

13th annual report 2005-2006

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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. Jhunjhunwala	Chairman
	Mr. Krishnakumar M. Jhunjhunwala	Managing Director
	Mr. Sanjay Karandikar	Director
	Mr. Arun Vaid	Director
	Mr. Jigar A. Shah	Director
AUDIT COMMITTEE	Mr. Arun Vaid	Chairman
	Mr. Madhusudan S. Jhunjhunwala	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 13th Annual General Meeting of the Members of SARLA POLYESTER LIMITED will be held on Thursday, the 28th September, 2006 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, 2006 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. Sanjay Karandikar, 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. Jigar A. Shah, who was appointed as an Additional Director of the Company by the Board of Directors and who holds office up to 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 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 a Special Resolution :-

“RESOLVED THAT pursuant to Section 21 of the Companies Act, 1956 and subject to the approval of Central Government the name of the Company be and is hereby changed from Sarla Polyester Limited to Sarla Performance Fibers Limited.”

“RESOLVED FURTHER THAT the name Sarla Polyester Limited wherever it occurs in the Memorandum & Articles of Association of the Company be substituted by the new name **“Sarla Performance Fibers Limited.”**

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 & 6 annexed hereto and the relevant details in respect of item Nos. 3 & 5 above, pursuant to clause 49 of the Listing Agreement with Stock Exchange are annexed hereto.
4. The Company has fixed the date of Closure of Register of Members and Share Transfer Books from Friday, the 22nd September 2006 to Thursday, the 28th September 2006 (both days inclusive) for determining the names of members eligible for dividend, if approved, on Equity Shares for the year ended 31st March 2006. The dividend if declared at the Annual General Meeting will be paid on or before 28th October, 2006, 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 21st September 2006 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 21st September 2006.



ANNEXURE TO NOTICE

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

Item No. 5

Mr. Jigar A. Shah was appointed as an Additional Director of the Company by the Board of Directors with effect from 1st July, 2006, under Section 260 of the Companies Act, 1956 and he holds office upto the date of the ensuing 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. Jigar A. Shah for the office of Director.

The Directors commend this Resolution for your approval.

None of the Directors of the Company expect Mr. Jigar A. Shah is concerned or interested in the Resolution.

Item No. 6

The Company is manufacturing various types of high performance yarn like high tenacity Polyamide Nylon Yarns, Flat Yarns, Nylon Monofilament Yarns, Spandex/Lycra Yarns besides conventional texturised, Twisted and Dyed Polyester Yarns. These yarns are high priced Yarns and used in manufacturing of new fashioned fabrics of high value. The major Sales of the Company consist of these high performance yarns and in future looking into the expansion project of the Company to manufacture these high performance yarns almost all production will be of high performance special kind of yarns. The present name SARLA POLYESTER LIMITED does not reflect the products of the Company and looking into the fact that Company is a 100% E.O.U., exporting its production worldwide it is necessary to change name of the Company to reflect its core business activities viz. manufacturing of 'High Performance Yarns'. Availability of the new name has been approved by the Registrar of Companies, Ahmedabad.

As per the provisions of Section 21 of the Companies Act, 1956 for change of name of the Company, approval of the Members of the Company is required by passing a Special Resolution besides approval of the Central Government

The Resolution set in the Agenda at Item No. 6 is meant for this purpose.

The necessary application for Change of name to the concerned authorities will be made after your approval.

Directors commend the Resolution for your approval. None of the Director is concerned or interested in the Resolution.

Details of Directors seeking appointment/reappointment at the Annual General Meeting (Pursuant to Clause 49 of the Listing Agreement):-

Name of Director	Jigar Arvind Shah	Sanjay Karandikar
Date of Birth	8th June, 1974	17-06-1959
Date of Appointment	1st July, 2006	23-11-1993
Expertise in specific functional areas	Financial Analysis and Fund Management.	24 years Experience with Synthetic Fiber Industry as a Supervisory & Managerial Position.
Qualifications	B.Com, DCP.	B.Sc., Textile Technology from Sasmira.
List of Public Companies in which outside Directorships held as on 31st March, 2006	Nil	Nil
Chairman/Member of the Committees of the Board of the Companies on which he is a Director as on 31 st March, 2006	Nil	Nil

Place : Mumbai.

Date : 28-08-2006

For & on behalf of Board of Directors

MADHUSUDAN S. JHUNJHUNWALA

Chairman

13th Annual Report

DIRECTORS' REPORT

To

The Members,

Your Directors have pleasure in presenting their Thirteenth Annual Report on the business and operations of the Company together with Audited statement of Accounts for the year ended 31st March, 2006.

1. FINANCIAL RESULTS

	2005-2006	(Rs. In Lacs) 2004-2005
Total Income	8765.13	7138.12
Profit before Financial Charges and Depreciation	1795.34	1562.54
Less : (1) Financial Charges	119.53	75.75
(2) Depreciation	259.02	237.04
Profit before Tax	1416.79	1249.75
Less : Provision for Tax	255.00	170.00
Provision for Deferred Tax	25.08	77.22
Provision for Fringe Benefit Tax	4.77	—
Profit after Tax	1131.94	1002.53
Prior period Adjustments	6.96	2.15
Balance brought forward	1509.36	1194.88
Surplus available for appropriation	2648.26	2199.56
APPROPRIATION		
Transfer to the General Reserve	500.00	500.00
Dividend @ 30%	208.51	166.81
Dividend Tax	29.24	23.39
Balance carried forwarded to the Balance Sheet	1910.51	1509.36
	2648.26	2199.56

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. 8634.37 lacs as against Rs.7033.65 lacs in 2004-05 registering an annual growth of 22.76 %. The FOB value of exports increased by 26.76 % from Rs. 4165.05 to Rs. 5279.46 lacs.

Profitability

The profit before Depreciation, Interest & Tax was Rs. 1795.34 lacs as compared to Rs.1562.54 lacs in the previous year. After providing for depreciation of Rs. 259.02 lacs (Previous Year Rs.237.04 lacs) & provision for taxation of Rs. 284.85 lacs (Previous Year Rs.247.22 lacs) there was a profit of Rs. 1131.94 lacs as compared to Rs. 1002.53 lacs in the Previous Year.

Dividend

Your Directors have recommended dividend @ 30% for the year ended 31st March 2006.

3. MANAGEMENT DISCUSSION AND ANALYSIS

Overall Review

There is a perceptible increase in the profitability of the company during the year 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 large and sustained orders with high value realizations.

Industry Overview

World-wide, Asia plays the dominant role in production of yarn. China claims the edge over the other countries in production of yarn followed by India. Pertinent point to note is that substantial capacities from other Countries such as Korea and Taiwan have either closed down or shifted to other Countries such as China, India or Thailand. In nutshell China and India have now emerged as worlds dominating yarn producing Countries, while India is occupying the position of 4th largest producer of man-made fibre and 3rd largest producer of filament yarn in the world market.

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.

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 poly condensation facility along with Texturising machines.

SARLA POLYESTER LTD. is a diversified producer and processor of multi-filament Polyester and Nylon Textured Yarns and Elastic Yarns.

It's main business is texturising, twisting and covering of multifilament yarns and its manufacturing operations are located in Silvassa and Vapi.

SARLA markets its yarn to knitters and weavers who produce fabrics for apparel, hosiery, home furnishings, activewear, underwear and to manufacturers of sewing threads.

Opportunities & Threats

SARLA is working on a three major opportunities for growth :-

- a. Partnering with textile companies in the West in supply of SARLA yarns for their final textile product manufacturing.
- b. Production and processing of higher value yarns.
- c. Establishing production facilities overseas to take advantage of regional preferential free trade agreements.

Partnering with textile companies in the West. in supply of SARLA yarns for their final textile product manufacturing.

Outsourcing as a general business practice is on the rise and while this was always popular with large transnational corporations, today even small and medium sized companies in the developed world have embarked on this course partly facilitated by Trade Liberalization and recent developments in information technologies which have made communication costs more reasonable leading such companies in the Textile manufacturing business to consider outsourcing their production due to the substantial cost savings.

SARLA is actively pursuing such opportunities and has established such type of production agreements with two medium sized companies from USA and UK respectively who will purchase its yarn which was previously purchasing in its own countries and which is an intermediate raw material for its final manufactured textile product.

SARLA is also in discussion with many other such partners in Europe and USA and such collaborations offer great opportunity since it provides stable clients for **SARLA'S** yarn production as well as long term benefits in technology upgradation as well as opportunities to expand **SARLA'S** scope and diversity of business activities in association with such established companies in Europe and USA.

Production and processing of higher value yarns.

SARLA today is also the first Indian manufacturer of **High Tenacity Polyamide 66 yarns**.

The company's venture into production of High Tenacity Yarns is consistent with its desire to leverage core manufacturing expertise and enable it to diversify the yarn product range and end use markets and it provides the company with an immediate access to a broader mix of high value products.

Also, **SARLA** which upto now has a strong underlying business model in the commodity customized yarn market plans to add value to the supply chain with introduction of branded yarns and it is presently exploring these opportunities.

Establishing production facilities overseas to take advantage of regional preferential free trade agreements.

SARLA has recently established production facilities in Honduras for manufacture of Textured and Dyed Polyester and Nylon Yarns.

It is perhaps the first Indian company to invest in Honduras.

Honduras is a member of CAFTA [Central American Free Trade Agreement] and the other country members include EL SALVADOR, COSTA RICA, GUATEMALA, NICARAGUA AND DOMINICAN REPUBLIC.

The US – CAFTA allows duty free access to textile products manufactured in these countries who belong to the CAFTA Union.

As a result, exports of textile products from CAFTA to USA have increased dramatically and are reported to be \$ 9.16 billion in 2005.

Honduras was the biggest CAFTA textile shipper to USA with textile exports of \$ 2.62 billion in 2005.

SARLA expects captive consumers for its yarns in the garment exporting industries of Honduras and the other nearby CAFTA textile manufacturers.

Management of Financial Resources

Your company has been very conservative in its financial management as can be observed that for expansion purpose primarily internal resources have been used and the funds have been spent very judiciously in turn, improving the free cash flow and return on shareholder funds. As the textile industry is growing, we foresee tremendous potential, however, we shall continue to follow conservative approach in financial management.

Risk & Concern

Our major business in export market is contracted in US \$. The current strengthening of the US \$ against the Rupees will impact our realizations.

However as the company is importing 95% of its raw material the currency impact if any shall be offset.

Due to shortage and non availability of Raw Materials and sharp increase in Raw Material prices, it will have an impact on the bottom line of the company. However the company has good contacts with quality manufactures hence does not fore see any problem in availability, company is in the process of exploring new products & Markets.

Shareholder Value

The endeavour of the Company is to improve the shareholder value by increasing the amount of dividends and providing sufficient information reflecting transparency to all its stakeholders.

Last 5 Years Financial Analysis

IMPORTANT RATIOS

Particulars	Mar'06	Mar'05	Mar'04	Mar'03	Mar'02	Mar'01
(A) OPERATIONAL PERFORMANCE (%)						
Operating Profit Margin (excl. O.I.)	19.65	21.07	18.40	16.32	5.32	7.72
Operating Profit Margin (incl. O.I.)	20.48	21.89	18.21	16.13	5.42	8.05
Interest / Sales	1.38	1.07	1.69	2.26	1.92	2.49
Gross Profit Margin	19.12	20.83	16.54	13.90	3.50	5.57
Tax / PBT	20.11	19.78	16.96	23.50	25.71	1.25
Net Profit Margin	12.91	14.04	11.90	8.80	1.71	4.36

(B) FINANCIAL PERFORMANCE						
Debt/Equity (x)	0.43	0.50	0.43	0.43	0.67	0.75
Interest Coverage (x)	15.02	20.63	10.87	7.22	2.83	3.25
Average Cost Of Debt (%)	6.73	5.43	10.06	12.39	10.92	10.40
Debtors Period (days)	97.57	85.03	79.17	82.68	54.50	78.76
Closing stock (days)	60.17	55.74	56.13	48.47	28.41	40.41
Inventory Turnover Ratio (x)	6.07	6.55	6.50	7.53	12.85	9.03
Fixed Assets Turnover (x)	2.59	2.19	2.08	3.32	4.76	4.07
Working Capital Turnover (x)	3.00	3.74	5.21	2.91	3.79	3.24

(C) VALUATION PARAMETERS						
Earnings Per Share (Rs.) (excl EO)	16.29	14.42	10.22	6.23	1.53	3.42
Earnings Per Share (Rs.)	16.29	14.42	10.22	6.23	1.53	3.42
Cash Earnings Per Share (Rs.)	20.01	17.84	12.12	7.93	2.60	4.32
Dividend Per Share (Rs.)	3.00	2.40	1.20	0.00	0.00	0.00
Dividend Payout (%)	18.42	16.64	11.75	0.00	0.00	0.00
Profit Ploughback (%)	81.58	83.36	88.25	100.00	100.00	100.00
Book Value (Rs.)	61.77	48.81	37.09	29.55	23.38	25.05
Return on Avg. Net Worth (%)	29.46	33.59	30.66	21.09	6.57	13.64
Return on Avg. Cap. Employed (%)	25.46	27.92	26.53	21.16	8.87	12.36

Particulars	FY06	FY05	FY04	FY03	FY02	FY01
Sales (Rs. crore)	86.34	70.16	54.87	47.51	43.01	53.15
PBDIT (Rs. crore)	17.95	15.63	10.39	7.36	3.31	4.02
PAT (Rs. crore)	11.32	10.02	7.10	4.33	1.07	2.38

4. DIRECTORS

Mr. Sanjay Shankar Karandikar, Director of the company retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Jigar A. Shah was appointed as an Additional Director of the company with effect from 01.07.2006.

Mr. Rajesh R. Ved, Director has resigned w.e.f. 01/07/2006.

5. FIXED DEPOSIT

The Company has not accepted any deposit from the public during the Financial year ended under review.

6. PERSONNEL :

Particulars of employees within the meaning of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended by the Companies Amendment Act, 1988, are not applicable since there was no employee who was in receipt of remuneration prescribed under the Rules.

7. AUDITORS :

M/s. Sunderlal, Desai & Kanodia, Chartered Accountants, the Statutory Auditors of the company hold office until the conclusion of the ensuing Annual General Meeting and are recommended for re-appointment.

8. CORPORATE GOVERNANCE :

As required by Clause 49 of the Listing Agreement with BSE, Corporate Governance Report is attached as Annexure A to this Report. Certificate of Auditors regarding compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement of the Stock Exchange is also attached and forms part of Annexure A.

9. DIRECTORS' RESPONSIBILITY STATEMENT :

A Directors' Responsibility Statement as required Under Section 217(2AA) of the Companies Act 1956 is given below:

- i. Directors have followed the applicable accounting standards in the Preparation of the Annual Accounts and proper explanations relating to material departures have been given in schedule 20 of Notes on Accounts forming part of the accompanying Accounts
- ii. Directors have selected the Accounting Policies as given in Schedule 20 which contains Notes on Accounts and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at 31st March, 2006 and of the profits of the company for the year ended on that date.
- iii. Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 for safeguarding the Assets of the company and for preventing and detecting fraud and other irregularities.
- iv. Directors have prepared the Annual Accounts for the year ended 31st March, 2006 on a Going Concern basis.

10. ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO.

As required under Section 217(1)(e) of the Companies Act, 1956 and the Rules made there under, the concerned particulars relating to Energy Conversation, Technology Absorption and Foreign Exchange Earnings and Outgo are given in Form A & Form B respectively Annexed here to and form part of the report.

FORM 'A'

Form for Disclosure of particulars with respect to conservation of Energy

	Current Year	Previous Year
A. Electricity		
a) Purchased		
Unit (KWH)	11230239	5704837
Total Amount (Rs.)	36117747	19169892
Rate/Unit (Rs.)	3.22	3.36
b) Own Generation		
1) Through diesel generator	2426863	4836703
Unit per ltr. of diesel oil	3.29	3.28
Cost/Unit (Rs.)	7.38	4.87
2) Through steam turbine generator	—	—
B. Coal (Specify quantity & where used)	—	—
C. Furnace Oil		
For Generating steam for Boiler – Ltrs.	319000	345995
Total Amount (Rs.)	5667484	3797567
Cost/Ltr. (Rs.)	17.77	10.98
D. Others/Internal generation	—	—
E. Consumption per unit of production	—	—

	Standard (if any)	Current Year	Previous Year
Product – Yarn (M.T.)	—	7624	6636
Electricity – Units (KWH)	—	1791	1589
Furnace Oil – Ltrs.	—	138	165
Coal (Specify quality)	—	—	—
Others (Specify)	—	—	—

FORM 'B'

Form for disclosure of particulars with respect to Technology Absorption, Research and Development (R&D)

- | | |
|--|--|
| 1. Specific areas in which R & D is Carried out by the Company | New Product Development, Process Development and Optimising process parameters. |
| 2. Benefits derived as a result of the above R & D. | Introduction of several new types of Polyester and Nylon Yarns. |
| 3. Future Plan of Action | To meet the increasing requirement of customers around the world and development of new products. |
| 4. Expenditure on R & D. | All machineries are dedicated for operational as well as R & D activities. Hence no separate accounts are Maintained and as such Expenditure on R & D is not Separately ascertainable. |
| a) Capital | |
| b) Recurring | |
| c) Total | |
| d) Total R & D expenditure as a percentage of total Turnover. | N . A |