growth driver will be the Garments business. Insulators will help strengthen earnings further. Alongside, stable contributions from the VFY sector and recovered earnings of the Carbon Black business will beef up growth.

Garments

The outlook for the Garment business remains extremely positive. The perceptible shift among consumers from tailor-made to ready-made garments, changing aspirations, better purchasing power, a rising standard of living coupled with the emergence of large scale retailing will take this business to a new high. This augurs well for Madura Garments, who is the market leader in branded menswear.

To continue to be a leading edge company, a well-crafted strategy has been put in place. It entails capitalising on the strong brand equity, improving efficiencies and cost optimisation processes. Among other measures to grow the market share further include launching a slew of innovative collections in all the brands and line extensions, heightened marketing and distribution efforts besides enlarging our footprint in the international arena.

Insulators

In the Insulator business, your Company has demonstrated a significant improvement largely due to heightened efficiencies, focused marketing and an aggressive entry into new export markets with a higher share of value added products. We will push for better yields in all these areas.

Simultaneously, we will concentrate on bringing in several value-added products, including high rating products. Successful penetration into the Equipment Porcelain market and improving sales of high rating products will be ongoing.

Strengthening of exports will be yet another focus area for growth in future. To make our mark in the export of high value-high ratings products, we will nurture strong relationships with global OEMs and utility companies, and explore new markets.

Consequent to this, we will penetrate into the quality conscious markets of Europe and the USA, besides the high rating product markets in China. Our recent efforts have already started paying rich dividends. We are therefore confident of generating enhanced growth from this business over the next few years.

Carbon Black

The Carbon Black industry is going through a difficult phase. Its biggest customer – the tyre / automobile industry is facing a recession. To grow, against this backdrop, we have evolved a multi-pronged strategy. Firstly, we will continue to build upon our market position through a widened product portfolio, backed with superior technical service. Secondly, to beef up exports, we will recourse to the benefits that our coastal location offers. Finally, we will add to the bottom-line through product development efforts especially high value speciality grades of carbon black and products for non-tyre applications. We believe that new product development will lead to the creation of niche segments. Collectively, these efforts will bring in value addition and stave any reversal likely due to the competitive environment.

Viscose Filament Yarn

The Viscose Filament Yarn (VFY) industry was confronted with some major challenges. Of these, changing fashion trends and continued competition from cheaper substitutes are the issues to grapple with. We are confident of overcoming these through rising exports while strengthening our presence in the domestic market. There is potential to grow exports considerably with the closure of capacities overseas. Importantly, we will harness the quality of our products, strengthen technical service and encash upon the biodegradability of VFY to entrench into new export markets. Increasing our share in the domestic market remains at the top of our agenda. We are aware that the sustainability of strong cash flow from this business will depend on our ability to tighten cost structures to its ultimate stretch. Better efficiencies and the optimisation of production of first quality, knotless and spliced yarns should contribute significantly towards the improved performance of the VFY division going forward.

"Our endeavours to strengthen market position, improve efficiencies, tighten costs and sweat assets have paid handsome returns."

Textiles

In textiles, our ongoing endeavour will be to focus on the high value added worsted yarn segment and those that our world class linen caters to. To enhance our overall profitability, operations relating to synthetic yarn and fabrics will be scaled down.

SUMMARY

Going forward, our growth will continue to be driven by Garments, strongly complemented by the Insulator and Carbon Black businesses. The anticipated positive outlook for our businesses coupled with the benefits of a well-thought strategy should create significant value.

Having said this, I would like to take the opportunity to record my sincere appreciation of the employees and the management team at Indian Rayon. Only through their dedication and commitment we have been able to deliver superior results despite the challenging operating environment that prevailed during the year. Their partnering with us in an exemplary manner will surely aid us in delivering value for our shareholders year after year.

The Aditya Birla Group – In Perspective

That said, let me focus on the proactive steps taken by us at the Group level, to attune to the unrelenting pace of change that confronts Corporates today, and more importantly to ensure the Group's sustainable success. This is integral to fulfilling our avowed goal of relentlessly pursuing the creation of value for our shareholders, customers, employees and society at large. To do so, in the recent past, we have hinged on three focal points. Firstly; a distinctive strategic architecture, secondly; novel structural processes and thirdly; adopting systems which ensure that we remain a cutting-edge premium business conglomerate.

We have a proven track record in successfully managing different businesses, and we will continue to remain a conglomerate at the Group level. The pre-condition for this is, of course, that each of our businesses allows us dominance in that sector. Additionally, the returns on financial resources and management time invested in each of them must be commensurate with our expectations.

Over the last two years, I have apprised you of the developments on the business front. My intent is to share the progress attained and the ways we have adopted to keep stoking growth.

Our Strategic Architecture :

"Our avowed goal is to relentlessly pursue the creation of value for our shareholders, customers, employees and society at large."

It is my firm belief that value-creation must course through all of our businesses.

Growth in our key businesses has been characterised by consolidation, acquisitions and restructuring. Consolidation of the cement business, through the merger of Indian Rayon's Cement Division with Grasim, has yielded rich dividends for both of our Companies' shareholders, apart from admirably elevating Grasim's stature in the industry. The amalgamation of Dharani Cements with Grasim and the intent to acquire cement companies that strengthen our national footprint are steps that enable us further cement our position. Similarly the acquisition of Indal by Hindalco fortifies our standing in the aluminium sector manifold. Consequent to this linkage, synergies accrue through integration of logistics, product rationalisation and marketing strategies, not to underscore the enhanced customer reach it offers. In turn, this has led to significant value generation.

Hindalco's brownfield expansion at Renukoot is yet another part of a well-conceived growth strategy.

The acquisition of global rights for world-class brands such as Louis Philippe, Allen Solly (barring North America), Peter England (with the exception of the UK and Ireland) marks a turning point. It at once catapults Indian Rayon's potential to become a global player in the menswear brands. Incidentally, the branded apparel segment has been and continues to be the major growth driver at Indian Rayon.

To accord the desired focus to the software sector, we have hived off Grasim's Software Division, Birla Consultancy Software Services, into a separate wholly owned subsidiary of Grasim. This move also allows Grasim to stay focused on its two key businesses – Viscose Staple Fibre and Cement.

In the Telecom sector, teaming up with Tata Telecommunications, has been a forward-looking initiative. The acquisition of RPG and Vodafone's stake in Madhya Pradesh by this joint entity, has enlarged our geographic reach. Today we command 30 per cent of the teledensity in the country.

Our foray into the Life Insurance sector in partnership with Sun Life of Canada is a measure to step up our interests in futuristic knowledge-oriented growth businesses, which have the potential to grow in revenues and earnings.

Divesting those of the businesses that destroy shareholder value is a natural corollary. Scaling down of our spinning operations, the closure of the Pulp and Fibre business at

Mavoor, which were rendered unviable due to the non-availability of the raw material, and the divestment of the Files business to Raymonds and our desire to exit from petroleum refining, indicate our firm resolve to pare off those businesses which are not value adding and our focus on focus.

Novel Structural Processes :

With CVA (Cash Value Added) as our measurement metric, we have been able to streamline and refine management decision making processes so that these are totally aligned to shareholder value. This has been accomplished under the umbrella of "Project Together", a Group-wide initiative to drum up support across all levels.

CVA serves as the sinew of our Organisation. Its roll out has been eminently successful. The Group's commendable results are partly the spin-off from CVA.

Our antenna is tuned in to the external world. We have been constantly sharpening our wherewithal to channel and drive the forces of change. To do so we are moulding ourselves into a quick response, market-driven people who are constantly innovating and designing product delivery systems as customer solutions.

Infusion of fresh blood and grooming talent at all levels aids us in attaining the objective. Increasingly professionals of a high caliber have been and continue to be recruited whenever the required competence is not found internally. Alongside we have been moving talent effortlessly across the Group. The senior positions that fell vacant consequent to the retirement policy, have been largely filled in through the internal recruitment of talented, competent professionals. The transition has been flawless.

I firmly believe that our people provide us with the cutting edge. They are the backbone of our organisation. They breathe life into the business, endowing it with both character and staying power. Therefore harnessing people power, breeding thought-leaders and creating platforms from which every individual can contribute are priorities, in continuum.

Our endeavours to be a fluid, flexible and seamless Group backed by our strong values, and a robust performance ethic are ongoing.

Institutionalising Systems :

Towards creating value, we have embedded systems and processes firmly. The Aditya Birla Information Highway, rechristened as "Aditya Disha" ensures that learning and knowledge sharing is genetically hardwired into our Group. Leveraging the immense networking opportunities it offers, Aditya Disha, our intranet knowledge portal, assists employees at all levels to work faster and smarter. In doing so, it accords us a competitive lever.

Gyanodaya, the Institute of Management Learning, is today a world-class training and learning Centre, one in which we take great pride. Since its inception more than 65 management programmes have been conducted by top-notch professionals over 220 days, attended by 1300 managers. These are of immense value, honing as they do people skillsets required in today's competitive era. More importantly these programmes foster our intellectual capital, so fundamental to our remaining on top of the League in the sectors in which we operate.

All of our initiatives are strung together by one abiding dictum which is – to factor the aspirations of our shareholders, and to ensure that total shareholder returns grow significantly year on year.

Thank you,

Yours sincerely,

KMBirla

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OVERVIEW

The Indian economy is passing through a difficult phase. Though the year started on a positive note with expectations of pick-up in consumer demand and industrial activity, these were belied due to an erratic monsoon, floods and droughts in parts of the country as well as the meltdown of the capital markets. As a consequence, there was sagging consumer confidence, poor demand and sluggish industrial activity. A sharp rise in global crude oil prices and fears of a slowdown in the US economy compounded the pressure. These macro economic developments had adversely impacted practically all segments of the Indian economy.

Viewed in this context, Indian Rayon's performance has been excellent during the year. Net revenues have gone up 32 per cent year-on-year (YoY) on the back of full year contributions from the Garments division and improved volumes of VFY and Insulators divisions. The Garments, VFY and Insulator divisions have reported highest ever volumes, which is a significant achievement considering the then prevalent challenging business environment.

Despite various proactive measures taken by the Company to improve internal efficiencies and cut costs, overall profitability remained under pressure. Operating profits grew by 12 per cent from Rs.205.8 Crores last year to Rs.230.2 Crores in 2000-01 and pre-tax profits have risen by 29 per cent from Rs.57.6 Crores to Rs.74.2 Crores during this period. This was possible due to the improvement in operating efficiencies, aggressive marketing efforts and better working capital management. Despite tax charges of Rs.5.7 Crores, which were not there in the earlier year, net profit has gone up by 19 per cent from Rs.57.6 Crores to Rs.68.5 Crores during the year

Such growth would not have been possible but for the superior performance of our key businesses during this period. The outlook for the Company is positive, given the strong performance of the Garments business, strengthened operations at Insulators, better operating environment for Carbon Black business and a favourable change in demand for VFY in local and export markets.

VALUE ENHANCING STRATEGIC MOVES

Global Brand Rights Acquired

The year has been extremely important strategically for Indian Rayon. To enhace shareholder value the Company leveraged upon its strengths even further. It acquired global rights for Louis Philippe, Allen Solly (barring North America) and Peter England (with the exception of U.K. and Ireland) through its wholly owned subsidiary, the Aditya Vikram Global Trading House Ltd., from Coats Viella Plc., U.K. The subsidiary invested US$ 2.26 mn towards the acquisition of these global rights. As you are aware, while acquiring Madura Garments, the Company acquired these brands for Indian markets while its subsidiary obtained the brand rights for SAARC countries along with marketing rights for the Middle East region. Indian Rayon is now on a much stronger footing. It aims to become a leading global player in the garments business.

Foray into the Insurance Sector

A significant move has been the Company's foray into the newly opened up Insurance sector. Insurance is viewed as a profitable and growth business. While its premium market is pegged at Rs.24,000 Crores, it is expected to grow at 18 per cent annually. Given the attractiveness of this sector, the Company has seized this growth opportunity and set up a joint venture titled Birla Sun Life Insurance, in partnership with Sun Life Insurance of Canada.

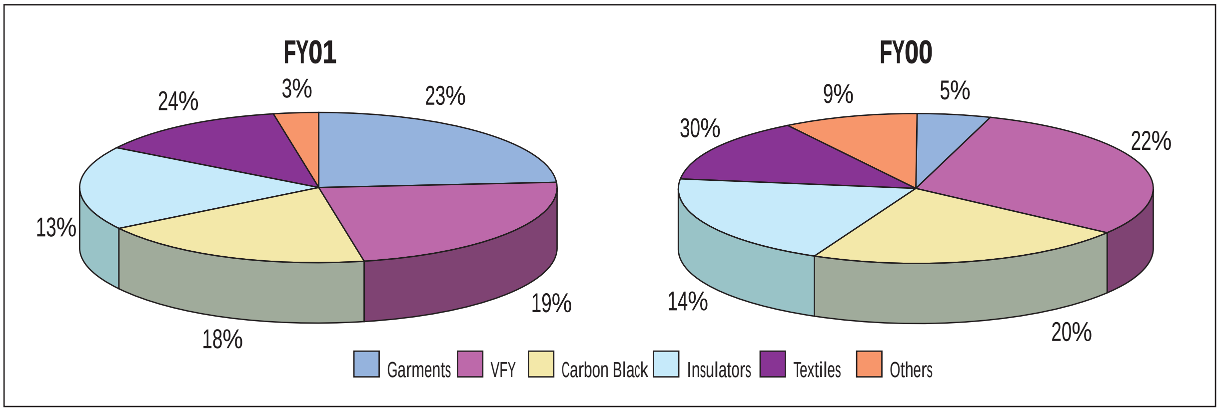
A leading player in the Insurance industry, with over 125 years of experience internationally, Sun Life has assets of over C$330 billion under its management. Prior to the nationalisation of the Insurance sector, they had a sizable presence in India as well.

An investment of Rs.82.80 Crores towards 69 per cent of equity has been made by Indian Rayon in the joint venture. Sun Life of Canada holds 26 per cent of the equity capital. Birla Global Finance Limited, our Group Company, has 5 per cent of the paid-up capital of the joint venture company.

Birla Sun Life Insurance Company has obtained the licence from the regulatory authorities in February 2001. It commenced operations from March 2001. We are confident that the Company's entry into this growth sector will create significant value for shareholders in the long run.

SEGMENTAL ANALYSIS AND REVIEW

The newly acquired garment business constitutes 23 per cent of the net turnover of the Company. Amongst the remaining businesses, the trade-mix remained almost constant.



Garments

	2000-01	*1999-00[*]*	*% Change[**]*
Volumes (Lac Pieces)			
- Shirts	47.2	9.6	23
- Trousers	11.6	1.7	71
Net Turnover (Rs. Crores)	325.5	57.4	42
Operating Profit Before Advertisement and Royalty (Rs. Crores)	*59.7*	*9.4*	-
Operating Margin Before Advertisement and Royalty (%)	*18*	*16*	-
Advertisement Expenses (Rs. Crores)	39.0	6.4	52
Royalty Expenses (Rs. Crores)	8.2	1.4	46
Divisional Operating Profit (Rs. Crores)	12.5	1.6	-

* Business acquired on 1st January 2000. Figures mentioned above pertain to only 3 months of operations and cannot be compared directly.

** Annualised Growth

Review of Operations

In the first full year of its operations, the Garments business has been imminently successful. The Division has reported impressive growth in revenues and profitability during the year. Our key brands have reported strong performance, retaining their leadership in the respective market segments. Louie Philippe and Allen Solly have put in a splendid performance.

Growth backed by volumes

Divisional revenues have gone up by 42 per cent to Rs.325.5 Crores on annualised basis. The performance for the full year, inclusive of the figures of this division, when it was a part of Madura Coats Limited have been impressive, registering a revenue growth of 30 per cent. Improved market share and better sales volumes of Trousers and Shirts have been the growth drivers. More than 47.2 lac pieces of shirts, reflecting a growth of 23 per cent YoY have been sold. Growth in the trouser segment was even more impressive with volumes soaring to 11.6 lac pieces, which is over 71 per cent YoY.

A well-crafted marketing strategy, speedier response to changing customer preferences, through the launch of a slew of innovative collections and brand extensions, coupled with consistent efforts to ensure sustainable leadership for its brands, have led to this commendable performance.

- *Speed of innovation:* A constant focus on innovation and design has and contunes to ensure that we are always on the cutting edge of fashion. To keep in step, in this regard, our design studio at Bangalore has been contemporarised. Additionally for developing new designs, Madura Garments have allied with leading technical professionals from Italy.

  Consequent to these initiatives, the Company was able to launch a series of line extensions. Foremost among these have been Allen Solly's "Uncrushables", Van Heusen's "Durafresh", "Super Permapress" from Louis Philippe and San Frisco's "Zero Wrinkle". The "Louis Philippe stretch", a first in the Indian market, proved a path-breaking innovation as well. Brand extensions such as "Spiritus" from Louis Philippe and "Elements" from Peter England, aided the process.

- *Focused advertising support:* To build a strong brand equity, entailed investing nearly 12 per cent of sales revenues towards advertising and retailing. These promotional efforts have enabled our key brands maintain their leadership position and contribute significantly towards enhanced volumes and revenues.

- *Launching revolutionary concepts* in garment retailing and beefing up of the distribution network aided the Company in attaining superior performance. During the year, retail space for its menswear, expanded by nearly 30 per cent.

  Use of effective, innovative and contemporary retail concepts and strategies such as the launching of "Planet Fashion" and "Trouser Towns" has helped fuel Madura Garment's growth. Until now 8 "Trouser Towns" and 2 "Planet Fashions" in India, as well as 4 "Planet Fashions" in the Middle East have been set up.

- *Strengthening of supply chain and process management efforts* by the Company also enabled it to improve dormancy and reduce idle stock in the supply chain, in turn contributing further towards better divisional performance during the year.

- Above all, a distinct people-oriented, performance driven strategy through the nurturing of its intellectual capital has paid rich dividends. This is amply demonstrated not only by the superior performance of the Company, but importantly also an impressive retention rate of over 95 per cent since the acquisition of the business.

Improved profitability

The garments division's operating margins before considering the advertising expenses and royalty paid at 18 per cent, compare favourably with the operating margin of 16 per cent, clocked in the previous year. Apart from investing 12 per cent of its revenues in advertising, the Company paid a royalty of Rs.8.2 Crores towards technology and know-how supplied by its overseas subsidiary. As a consequence the divisional operating profit stands at Rs.12.5 Crores. Given the high growth levels in this sector and the steps taken to enlarge the markets for our brands manifold, coupled with heightened efficiency and cost optimisation, we believe that our profitability will gain greater momentum in the years to come.

Sector outlook

The outlook for the Garments business is positive. The size of the men's wear industry is estimated to be around Rs.6,000 Crores, of which branded garments account for a 25 per cent share. Changing customer aspirations and life styles, better purchasing power, the proliferation of brands and the emergence of large scale organised retailing in India has led to a shift towards the branded segment. Industry experts believe that the branded garments sector will grow by 15 per cent annually over the next few years. In their view this segment will have 40 per cent of the men's wear industry by 2010. While growth may be more pronounced in the trouser segment, given its nascent stage, the casual wear shirts markets is also expected to register handsome growth in the foreseeable future.

The imposition of excise duty on ready-made garments in the Union budget for 2001-2002 may prove to be an industry dampener, at a time when the economy is in a roil.

On the upside is the structural change, viz., the de-reservation of the industry from the Small Scale Sector. This provides an opportunity to improve productivity, through modernisation of equipments at the supplier companies, which in turn will sharpen the competitive edge. In its wake, it will enable the industry recoup part of the growth, lost due to the imposition of the excise duty.

Outlook for Indian Rayon Garment business

To grow in revenues and earnings and to enlarge its markets in an extremely competitive environment, Madura Garment will leverage its brand equity optimally. Our growth strategy is multi-pronged:

- ***Strengthening of marketing and distribution efforts*** towards sustainable growth will be our primary focus, going forward. Towards this end, the distribution network will be expanded significantly. The enlargement of our retail space by atleast 30 per cent will be pursued as well. The geographic reach of new retail formats such as Trouser Towns and Planet Fashions into mini-metros and smaller towns is on the anvil.
- ***Development of the market*** constitutes the second leg of our strategy. Our intent is to step up growth through accelerating conversions from the ready-to-stitch mindset to the ready-to-wear customer delight. Intensifying of promotional efforts, launching a slew of seasonal collections, coupled with brand extensions and innovative designs, will be the route to our ongoing progress.

  Reinforcing the Peter England brand, through the launch of Peter England trousers and elevating it to a complete wardrobe brand, will take us forward.
- ***Enhancing our presence in the international market*** is the next leg of our growth strategy. Our efforts to strengthen branded exports are already yielding results. Acquisition of global rights for key brands will help us push our branded export volumes aggressively. Contract exports will be a focal point. These aid us in fostering excellent relationships with large customers besides exposure to technology, design and novel product ideas. Additionally, during slack seasons, when demand peters out locally, contract exports will help us in achieving balanced volumes.
- ***Optimising cost*** is a priority to ensure superior returns from this business. Value analysis, controlling material costs, reduction of waste and improved supply chain management will enable efficiency improvements. To zero in on areas of cost improvement, we have initiated "Project SPARK", aided by a renowned consulting firm. We are confident that the implementation of the recommendations of their study will lead to achieving superior stock turnouts and cost reduction. To leverage technology for better logistics management, we have made investments in hardware and software. Collectively these initiatives should result in the improving of margins significantly over the next few years.
- Finally, towards ensuring growth in the medium term, the Company is tapping new growth segments. Launching Blazers and Jackets in multiple brands and price segments, and exploring opportunities in the Women's formal wear segment in the domestic markets is on the cards. These endeavours, will enable Madura Garments achieve superior growth and returns, going forward.

VISCOSE FILAMENT YARN (VFY)

	2000-01	*1999-00*	*% Change*
Installed Capacity (TPA)	15,000	15,000	-
Production (Tonnes)	15,496	12,621	23
Sales Volumes (Tonnes)	15,326	13,507	13
VFY Net Realisation (Rs./Kg)	148	155	(-) 5
Net Turnover (Rs. Crores)	263.5	235.0	12
- VFY	*226.5*	*209.3*	*8*
- Caustic Soda and Chlorine	*37.0*	*25.7*	*44*
Divisional Operating Margins (%)	23	23	-

Review of Operations

The continued sluggish demand in local markets and stiff competition from substitute materials, have impacted the VFY business adversely. Against this backdrop, through aggressive marketing efforts and improved share of exports, the Division has put in a satisfactory performance.

Sales up by 13 per cent

Notwithstanding the fall in demand in the domestic market, sales volumes at 15,326 tonnes have grown by 13 per cent YoY, primarily on the back of improved exports. Exports soared from 1,105 tonnes to 2,037 tonnes, reflecting a growth of 84 per cent YoY. A successful entry into new markets and deeper penetration into existing markets have been the key drivers. The razor-sharp focus on product quality, backed by superior customer service has enabled it to reposition its products amongst quality conscious customers. This, together with the competitive pricing strategy led to achieving superior valume growths. Domestic volumes grew by 7 per cent YoY from 12,402 tonnes in FY 2000 to 13,289 tonnes in FY 2001. Besides aggressive marketing and promotional efforts, improved quality of yarns and a strengthened distribution network have contributed to this encouraging result. The Division's market share has also gone up from 27 per cent to 28 per cent during the year.

Asset utilization at record high levels, margins maintained

Reflecting improved domestic volumes and recovery in exports, production volumes have risen significantly. The VFY Sector's volumes at 15,496 tonnes are 23 per cent higher over that of the earlier year. These reflect a cpacity utilisation of 103 per cent which is the highest ever utilisation achieved so far.

Divisional margins maintained

The sluggish demand in the domestic market, increased supplies and intense price competition put realisations under pressure. VFY prices continued to weaken throughout the first half of the current financial year. After having touched a low of Rs. 143/Kg in June 2000, VFY prices recovered gradually on the back of a gradual recovery in demand and diversion of supplies towards exports. During the second half of the current financial year VFY prices have been rising and hit Rs.153/kg levels by March 2001. Realisation for the full year thus averaged around Rs.148/Kg, which is still lower than the average realisation for FY 2000.

Such a fall in realisation on a year-on-year basis against rising costs naturally impacted VFY margins adversely. These declined from 17 per cent in FY 2000 to 13 per cent in FY 2001. The sharp rise in costs of wood pulp, water and power could not be fully offset by improved efficiencies. At Veraval, the impending water crisis, due to the drought could be avoided through the commissioning of the desalination plant, but because of the cost involved, it had a negative impact.

Despite this erosion in VFY margins, divisional margins could be maintained at 23 per cent, largely due to the improved realisation for caustic and chloric products as well as better operations at the captive power plant. A favourable change in the demand-supply for caustic/chlorine products led to a quantum jump in prices of caustic soda, chlorine and hydrochloric acid. The reduced energy costs (better efficiency, higher PLF and increased use of lignite at the captive power plant) also enabled the Division fully offset the impact of fall in VFY margins. The margins could have been even better, but for planned shutdown of one-third of caustic soda capacities for membrane replacement (for about 20 days) during the fourth quarter of the current financial year.

Sector Outlook

The outlook for the VFY business remains challenging. Changing fashion trends, competition from Polyester Filament Yarn (PFY), both in the domestic and export markets are affecting its growth potential. The prevailing gap in prices of VFY and PFY is substantial and is further compounding the issue, inducing as it does customers to shift from VFY to PFY. As a result, the recovery in domestic demand is slow.

In the interim period, volume growth will be driven by the Division's ability to heighten export presence. The export markets offer profitable opportunities for growth. Realignment of VFY capacities taking place abroad and several capacities in the West being closed down for cost reasons, offer enormous growth opportunities for quality conscious producers like Indian Rayon.