



TECHNOLOGY

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INNOVATIONS

SOLUTIONS

14th Annual Report
2006-07



TECHNOLOGY . INNOVATIONS . SOLUTIONS

This year's theme is based on the company's new mission to grow in the niche segment of Performance Fibers in the world market. Performance Fibers are yarns and threads developed and produced to meet and exceed the specialized requirements of customers in the markets which they service. Performance Fibers are targeted for improving the processes and products in Undergarments ,Hosiery, Sportswear, Narrow Fabrics, and Sewing Threads etc.

Why Technology. Innovation. Solutions.?

Technology: At SPFL , the last 4 years have been dedicated relentlessly in pursuing the technology for making various Performance Fibers. A strong foundation has been laid with proper technical teams and equipment to support a rapid growth of these high performance yarns. As we move towards completing our first milestone, we have changed our company's name also in line with the same, distinguishing ourselves clearly from pure manufacturers of commodity yarn.

Innovation: Through innovation we find the answers to meet the challenge of customer demands and retain the pursuit of remaining one up in a field of tough competition. This innovated desire has come from 99% perspiration and 1% inspiration of our team who spends countless hours of thinking out of the box in terms of product development, manufacturing, quality, delivery , packaging and so on .

Solutions: Providing solutions is something we derive a lot of satisfaction from in meeting our customer's specialized needs. It can be seen in comments made by some of our customers on the back cover page. Our sales team is continuously striving to work closely with our customers worldwide in the different segments by keeping in constant communication to understand their needs thoroughly. This mind set has created partnerships with our customers. These partnerships have created an invaluable source for suggestions in meeting their specific demands. When customers have come for inspection of our facilities, positive suggestions have been given and in coming years, we shall be able to implement many of these leading to a greater value. This approach has been very important in understanding the customers requirements which in return has reduced rejects and minimized waste.

Our
Cover page theme for this
year is new logo and name,
signifying the change
process!

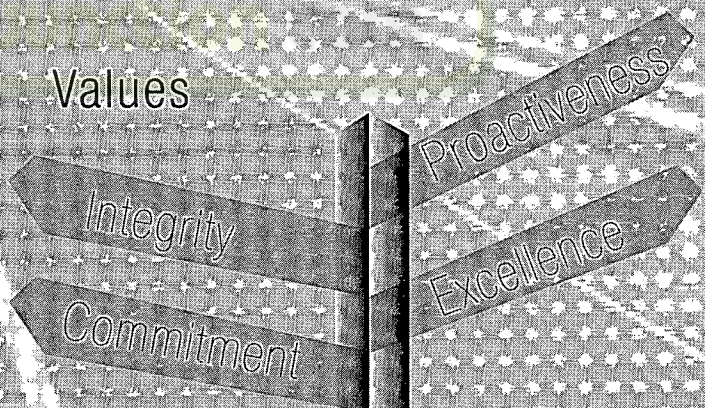
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Vision

- Professionally Coveted Organization
- Manufacturing the highest quality performance yarns
- Enhancing relationship with all stakeholders

Values





BOARD OF DIRECTORS

Madhusudan Jhunjhunwala	Chairman & Whole-time Director		
Krishnakumar Jhunjhunwala	Managing Director		
Arun Vaid	Director		
Sanjay Karandikar	Director		
Jigar Shah	Director		
Audit Committee	Arun Vaid - Chairman Madhusudan Jhunjhunwala - Member Sanjay Karandikar - Member		
Auditors	M/s. Sundarlal, Desai & Kanodia Chartered Accountants Mumbai		
Bankers	Andhra Bank Citi Bank Corporation Bank HSBC Bank		
Registered Office	Survey No. 59/1/4, Amli Piparia Industrial Estate, Silvassa – 396 230, U.T. of Dadra & Nagar Haveli		
Facility	Survey No. 59/1/4, Amli Piparia Industrial Estate, Silvassa – 396 230, U.T. of Dadra & Nagar Haveli	Survey No. 64/2/3/4, Amli Piparia Industrial Estate, Silvassa – 396 230, U.T. of Dadra & Nagar Haveli	Shed No. A1/48, 100 sheds area, GIDC, Vapi – 396 195 Gujarat
Corporate office	304, Arcadia, Nariman Point, Mumbai – 400 021		
Website	www.sarlafibers.com		
Investors services e-mail id	investors@sarlafibers.com		
Registrars & Transfer Agents	M/s. Sharex Dynamic (India) Pvt. Ltd. 17/B, Dena Bank Building, 2nd Floor, Horniman Circle, Fort, Mumbai – 400 001.		



FROM THE DESK OF MANAGING DIRECTOR

Dear Shareholders,

"Investing calls for much the same qualities as those required to become a first class ballet dancer or concert pianist. – John Train, Midas Touch

This quote is remarkably applicable to us! I am indeed glad to share with you that while ours is a young company, we have taken some very confident strides in the last few years towards investing in solid and sustainable growth. You may be aware, the Textile sector is a very challenging one, especially when it comes to being reasonably profitable and sustainable! To this task we have applied ourselves quite diligently.

We are established globally - Our business model is differentiated towards Performance Fibers versus the commodity yarns made in the industry. This transition to Performance Fibers has come after a struggle of almost five years. With this transition, we are not being complacent but are taking it forward by introducing more high performance products through gaining and absorbing more technology for these products. By aggressively pursuing this transition we have been able to create a significant mark among our customers globally for quality, delivery and competitiveness. As a result our financial performance has improved in recent years. This has been achieved through tight cost controls and efficient working capital management. We have met the first test of the challenge successfully and have established ourselves with a strong capability.

Next challenge is Scalability - This challenge will be accomplished through investment in machinery, improving technologies, greater branded product sales, and continuous training of our associates. Last year we invested in a Joint Venture in Honduras specifically for this and I am pleased to say that it has been progressing well. The learning curve is near completion and our next challenge is to achieve SCALABILITY. Extensive plans have been made and are being implemented to bring scalability in building the business to meet medium and long term goals. To see this result on our top line and bottom line, the SCALING up of our business is taking place and we believe the same would translate into a substantial growth in time to come. Our endeavour is that we will attain this scalability while maintaining our profitability and continue to work to diversify our business risks. With the various products offered in sewing threads, narrow fabrics, hosiery, sportswear and new innovative products the opportunity size of addressable market could be as large as five billion dollars.

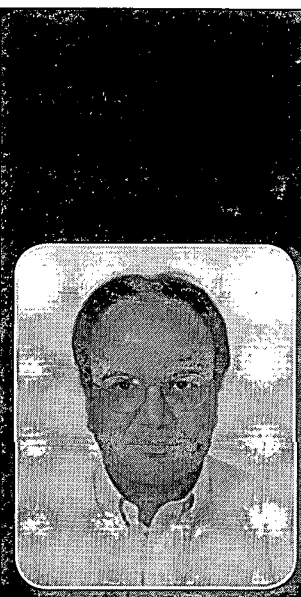
Outsourcing by customers - The current phase in the Textile sector is that of Outsourcing. It calls for a lot of speed, scale and dynamism. We have been preparing ourselves for the same but in different aspects.

So as to solidify our relationships with our customers we provide outsourcing of their specific products. In this model, the customer transfers certain assets and we carry out cost efficient and high quality execution, creating a win-win situation for both companies.

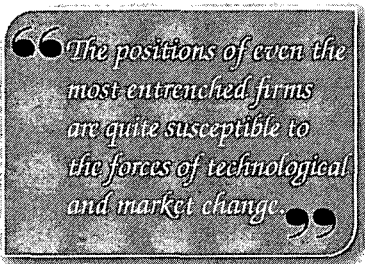
While FY 2007 was a year of consolidation for us, FY 2008 should see better growth. I would like to thank all our stakeholders for their support and faith in us.

Sincerely,

Krishnakumar M. Jhunjunwala



With the various products offered in sewing threads, narrow fabrics, hosiery, sportswear and new innovative products the opportunity size of addressable market could be in multi billion dollars.



DIRECTORS' REPORT

To
The Members,

Your Directors have pleasure in presenting their Fourteenth Annual Report on the business and operations of the Company together with Audited statement of Accounts for the year ended 31st March, 2007.

(Rs. in Lacs)

1. FINANCIAL RESULTS	2006-2007	2005-2006
Total Income	10032.78	8765.13
Profit before Financial Charges and Depreciation	1935.18	1795.34
Less : (1) Financial Charges	159.68	119.53
(2) Depreciation	294.48	259.02
Profit before Tax	1481.02	1416.79
Less : Provision for Tax	310.00	255.00
Provision for Deferred Tax	27.45	25.08
Provision for Fringe Benefit Tax	6.05	4.77
Profit after Tax	1137.52	1131.94
Prior period Adjustments	(59.34)	6.96
Balance brought forward	1910.51	1509.36
Surplus available for appropriation	2988.69	2648.26
APPROPRIATION		
Transfer to the General Reserve	300.00	500.00
Dividend @ 30%	208.51	208.51
Dividend Tax	29.24	29.24
Balance carried forwarded to the Balance Sheet	2450.93	1910.51
	2988.68	2648.26

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. 9862.89 lacs as against Rs. 8581.04 lacs in 2005-06 registering an annual growth of 14.94%. The FOB value of exports increased by 15.44% from Rs. 5279.46 to Rs. 6094.72 lacs.

Profitability

The profit before Depreciation, Interest & Tax was Rs. 1935.18 lacs as compared to Rs. 1795.34 lacs in the previous year. After providing for depreciation of Rs. 294.48 lacs (Previous Year Rs. 259.02 lacs) & provision for taxation of Rs. 343.50 lacs (Previous Year Rs. 284.85 lacs) there was a profit of Rs. 1137.52 lacs as compared to Rs. 1131.94 lacs in the Previous Year.

Dividend

Your Directors have recommend dividend @ 30% for the year ended 31st March, 2007.

“Chess and business
— they’re brain games,
where we must see
what might happen so
we can make it happen
our way.”

3. MANAGEMENT DISCUSSION & ANALYSIS

This section of the Annual Report has been included in adherence to the spirit enunciated in the Code of Corporate Governance approved by the Securities and Exchange Board of India. Shareholders are cautioned that certain data and information external to the Company is included in this section. Though these data and information are based on sources believed to be reliable, no representation is made on their accuracy or comprehensiveness. Further, though utmost care has been taken to ensure that the opinions expressed by the management herein contain their perceptions on most of the important trends having a material impact on the Company’s operations, no representation is made that the following presents an exhaustive coverage on and of all

issues related to the same. The opinions expressed by the management may contain certain forward looking statements in the current scenario, which is extremely dynamic and increasingly fraught with risks and uncertainties. Actual results, performances, achievements or sequence of events may be materially different from the views expressed herein. Shareholders are hence cautioned not to place undue reliance on these statements, and are advised to conduct their own investigation and analysis of the information contained or referred to in this section before taking any action with regard to their own specific objectives. Further, the discussion following herein reflects the perceptions on major issues as on date and the opinions expressed here are subject to change without notice. The Company undertakes no obligation to publicly update or revise any of the opinions or forward-looking statements expressed in this section, consequent to new information, future events, or otherwise.

a. Business Overview

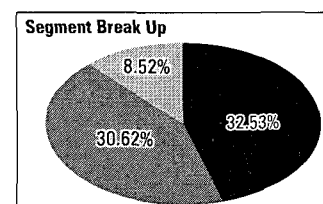
- **Economy :** The Indian economy has been growing in excess of 9 per cent in the last two years and is widely estimated to continue at least 8.5 per cent growth rate in time to come. This phenomena is having a wide ranging impact on the per capita income, purchasing power and is reducing unemployment and poverty in a major way. The world economy is growing at more than 5 per cent in recent times, mainly due to high growth in emerging economies particularly China and India. The growth in US, Japan and Euro Area has matured and is in the range of 2-3 per cent. These countries have a challenge in terms of cost reduction and also big liabilities towards retirement of existing workforce. The emerging economies have successfully demonstrated the supply of several products and services to the developed world, in turn generating a win-win scenario for both. The total outsourcing business is now estimated to have touched USD 10 billion. It is estimated to grow in the future at 20 per cent.
- **Business Overview :** Sarla Performance Fibers, is one of the well established and niche players in the exports of Regular as well as High Tenacity Polyester and Nylon Yarns. It started its operations 14 years back as a commodity manufacturer of Man Made Fiber. However, in the last five years, it has successfully transformed its business strategy and implemented a niche business model. It has an installed capacity of 10541 MTPA for manufacturing yarns in Silvassa (Unit 1 & 2) and a Dyeing unit at Vapi. The Company’s emphasis has been to focus on difficult end user applications, higher value added yarns, to leading global apparel brands and companies. While it still manufactures some of the commodity yarns, the major focus has been in the area of Performance Fibers. To aid the strategy further, the Company has also set up a manufacturing facility under JV in 2006 in Honduras, Central America. This would enable the Company to tap the North American market. With this JV, it now positions us to supply the major players such as Delta, Hanes Brands Inc., Fruit of The Loom, Russell etc. due to Global Positioning for supplying of our products. With the signing of the CAFTA treaty major garment and apparel companies (especially North American Companies) are shifting their manufacturing facilities to Central America resulting in this region becoming a fast growing textile manufacturing hub.
- **Customer Segments and Growth :** The Company’s customer segments can be divided into three parts.
 - 1) Innerwear, Narrow Fabrics, Hosiery and Sportswear
 - 2) Threads
 - 3) Industrial yarns



Over the last few years, the Company has been focusing to partner with various leading textile apparel manufacturers and their suppliers. This is a long gestation activity and it starts with technology acquisition, technology absorption, trial product supply and then final product approval. Typically, this takes minimum 12 months time and other resources. This outsourcing is very similar to what has happened in Automotive Components and Pharmaceuticals sector for the last several years. Our customer diversity is vast and their requirements very customized. Many of these customers are now setting up their base in India apart from China and wish to de-risk their outsourcing. Being early entrants, we expect to benefit from this trend in a big way. In case of each of the application segment and customer sourcing, our share is not even 1 per cent at present, signifying much better potential going forward. The learning curve of people, technology absorption and infrastructure is the major bottleneck today to achieving desired SCALABILITY despite our accepted quality, and delivery capabilities.

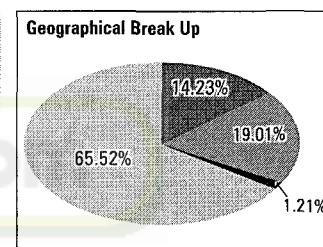
Segment Break Up

	FY 2006-07 (% /Total Sales)
Innerwear, Narrow Fabrics, Hosiery and Sportswear	32.53%
Threads	30.62%
Industrial yarns	8.52%



Geographical Break Up

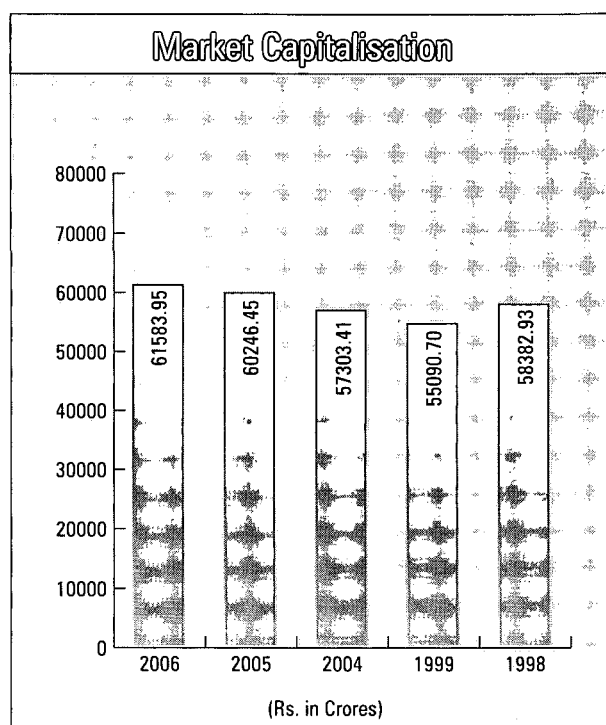
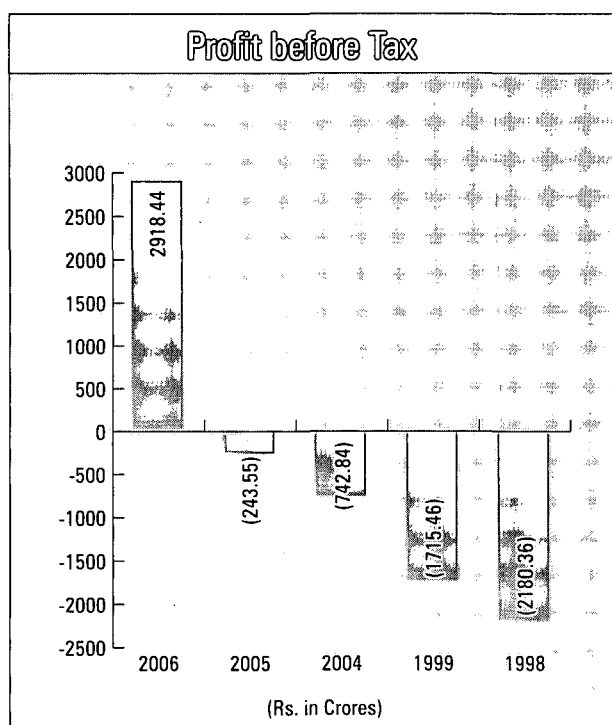
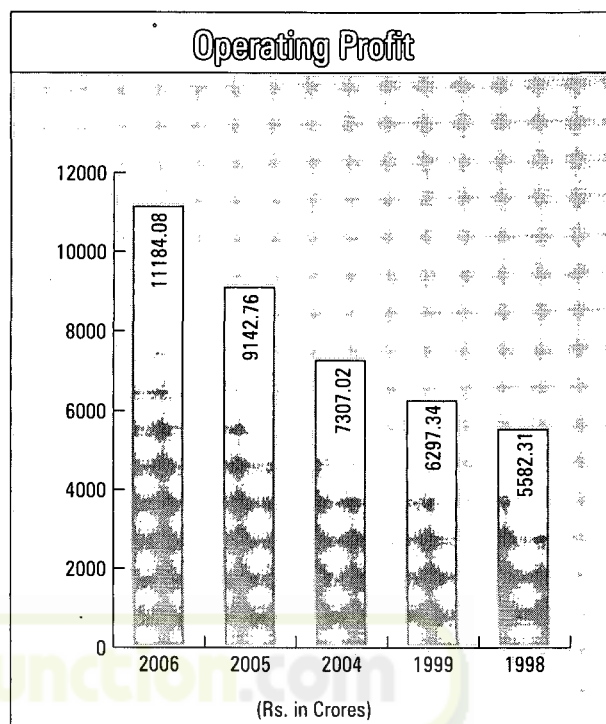
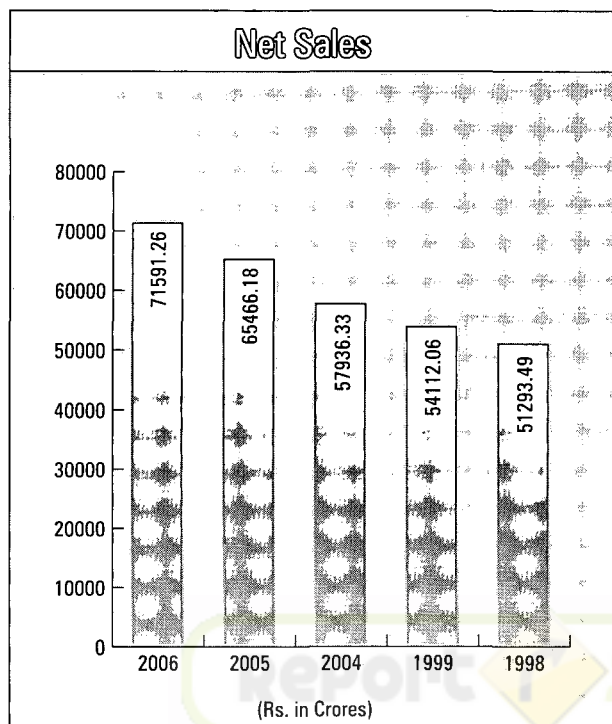
	FY 2006-07 (% /Total Sales)
South, North & Central America	14.23%
Middle East & Europe	19.05%
Africa	1.21%
Asia Pacific	65.52%



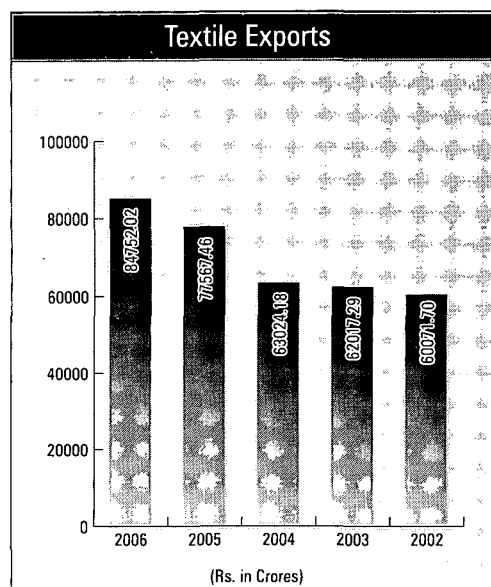
In all, we export to over 20 countries and about 100 customers. None of our client exceeds more than 5 per cent of our total revenues.

- b. **Opportunities and Threats :** The Indian Textile sector is undergoing major structural change. The key factors influencing the sector are : SEZ policy and continued tax incentives, Labour Policy, Interest Rate subsidies, Investment in new machinery, Logistics and Supply Chain Management, etc. One of the major threats in recent time has been the appreciating rupee. This phenomena has broken the back of many players in the SME segment and even in case of the large scale players. Globally, this has eroded the competitiveness of the Indian Textile Sector. It is a serious issue and needs to be given a lot of emphasis at the Government level from the point of view of forex earnings, employment and up liftment of the Textile Sector. The size of Indian Textile sector is less than one third of the same in China. If we have to even come close to that, a lot of thrust to this sector is required. While in many other sectors, India has been able to create Multi Bilion Dollar Corporate Giants in both Revenue and Market Capitalization terms, it has eluded the same in Textile Sector due to some of the constraints explained above. Given the right encouragement and push, this sector can also produce GLOBAL Organizations.

Graph Showing Performance of Textile Sector for last 5 years
 (source : capital market/cmie)



Textile Exports from India (Graph showing last 5 years)



Source - Foreign Trade Statistics of India (Principal Commodities & Countries) DGCIS, Kolkata

- c. **Outlook :** The Company has built significant capabilities and is also incurring capital expenditure to grow further. The desire is to grow much faster than compared to past. Its pursuit for tackling softer issues will enable greater growth in future on organic basis. Also, it will look for growth beyond Indian boundaries by setting up new manufacturing facilities. It is looking to at least double its present revenues in the coming three years, without sacrificing its profitability. Already, despite being relatively small the Company has demonstrated solid and stable revenues and profitability. It would focus on profitable growth even in the medium to long term. So far, it has been able to manage the exchange rate adversity also quite adequately given its imports and hedging strategy.

d. **Financial Performance**

- **Turnover :** The Company turnover grew by 15 per cent in FY 07. This increase can be attributed to 12 per cent volume and 3 per cent value growth.

	06-07	%	05-06
• Expenditure	5,508.23	12.19	4,909.69
• Raw Material Cost	2,566.68	8.51	2,365.41
• EBIDTA	1,935.18	7.79	1,795.34
• Interest Cost	159.68	33.59	119.53
• Fixed Assets	3,787.30	12.61	3,363.24
• Working Capital	2,926.04	59.31	1,836.73
• Cash & Bank Balances	1,333.96	44.02	926.22

e. **Risks and Concerns**

- **Interest Rates :** The Company's present D/E is 0.57. It is utilizing its surplus cash for working capital purpose. Hence, its interest costs are managed reasonably well *vis-a-vis* growth. The rising interest rates at present are not a threat, given the Company's strategy to grow without taking significant debt.
- **Exchange Rate :** 60 per cent of Company revenue is in hard currency and balance is deemed exports, and domestic tariff area. Also, it imports 90 per cent of its raw material creating a natural hedge. Apart from this, from time to time forward cover is taken to hedge exposure in dollar terms.