

12th annual report 2004 - 2005

Driven by Applications





SARLA
POLYESTER LIMITED



In the crowded space of Polyester/Polyamide based Yarn manufacturing Companies, Sarla Polyester has been able to distinguish itself with a sharp focus on the end user and application segments in India and the world markets. Its inherent strength has been its business model catering to some of the leading apparel and textile companies globally, executed with innovation reflecting true spirit of enterprise.

BOARD OF DIRECTORS	Mr. Madhusudan S. Jhunjunwala	Chairman
	Mr. Krishnakumar M. Jhunjunwala	Managing Director
	Mr. Sanjay Karandikar	Director
	Mr. Arun Vaid	Director
	Mr. Rajesh Ved	Director
AUDIT COMMITTEE	Mr. Arun Vaid	Chairman
	Mr. Madhusudan S. Jhunjunwala	Member
	Mr. Sanjay Karandikar	Member
AUDITORS	M/s. Sundarlal, Desai & Kanodia Chartered Accountants Mumbai	
BANKERS	Andhra Bank, Citibank N.A., Corporation Bank & HSBC	
REGISTERED OFFICE	Survey No. : 59/1/4, Amli Piparia Industrial Estate, SILVASSA-396 230, U.T. of Dadra & Nagar Haveli.	
FACTORY	1)	Survey No. : 59/1/4, Amli Piparia Industrial Estate, SILVASSA-396 230, U.T. of Dadra & Nagar Haveli.
	2)	Survey No. : 64/2/3/4, Amli Piparia Industrial Estate, SILVASSA-396 230, U.T. of Dadra & Nagar Haveli.
	3)	Shed No. A1/48, 100 Sheds Area, GIDC, Vapi-396 195 (Gujarat)
ADMIN. OFFICE	304, Arcadia, Nariman Point, Mumbai-400 021.	
SHARE TRANSFER AGENT	M/s. Sharex Dynamic (India) Pvt. Ltd. 17/B, Dena Bank Building, 2nd Floor, Horniman Circle, Fort, Mumbai-400 001	

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NOTICE

NOTICE is hereby given that the 12th Annual General Meeting of the Members of SARLA POLYESTER LIMITED will be held on Friday day, the 30th September, 2005 at the Registered office of the Company at Survey No. 59/1/4, Amli Piparia Industrial Estate, Silvassa-396 230, U.T. of Dadra & Nagar Haveli, at 11.30 a.m. to transact the following business :

ORDINARY BUSINESS :

1. To consider and adopt the Audited Balance Sheet as at 31st March, 2005 and the Profit & Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Mr. Madhusudan Jhunjhunwala, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS :

5. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as an ordinary Resolution :-

"RESOLVED THAT Mr. Rajesh Ved, who was appointed as an Additional Director of the Company by the Board of Directors and who holds office upto the date of this Meeting under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a Notice in writing from a Member pursuant to Section 257 of the Companies Act, 1956 proposing his candidature for the office of Director be and is hereby appointed as a Director of the Company, liable to retire by rotation.

6. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as an ordinary Resolution :-

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 309, 310 and 311 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 the consent of the Company be and is hereby accorded to the re-appointment of Mr. Krishnakumar M. Jhunjhunwala, as Managing Director of the Company for a further period of 5 years with effect from 1st October, 2004 to 30th September 2009 on the terms and conditions as set out in the Explanatory Statement Annexed to the Notice of the Meeting."

7. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as an ordinary Resolution :-

"RESOLVED THAT pursuant to the provisions of Section 198, 269 and 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 the consent of the Company be and is hereby accorded to the appointment of Mr. Madhusudan S. Jhunjhunwala, as Whole-Time Director of the Company for a period of 5 years with effect from 1st August, 2005 to 31st July, 2010 on the terms and conditions as set out in the Explanatory Statement Annexed to the Notice of the Meeting."

Notes :-

1. A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Company.
2. Proxies in order to be effective must be deposited at the Registered office of the Company not less than Forty-eight hours before the commencement of the Meeting.



3. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of Item No.5 to 7 annexed hereto.
4. The Company has fixed Closure of Register of Members and Share Transfer Books from Wednesday, the 21st September 2005 to Friday, the 30th September 2005 (both days inclusive) for determining the names of members eligible for dividend, if approved, on Equity Shares for the year ended 31st March 2005. The dividend if declared at the Annual General Meeting will be paid on or before 30th October, 2005, in respect of Shares held in physical form to those members whose names appear on the Register of Members of the Company after giving effect to all valid Share Transfers lodged with the Company on or before the end of business hours on 20th September 2005 and in respect of shares held in the Electronic Form to those "deemed members" whose names appear in the statement of beneficial ownership furnished by the NSDL & CDSL as at the end of the business hours on 20th September 2005.

ANNEXURE TO NOTICE

Explanatory Statement pursuant to Section 173 of the Companies Act, 1956.

Item No. 5

Mr. Rajesh Ved was appointed as an Additional Director of the Company by the Board of Directors with effect from 26th October, 2004, under Section 260 of the Companies Act, 1956 and he holds office upto the date of the ensuring Annual General Meeting. The Resolution at Item No.5 of the Notice of the Meeting is meant to re-appoint him. As required under Section 257 of the companies Act, 1956, Notice has been received from a Member proposing the name of Mr. Rajesh Ved for the office of Director.

The Directors commend this Resolution for your approval.

None of the Directors of the Company expect Mr. Rajesh Ved is concerned or interested in the Resolution.

Item No. 6

Mr. Krishnakumar Jhunjhunwala was re-appointed as Managing Director of the Company for a period of 5 years from 1st October, 2004 on expiry of his term on 30th September, 2004 by the Board of Directors in their meeting held on 16th November, 2004 subject to the consent of the Members of the Company and on the recommendation of the Remuneration Committee of the Board. The Remuneration Committee and Board of Directors reviewed the remuneration of the Managing Director looking into the trend in the Industry, appointee's experience, his past performance, his past remuneration etc. details of which are as under:-

- | | |
|--|---|
| 1) Salary | : Rs. 1,00,000/- per month with Annual increment of Rs. 25,000/- every year. |
| 2) Medical Expenses | : Reimbursement of Medical Expenses incurred for him and his family subject to a ceiling of one month salary in a year. |
| 3) Club Fees | : Club Fees Subject to a Maximum of 2 Clubs. This will not include admission and life membership fees. |
| 4) Gratuity | : Gratuity not exceeding half a month salary for every completed years of service |
| 5) Car | : Provision of a chauffeur driven Car for use of Company's business. Use of Car for private purpose shall be billed by Company to the Managing Director. |
| 6) Telephone at residence and Mobile phone | : Provision of a telephone at his residence and a Mobile phone for Company's business. However personnel STD calls shall be billed by the Company to the Managing Director. |

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- 7) Reimbursement of other Expenses : The Managing Director shall be entitled to be reimbursed in respect of all expenses incurred by him including traveling, entertainment etc. for and on behalf of the Company. However, no sitting fees will be paid to the Managing Director for attending the Meetings of the Board of Directors or Committees thereof.
- Explanation : Family means the spouse, dependent children and parents of the Managing Director.

Other Terms and Conditions :-

- 8) **Minimum Remuneration :-** In the subsequent years if profits of the Company remains inadequate or Company incurs losses then the Managing Director shall be paid Remuneration within the ceiling prescribed under Schedule XIII to the Companies Act, 1956.
- 9) **Job Responsibility :-** The Managing Director shall look after all the affairs of the Company subject to the superintendence and control of the Board of Directors of the Company and shall carry out such other work as may be entrusted to him by the Board of Directors of the Company.
- 10) **Devotion of full time :-** During the employment with the Company the Managing Director shall devote full time and attention to the business of the Company as may necessary or required and shall use his best endeavors to promote the interest and welfare of the Company.
- 11) **Ceasing of Office :-** If any time the Managing Directors ceases to be Director of the Company for any cause whatsoever, he will ceases to be Managing Director in terms of this appointment forthwith.
- 12) **Notice period :-** The appointment of the Managing Director can be terminated by either party giving 3 months notice and no severance fees will be payable to the Managing Director.”
The Resolution set out at Item No. 6 of the Notice of the Meeting is meant for obtaining consent of the Members for his re-appointment and payment of above stated remuneration. The Directors commend the Resolution for your approval.
The Company has already sent an abstract of the Terms & Condition including the details of remuneration payable to the Managing Director, at the time of his reappointment by the Board of Directors as required under Section 302 of the Companies Act, 1956..
Mr. Krishnakumar Jhunjunwala himself and Mr. Madhusudan Jhunjunwala relative of Mr. Krishnakumar Jhunjunwala are interested in the Resolution.

Item No.7

Mr. Madhusudan S. Jhunjunwala has been appointed as Whole-time Director of the Company for a period of 5 years from 1st August, 2005 by the Board of Directors in their meeting held on 29th July, 2005 subject to the consent of the Members of the Company and on the recommendation of the Remuneration Committee of the Board. The Remuneration Committee and Board of Directors fixed the remuneration of the Whole-time Director looking into the trend in the Industry, appointee's experience, his past performance, his past remuneration etc. details of which are as under:-

- | | |
|---------------------|---|
| 1) Salary | : Rs. 75,000/- per month with Annual increment of Rs. 25,000/- every year. |
| 2) Medical Expenses | : Reimbursement of Medical Expenses incurred for him and his family subject to a ceiling of one month salary in a year. |
| 3) Club Fees | : Club Fees Subject to a Maximum of 2 Clubs. This will not include admission and life membership fees. |
| 4) Gratuity | : Gratuity not exceeding half a month salary for every completed years of service |



- | | |
|--|--|
| 5) Car | : Provision of a chauffeur driven Car for use of Company's business. Use of Car for private purpose shall be billed by Company to the Whole-time Director. |
| 6) Telephone at residence and Mobile phone | : Provision of a telephone at his residence and a Mobile phone for Company's business. However personnel STD calls shall be billed by the Company to the Whole-time Director. |
| 7) Reimbursement of other Expenses | : The Whole-time Director shall be entitled to be reimbursed in respect of all expenses incurred by him including traveling, entertainment etc. for and on behalf of the Company. However, no sitting fees will be paid to the Whole-time Director for attending the Meetings of the Board of Directors or Committees thereof. |
| Explanation | : Family means the spouse, dependent children and parents of the whole time Director. |

Other Terms and Conditions :-

- 8) **Minimum Remuneration :-** In the subsequent years if profits of the Company remains inadequate or Company incurs losses then the Whole-time Director shall be paid Remuneration within the ceiling prescribed under Schedule XIII to the Companies Act, 1956.
- 9) **Job Responsibility :-** The Whole-time Director shall look after all the Finance, Accounts and Administration work of the Company subject to the superintendence and control of the Board of Directors of the Company and shall carry out such other work as may be entrusted to him by the Board of Directors of the Company.
- 10) **Devotion of full time :-** During the employment with the Company the Whole-time Director shall devote full time and attention to the business of the Company as may necessary or required and shall use his best endeavors to promote the interest and welfare of the Company.
- 11) **Ceasing of Office :-** If any time the Whole-time Directors ceases to be Director of the Company for any cause whatsoever, he will ceases to be whole time Director in terms of this appointment forthwith.
- 12) **Notice period :-** The appointment of the Whole-time Director can be terminated by either party giving 3 months notice and no severance fees will be payable to the Whole-time Director." The Resolution set out at Item No. 7 of the Notice of the Meeting is meant for obtaining consent of the Members for his appointment and payment of above stated remuneration. The Directors commend the Resolution for your approval.

This may also be treated as an abstract of the Terms & Condition including the details of remuneration payable to the Whole-time Director, in terms of Section 302 of the Companies Act, 1956.

Mr. Madhusudan S. Jhunjunwala himself and Mr. Krishnakumar Jhunjunwala relative of Mr. Madhusudan S. Jhunjunwala are interested in the Resolution.

For & on behalf of Board of Directors
MADHUSUDAN S. JHUNJHUNWALA
Chairman

Place : Mumbai.
 Date : 29th July 2005

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DIRECTOR'S REPORT

To,
The Members,

Your Directors have pleasure in presenting their Twelfth Annual Report on the business and operations of the Company together with Audited statement of Accounts for the year ended 31st March, 2005.

1. FINANCIAL RESULTS

	2004-2005	(Rs. In Lacs)	
		2003-2004	
Total Income	7138.12	5593.08	
Profit before Financial Charges and Depreciation	1562.54	1039.12	
Less : (1) Financial Charges	75.75	52.08	
(2) Depreciation	237.04	131.89	183.97
Profit before Tax	1249.75	855.15	
Less : Provision for Tax	170.00	70.00	
Provision for Deferred Tax	77.22	74.73	144.73
Profit after Tax	1002.53	710.42	
Prior period Adjustments	2.15	2.08	
Intangible Assets Amortised	-	(0.12)	
Balance brought forward	1194.88	750.68	
Surplus available for appropriation	2199.56	1463.06	
APPROPRIATION			
Transfer to the General Reserve	500.00	80.00	
Dividend @ 24%	166.81	166.81	
Dividend Tax	23.39	21.37	
Balance carried forwarded to the Balance Sheet	1509.36	1194.88	
	2199.56	1463.06	

2. BUSINESS PERFORMANCE

Your directors are pleased to report performance of the Business operations as follows :

Operations

During the year under review the sales of the Company were Rs. 7033.65 lacs as against Rs. 5564.18 lacs in 2003.2004 registering an annual growth of 26.41%. The FOB value of exports increased by 31% from Rs. 3175.54 to Rs. 4165.05 lacs.

Profitability

The profit before Depreciation, Interest & Tax was Rs. 1562.54 lacs as compared to Rs. 1039.12 lacs in the previous year. After providing for depreciation of Rs. 237.04 lacs (Previous Year Rs. 131.89 lacs) & provision for taxation of Rs. 247.22 lacs (Previous Year Rs.144.73 lacs) there is a profit of Rs. 1002.53 lacs as compared to Rs. 710.42 lacs in the Previous Year.

Dividend

Your Directors have recommended dividend @ 24% for the year ended 31st March 2005.



3. MANAGEMENT DISCUSSION AND ANALYSIS

Overall Review

The profitability of the company during the year under review has increased dramatically as compared to the previous year mainly due to improvement in the product mix & adding newer & higher value added items. The Company has strengthened the marketing in the traditional markets & has explored newer markets simultaneously. The thrust of your company is still in the export markets where the quality perception of the company's products has dramatically changed resulting in larger and sustained orders with higher value realizations.

Industry Overview

Polyester filament yarn (PFY) is mainly used for manufacturing apparel (shirting, suiting, ladies' dress material) and knitwear; and non-apparel (upholstery, industrial fabrics and soft luggage). The major raw materials used for making PFY are PTA or DMT, and MEG.

In India, PFY accounted for more than 51 per cent of the total synthetic yarn demand in 2003-04. From 1997-98 to 2003-04, PFY demand increased at a CAGR of 9.7 per cent. The PFY market is the largest synthetic market in India, both in value and volume terms. In 2003-04, the industry turnover of PFY was around Rs 75 billion. There were 37 PFY units in India, with an installed capacity of 1.2 million tonnes. The industry is largely concentrated and the five largest producers accounted for around 60 per cent of the market share in 2003-04.

The Polyamide (Nylon) yarn manufacturing and consumption in India is at a steady decline as it is more expensive than PFY. However for certain areas like hosiery, narrow fabrics, etc. where Polyester cannot replace the Polyamide due to certain product required properties inherent in Polyamide, the market for these yarns is still there. Besides the company has mainly catered for the export market where the Polyamide consumption is steady & has not drastically declined as compared to India.

Markets

The traditional applications where Polyester & Polyamide Textured yarns are sold are primarily for weaving & circular knitting. These areas are mainly catered to by integrated units having their own partially oriented yarn (POY) manufacturing & maybe polycondensation facility along with Texturising machines.

Thousands of tons of these commodity yarns in above two applications are used everyday with price sensitivity being extremely crucial.

For an individual Texturiser to cater to the above commodity segment, even though the volumes are large, is purely for the sake of turnover, as this would have no positive impact on the bottom line.

Opportunities & Threats

India's man-made fibres industry is unlikely to capitalise fully on the opportunities that will open up after textile quotas are dismantled from January 1, 2005. There is a lot that the industry has to do before it can fully realise its potential in the export markets in a quota-free environment. This is partly due to the fact that India has traditionally been a larger player in the cotton textiles market and its share of synthetics in the total textiles exports basket is very low (less than 30 per cent is in the form of synthetic yarns, fabrics and garments). China, on the other hand, has a well-established presence in synthetics. Thus, in a quota - free environment, China will leverage on its strong presence to significantly increase its share of synthetic exports. In stark contrast, India's domestic man-made fibres industry, despite having

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large man-made fibres producers, has predominantly catered to the domestic market. Moreover, historically, the main users of polyester yarn, the weavers, are very small and fragmented, fallout of the government's fiscal policies (providing tax concessions to the powerloom sector) that encouraged smaller capacities .

India also does not have a cost advantage in both woven textured yarn fabric and textured yarn. While China is the least cost producer, production costs of textured yarn and fabric are also cheaper in Brazil and Korea compared to India.

It has to be recognised that in today's market oriented system, Competitiveness is very crucial to succeed. So it is essential to hold the responsibility to improve productivity, bring down cost, upgrade quality, undertake effective market penetration and help carve out a larger share in overseas markets.

Government policies over the past couple of years have been proactive and growth oriented. The encouragement offered to the textile industry by the Government by cutting customs and excise duties on textile machines and favorable exim policy will help to face the challenges across the market by aggressively going up the value chain.

Though the majority of the Indian textile machinery in weaving and processing is obsolete, the spinning sector has been fairly modernized. Now with the introduction of TUFs (Technology Upgradation Fund Scheme) the weaving and processing sector has been undergoing with rapid changes, which encourages the production of more value added items and processed fabrics.

Strategy & outlook for Business

Your company has been making efforts to move out of the commodity yarn business in both Polyester and Polyamide & has focused its products & efforts in developing & catering to niche area applications.

In the financial year under review, the Company has managed to position almost 45% of its production for these applications & efforts are on to further improve this to 60 - 65% in the current financial year & take it upto 75 - 80% in the forthcoming years.

With new products like high tenacity Nylon thread the Company is gearing up its marketing efforts to target application like car air bags, sewing threads for leather shoes, garments etc.

Management of Financial Resources

Your company has been very conservative in its financial management as can be observed from our Collections and Inventories. This is despite the fact that most of the revenues come from exports. Also, for expansion purposes primarily internal resources have been used and the funds have been spent very judiciously thereby, improving the free cash flow and return on shareholder funds. Though, the textile industry is growing and we foresee tremendous potential, we shall continue to follow conservative approach in financial management.

Risk & Concern

Majority of our Export sales are contracted in US \$. The current strengthening of the Rupee against the US\$ would have an impact on our realisations.

However as the company is importing almost 100% of its raw material and with the Imports almost matching the Exports, the Company has a natural hedge.

Shareholder Value

It is in the upper most priority of your company's management to continuously strive to improve the shareholder value by increasing the amount of dividends and providing sufficient information reflecting transparency to all its stakeholders.



Last 5 Year Financial Analysis

Important Ratios

Particulars	Mar'05	Mar'04	Mar'03	Mar'02	Mar'01	Mar'00
(A) Measures of Performance (%)						
Operating Profit Margin (excl. O.I.)	21.07	18.40	16.32	5.32	7.72	12.20
Operating Profit Margin (incl. O.I.)	21.89	18.21	16.13	5.42	8.05	13.41
Interest/Sales	1.07	1.69	2.26	1.92	2.49	4.77
Gross Profit Margin	20.83	16.54	13.90	3.50	5.57	8.70
Tax/PBT	19.78	16.96	23.50	25.71	1.25	0.00
Net Profit Margin	14.04	11.90	8.80	1.71	4.36	6.83

(B) Measures of Financial Status						
Debt / Equity (x)	0.50	0.43	0.43	0.67	0.75	0.58
Interest Coverage (x)	20.63	10.87	7.22	2.83	3.25	2.85
Average Cost of Debt (%)	5.43	10.06	12.39	10.92	10.40	15.03
Debtors Period (days)	85.03	79.17	82.68	54.50	78.76	114.82
Closing stock (days)	55.74	56.13	48.47	28.41	40.41	59.96
Inventory Turnover Ratio (x)	6.55	6.50	7.53	12.85	9.03	6.09
Fixed Assets Turnover (x)	2.19	2.08	3.32	4.76	4.07	2.67
Working Capital Turnover (x)	3.74	5.21	2.91	3.79	3.24	2.20

(C) Measures of Investment						
Earnings Per Share (Rs.) (excl EO)	14.42	10.22	6.23	1.53	3.42	2.81
Earnings Per Share (Rs.)	14.42	10.22	6.23	1.53	3.42	2.78
Cash Earnings Per Share (Rs.)	17.84	12.12	7.93	2.60	4.32	3.57
Dividend Per Share (Rs.)	2.40	1.20	0.00	0.00	0.00	0.00
Dividend Payout (%)	16.64	11.75	0.00	0.00	0.00	0.00
Profit Ploughback (%)	83.36	88.25	100.00	100.00	100.00	100.00
Book Value (Rs.)	48.81	37.09	29.55	23.38	25.05	21.83
Return on Avg. Net Worth (%)	33.59	30.66	21.09	6.57	13.64	12.72
Return on Avg. Cap. Employed (%)	27.92	26.53	21.16	8.87	12.36	13.49

Particulars	FY05	FY04	FY03	FY02	FY01	CAGR(%)
Sales (Rs. crore)	70.16	54.87	47.51	43.01	53.15	7.19
PBDIT (Rs. crore)	15.63	10.39	7.36	3.31	4.02	40.42
PAT (Rs. crore)	10.02	7.10	4.33	1.07	2.38	43.32
Sales Qty. (MT)	4,364	4,101	3,877	5,876	5,183	(4.21)
Realisation (Rs./Kg.)	166.77	133.77	122.55	73.19	102.54	11.90