

Annual Report 2005 - 2006



PRIME TEXTILES LIMITED



Multi-storeyed residential complex is under construction

PRIME TEXTILES LIMITED**Annual Report 2005-06****BOARD OF DIRECTORS****Mr. MADAN LAL PATODIA**

Chairman

Mr. PURUSHOTTAM PATODIA

Vice Chairman & Managing Director

Mrs. MINNU THOMAS

(Nominee of IDBI)

Mr. N.K. BAFNA**Mr. BANWARILAL SINGHAL****Mr. CHANDULAL D. THAKKER****Mr. MANOJ KUMAR PATODIA**

Managing Director

Mr. ANUJ K. PATODIA

Executive Director

COMPANY SECRETARY**Mr. S. RENGASAMY****AUDITORS****MESSRS. M.S. JAGANNATHAN & VISVANATHAN**

Chartered Accountants, Coimbatore

LEGAL ADVISORS**MESSRS. RAMANI & SHANKAR**

Advocates, Coimbatore

BANKERS**CENTRAL BANK OF INDIA****BANK OF INDIA****CANARA BANK****REGISTERED OFFICE**110, Avinashi Road
Gandhinagar Post
Tirupur-641 603
India

PRIME TEXTILES LIMITED

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*The Quality Advantage*

DIRECTORS' REPORT

To the Members

Your Directors have pleasure in presenting their Sixty Ninth Annual Report and the Audited Accounts for the year ended 31st March 2006.

FINANCIAL RESULTS AT A GLANCE

	Year ended March 31, 2006 Rs.lacs	Year ended March 31, 2005 Rs.lacs
Turnover and other income	11,165	12,074
EBIDTA	1,524	1,351
Interest	724	583
Depreciation	453	429
Amortisation	216	192
Profit before taxes	131	147
Current Taxation	(7)	(8)
Deferred taxation	75	118
Fringe benefit tax	(9)	-
Minimum Alternate Tax Credit entitlement	7	-
Profit after tax	197	257
Surplus from previous year brought forward	142	137
Amount available for appropriation	339	394
APPROPRIATIONS:		
Proposed Dividends-		
On Equity Capital	34	34
On Preference Capital	12	12
Tax on Distributed Profits	6	6
Transfer to General Reserve	200	200
Surplus carried over to Balance Sheet	87	142
Total Appropriations	339	394

DIVIDEND

Your Directors are pleased to recommend a Dividend of 7.50% on 45,48,720 Equity Shares of Rs.10 each absorbing Rs. 34.12 lacs and to recommend a Dividend @8% on 1,50,000 8% Preference Shares of Rs.100 each absorbing Rs.12.00 lacs for the year ended 31 March 2006.

The above Dividends, if declared, will be paid to those Members whose names appear in the Register of Members on the date of the ensuing Annual General Meeting. You may please note the fact that the Dividend recommended above is free of tax in the hands of the shareholders. The tax on distributed profits, payable by the Company would amount to Rs. 6.47 lacs.

REVIEW OF OPERATIONS**Industry**

True to expectations the textile industry witnessed intense competition both in domestic and international markets in the aftermath of quotas, progressive liberalization of market access and removal of quantitative restrictions (QRs). Post-MFA era posted opportunities and posed challenges for the Indian textile industry. The elimination of quota restriction opened the way for the Indian textile industry to develop stronger clusters to handle different stages of production chain. In order to capitalize on the opportunities a Vision-2010 for textiles was formulated by the government. It aims at increasing India's share in world's textile trade from the current 4% to 8% by 2010 and to achieve export value of US \$ 50 billion by 2010. Vision 2010 for textiles envisages growth in Indian textile economy from the current US \$ 37 billion to \$ 85 billion by 2010, creation of 12 million new jobs in the textile sector; and modernisation and consolidation for creating a globally competitive textile industry. The industry needs to capitalize on the natural advantages in the country which has a strong raw material base, large capacities in both spinning and weaving sector, vast pool of skilled manpower, flexibility in production process and growing entrepreneurship.

**Operations
Spinning Unit:**

During the year under report, your company witnessed a high incidence of power cost owing to unprecedented increase in oil prices, which rendered operation of its captive power plant most uneconomical, dipping the operational margins of the Spinning Unit. Power cost alone escalated by 33% (Rs.304 lacs) during the year under report compared to the previous year. The switchover to SEB for

PRIME TEXTILES LIMITED

power supply was the only option available but the high power tariff in the State has contributed to increased operational costs, with the result profit margins have been depressed.

Your Directors are considering various options to redress the situation on a long term basis and are hopeful of bringing up the operational margins to match with industry best standards.

Garments Division:

The Garments industry has been operating in the mid price segment where production costs are kept low. The Division has fallen short of expectations owing mainly to changing customer preferences. Despite adequate attention provided at top management levels, being a labour-intensive sector, catering to seasonal export demands which are small lot sizes and operating in low value segments has thrown the scale economies out of gear, forcing the Company to take a fresh look at its expansion proposals. The poor performance of the Division with a net loss at Rs.114 lacs for the current year has adversely affected the overall performance of the company.

Presently the Division is showing some signs of improvements and your Directors hope the Division reaches reasonable levels of productivity and margins on sales during the coming year.

Property Development:

As already reported, your company has stepped into development of its landed properties in partnership with technocrats and others. Its first project of construction of Residential flats in Tirupur is in advanced stages of construction and the Phase-1 with 212 apartments is expected deliverable by end-December 2006. The Phase-2 with further 200 residential apartments will be taken up for construction by July 2006. The Commercial Mall of world-class amenities is expected to launch during the current year. It offers amusement parks, convention centers, food courts, shopping and offices, multiplexes and a star category hotel. This state-of-the-art mall, first of its kind in Tirupur, is expected to redefine the way the city shops. It is expected that organized retailing attains a fast track growth in Tirupur, fuelled by such a mall catching up imagination of young retailers.

CONSOLIDATED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements for the year ended March 31, 2006 form part of the Annual Report.

SUBSIDIARY COMPANIES

The Reports and Audited Accounts of the subsidiary companies along with the statement pursuant to Section 212 of the Companies Act, 1956, form part of the Annual Report.

CORPORATE GOVERNANCE AND MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Your Company has adopted appropriate standards for good Corporate Governance. All the mandatory provisions of Corporate Governance as prescribed under the amended Listing Agreements of the Stock Exchanges, with which the Company is listed, are complied with. Report on Corporate Governance with Management Discussion and Analysis as required under the Listing Agreements with the Stock Exchanges forms part of the Annual Report in Annexure B.

ENVIRONMENT AND POLLUTION CONTROL

Your Company has been complying with the State Environment and Pollution Control statutes and has instituted adequate measures towards environmental protection.

FIXED DEPOSITS

There are no unpaid deposits except the ones matured but remaining unclaimed amounting to Rs. 1.00 lac (Rs.2.06 lacs) by two depositors.

LISTING AT STOCK EXCHANGES

The Equity Shares of the Company are listed on the Stock Exchanges at Coimbatore, and Mumbai. The annual listing fees for the year 2005-2006 have been paid to both these Stock Exchanges.

DISCLOSURE OF PARTICULARS

As required by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the relevant information and data is given in Annexure C. A Cash Flow Statement, as required by Clause 32 of the Listing Agreement with the stock exchanges is forming part of the Notes on accounts.

DIRECTORS

In accordance with the Articles of Association of the Company, Mr. Madan Lal Patodia and Mr. Chandulal D. Thakker retire by rotation as Directors at the ensuing Annual General Meeting and are eligible for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

In compliance of Section 217(2AA) of the Companies Act, 1956, your Directors wish to confirm that

- i. In the preparation of the annual accounts, the applicable Accounting Standards have been followed.
- ii. The Accounting Policies adopted are consistently followed and the judgments and estimates made 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 of the Company for the year.

- iii The Directors have taken proper and sufficient care as warranted for the maintenance of adequate accounting records in accordance with the provisions of this Act in safeguarding the assets of the Company and for preventing/detecting any incidence of frauds and other irregularities.
- iv The Annual Accounts have been prepared on a going concern basis.

COST AUDIT

The reports of M/s. Mahadevan & Co., Cost Accountants, in respect of audit of cost accounts of the Company for the year ended March 31, 2006 will be submitted to the Central Government within the stipulated time limit.

AUDITORS

The statutory auditors of the Company, Messrs M.S. Jagannathan & Visvanathan, Chartered Accountants, retire as Auditors of the Company at the conclusion of the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept the office of the Auditors, if reappointed.

PARTICULARS OF EMPLOYEES

A statement showing the particulars of employees referred to in sub section (2A) of section 217 of the Companies Act 1956 read with Companies (Particulars of employees) Rules 1975 is given in Annexure A forming part of the report.

ACKNOWLEDGEMENTS

Your Directors record with a deep sense of gratitude the excellent support and cooperation rendered by all stakeholders including financial institutions, bankers and business associates. The Directors thank the State and the Central government offices for various assistances rendered to the Company. The Directors take this opportunity to record their appreciation the commitment and dedication of the employees at all levels.

For and on behalf of the Board of Directors

Place : Kolkata
Date : 31.05.2006

Madan Lal Patodia
Chairman

ANNEXURE A

Particulars of employees as required under sub section (2A) of Section 217 of the Companies Act, 1956 and the rules made thereunder forming part of the Directors Report

A. Employees who worked throughout the accounting year and whose remuneration aggregating Rs.24,00,000 or more per year

Name	Age	Designation & Nature of duties	Qualification & Experience	Date of commencement	Remuneration Rs. lacs	Last employment held
Mr. Purushottam Patodia	66	Vice Chairman & Managing Director	B.Com (44 years)	20.10.1989	36.04	GTN Textiles Ltd.

B. Employees who worked during part of the accounting year and whose remuneration aggregating Rs.2,00,000 or more per month

None

Notes:

1. Nature of employment: Contractual
2. The remuneration includes Salary, Company's contribution to Provident Fund, Educational Allowance, Medical Expenses and other perquisites evaluated as per Income tax Rules wherever necessary
3. Mr. Purushottam Patodia is related to Mr. Madan Lal Patodia, Chairman, Mr. Manojkumar Patodia, Managing Director and Mr. Anuj K. Patodia, Executive Director and Mrs. Indira Devi Patodia, Sales Executive of the Company.

For and on behalf of the Board

Place: Kolkata
Date : 31.05.2006

Madan Lal Patodia
Chairman

ANNEXURE B

Management's Discussion and Analysis

OVERVIEW

Prime Textiles Limited is a Government Recognised 2-Star Export House, accredited to the ISO-9002 Quality Standards and the Oeko Tex Standard-100. The Company has an eco-friendly Spinning Unit, and a Knitted Garments Unit situated at Tirupur. It has a Post-spinning Unit near Satyamangalam for carrying out value-addition processes of TFO twisting and singeing. It has a Realty Division for developing land banks in Tirupur and other tier-II cities.

The year under report has been a period of consolidation of its strengths, enabling it to re-orient for overall performance improvement. The hall marks of the year have been assertive marketing efforts, addition of value-added processes as part of technological advancement in spinning, focus on increasing efficiency levels and implementation of effective cost control measures and progress in property development activities. The turnover registered a fall by 9.6% mainly on account of low off-take in outsourced yarn exports and poor performance by the Garments Division. The net profit after tax was at Rs.197 lacs (previous year Rs.257 lacs).

Towards enhancement of stakeholder value

Measures During The Year

The company has been implementing Phase-4 of modernization cum expansion under the Technology Upgradation Fund Scheme. Completion of this Phase is expected to enhance capacity of the company to produce world class yarns and offers greater flexibility to adopt to changing market demands with ease. However the company's Garment Division did not perform on expected lines and as such expansion plans for the facility have been dropped for the time being.

Technology absorption

First Phase under TUFs completed

The company has implemented a modernisation programme allowing it for absorption of latest technology in its production lines, increased capacity for value-added processes and for expansion of knitted garment capacities, replacement of worn out spinning machineries with the latest machines and reinforced the pre-spinning and post-spinning capacities. The Industrial Development Bank of India with a term loan of Rs.1000 lacs funded the project under the Technology Upgradation Fund Scheme to meet a project outlay of Rs.1415.00 lacs

Second Phase under TUFs completed

With the thrust towards equipping the Company to confidently meet the post-MFA era by enhancing the existing levels of process know-how, technology absorption and operational skills, the Company has implemented the second modernisation programme. The IDBI Bank Ltd with a term loan of Rs.550 lacs funded the project under the Technology Upgradation Fund Scheme to meet a project outlay of Rs.975.35 lacs

Third Phase under the TUFs completed

As a logical extension of the earlier two phases, this phase allowed the Company in absorbing latest technological advancement in post-spinning value-addition process to meet the requirements in export markets. Central Bank of India has funded with a term loan of Rs.245 lacs under the Technology Upgradation Fund Scheme to meet a project outlay of Rs.315.75 lacs

Fourth Phase under TUFs under implementation

This phase contemplates increasing the spindleage capacity, strengthening preparatory in spinning to produce world class yarns, additional preparatory facilities and additional value-addition process to meet the customers' requirements in export markets, as also expansion of the Garments Division. The Fourth phase of modernization is funded with a term loan of Rs.20.00 crores under the Technology Upgradation Fund Scheme jointly by State Bank of Patiala and State Bank of Hyderabad to meet the project outlay of Rs. 25.21 crores. With the dropping of expansion plans for the Garments manufacturing facilities, the loaned funds are pruned down and will be restricted to about Rs. 16.00 crores.

Cost of Finance

The company has been able to swap high cost debts with low cost ones matching the coupon rates prevailing at the time. It has pruned the cost of working capital advances. Further efforts are under way in pruning the cost of finance.

Property Development

The Company has launched development of company owned prime lands in partnership with technocrats and others. At present, the construction of Residential Apartments is underway and 212 apartments will be ready for delivery by end-December 2006. The next phase for construction of 200 Residential Apartments and for ultra modern Commercial Complex will be launched in the latter half of current year.

The sum total of the above is enhancement of the stakeholder value.

BUSINESS ANALYSIS

Segment Analysis

The Company has cotton textiles as a single segment. It has a Spinning Unit manufacturing cotton yarns and a Knitted Garments Unit manufacturing cotton knitted garments.

Cotton yarn continues to be the key business of the company. The Yarn Division of the Company comprises of (1) Manufacturing Division (MFD) deals with its own production of cotton yarns and (2) Outsourced Yarns Division (OYD) taking up processing of outsourced yarns. OYD also caters for exports of yarns in product ranges where the in-house manufacturing capacities are not adequate.

The Garments Division with its own manufacturing facilities, caters to both domestic and export markets.

Review of Operations

The performance during the year under review has mainly been the result of effective cost control measures, improved floor-level workings and sustained marketing efforts creating a niche for the products in overseas markets.

The company continued its focus on the exports. Time-honored marketing strategy of quality assurance as the key word for customer satisfaction, it has been able to create a sustainable demand in quality-conscious countries such as Italy, South Korea, Germany, Japan, U.K. and the U.S.A. The underlying focus of the company is customer-centric in every of its operations.

Yarn Market Outlook

The outlook is promising. Both availability of raw cotton and crop outlook are looking bright. The market landscape has undergone a change with various end-users of the products of the company shifting their manufacturing bases to India. In order to match their requirements, the company is turning to mid-coarser counts of yarns in its manufacturing range.

Expansion Projects

With a long term perspective the company has embarked on a vertical expansion by setting up its Unit-II with installed capacity of 50,000 ring spindles in Andhra Pradesh. It has planned to set up a Home Textiles Weaving and Processing Unit through a subsidiary company predominantly for exports. The location chosen offers close proximity to cotton growing areas and enables the company to retain cost advantage in international markets.

Towards delivering enhanced value to shareholders in the years to come, Prime will continue to strengthen its operations so as to meet requirements of customers and for product ranges offering better margins.

Financial Review And Analysis

Highlights

Year ended 31 st March	2006 Rs.lacs	2005 Rs.lacs	Percentage of Y-0-Y change
Net Turnover	10,856	12,030	(9.76%)
Other Income	308	44	600%
PBIDT	1,308	1,159	13.89%
Interest	724	583	24.18%
Depreciation	453	429	5.59%
Profit before Taxes	131	147	(2.78%)
Current tax	7	8	
Fringe Benefit Tax	9	0	
Profit after Current Tax	115	139	
Deferred Tax	75	118	
Minimum Alternate Tax Credit entitlement	7	-	
Profit after tax	197	257	(23.30%)

PRIME TEXTILES LIMITED**Income Tax**

Deferred tax asset relating to the current year stands credited to the current revenues of the Company. The Minimum Alternate Tax liability is Rs.7.15 lakhs. As the company expects payment of taxes in coming years, due credit is taken for the MAT tax liability.

Return on Capital Employed

Particulars for year ended 31 st March	2006 Rs.lacs	2005 Rs.lacs
Net Fixed Assets (sans Revaluation)	6,679	6,248
Net Current Assets	5,158	4,974
Capital Employed	11,837	11,222
PBIT (Excluding Profit on Sale of Assets)	612	743
ROCE	5.17%	6.62%

Internal Control

The Company has a proper and adequate internal control system to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and those transactions are authorized, recorded and reported correctly.

The Internal Control is supplemented by an extensive program of internal audits, review by management and documented policies, guidelines and procedures. The Internal Control is designed to ensure that the financial and other records are reliable for preparing financial statements and other data, and for maintaining accountability of assets. The Board of Directors provides governance, guidance, and oversight. Through the Audit Committee, it discusses the internal control structure with management based on input from the internal and independent auditors and provides oversight as necessary.

The internal audit function adequately provides

- objective assurance to the Board as to the effectiveness of the company's risk management and internal control framework;
- assistance to the Board and the management to issues connected with the design, implementation, and operation of systems of internal control; and,
- assistance to the Board through periodic reporting to support their review of effectiveness of internal control.

Delivering Enhanced Value To Shareholders

Your Company has positioned itself strategically well for the future. It involves nothing less than creating a new corporate reality that changes the way employees, customers and investors perceive and experience the operations of the company. With technology revolutionizing the industry, the timing chosen by your company to expand vertically its capacity in Spinning and venture into a green-field project for manufacture of home textile products is just apt. The blue print drawn for the future renders your company consistently strong and capitalizing new opportunities opened in the post-MFA regime by pursuing best practices in strategy, marketing, operations, and organization.