



our
PASSION
our
PRIDE

15th Annual Report 2007 - 2008

our PASSION our PRIDE

The culture of passion – a case study

WHEN THE GOING GETS TOUGH THE TOUGH GET GOING

Last year, faced with the adversity of rising raw material and fuel costs our team brainstormed about managing profits without going to the customer unless it was inevitable. The Production Team found that wastages coming from old machines could be controlled by having better material flow and less handling of the material. An aggressive plan was implemented to reorganize and relocate certain machinery to achieve this.

We also had bought diesel generating sets over and above normal requirements as a back up. With no immediate need we put them on rent, earning some income.

At the end of Q2 of last year, we commissioned our unit 3. This unit adjacent to our first 2 units has been built with conveyor belt systems and has better material flow saving time and inventory losses. With the commissioning of Unit 3 this allowed for the completion of the reorganization of machines based on customer segments compared to production process method earlier which helped increased productivity.

In addition to Unit 3 two warehouses have been built for storage of raw materials and finished goods ensuring tight controls of inventories.

Our per unit profitability was thus maintained due to these combined efforts.



Award for Best EOU (SSI Category - Textile & Textile Product) - 2005-06 from Export Promotion Council for EOU & SEZ Units, Government of India



Board of Directors

Madhusudan Jhunjunwala	Chairman & Whole-time Director
Krishnakumar Jhunjunwala	Managing Director
Arun Vaid	Director
Sanjay Karandikar	Director
Jigar Shah	Director

Audit Committee	Arun Vaid	Chairman
	Madhusudan Jhunjunwala	Member
	Sanjay Karandikar	Member

Auditors	M/s. Sundarlal, Desai & Kanodia, Chartered Accountants Mumbai
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Bankers	Andhra Bank	Citibank
	Corporation Bank	HSBC Bank
	DBS Bank	Barclays Bank

Registered Office	Survey No. 59/1/4, Amlī Piparia Industrial Estate, Silvassa - 396 230, U.T. of Dadra & Nagar Haveli
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Plants	1) Survey No. 59/1/4, Amlī Piparia Industrial Estate, Silvassa - 396 230, U.T. of Dadra & Nagar Haveli	2) Survey No. 64/2/3/4,61/2, 62/5,63/5,63/7, Amlī 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
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Corporate Office	304, Arcadia, Nariman Point, Mumbai – 400 021.
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Website	www.sarlafibers.com
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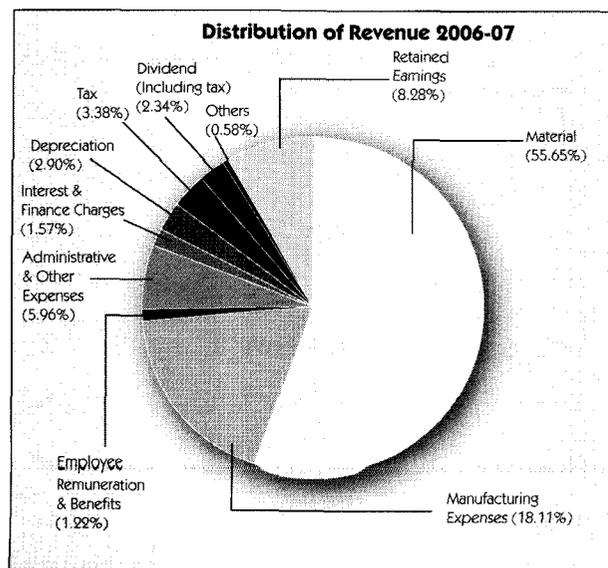
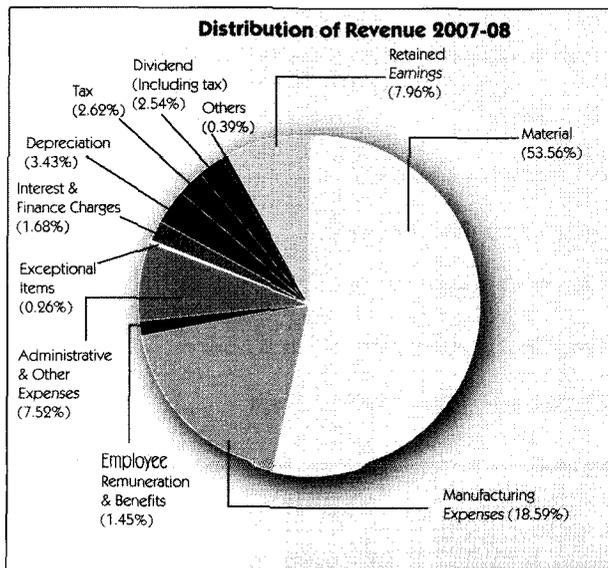
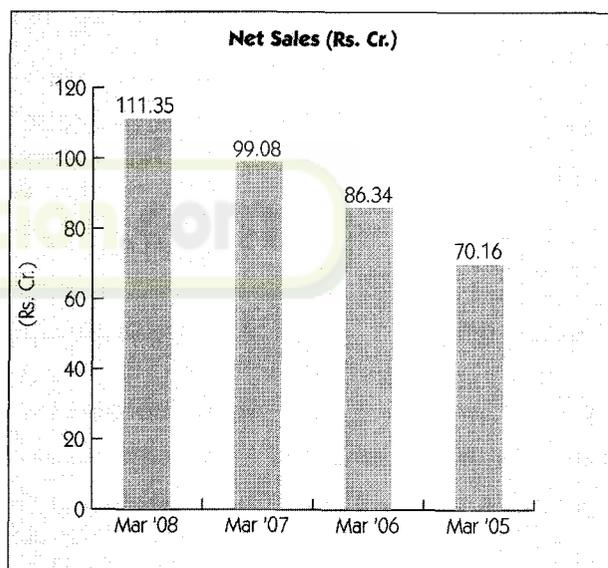
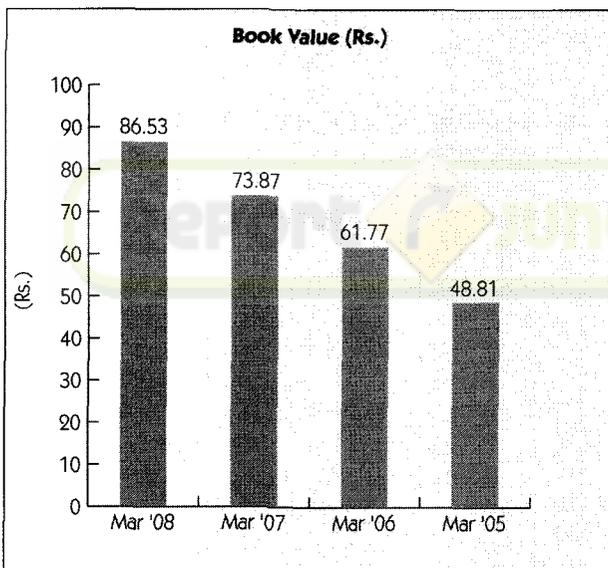
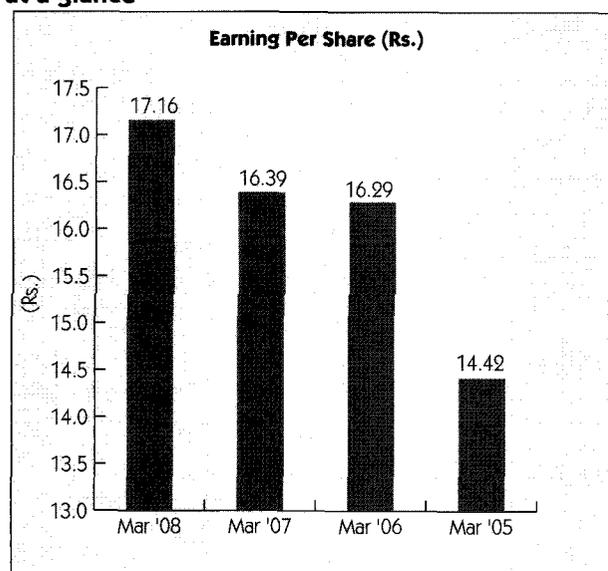
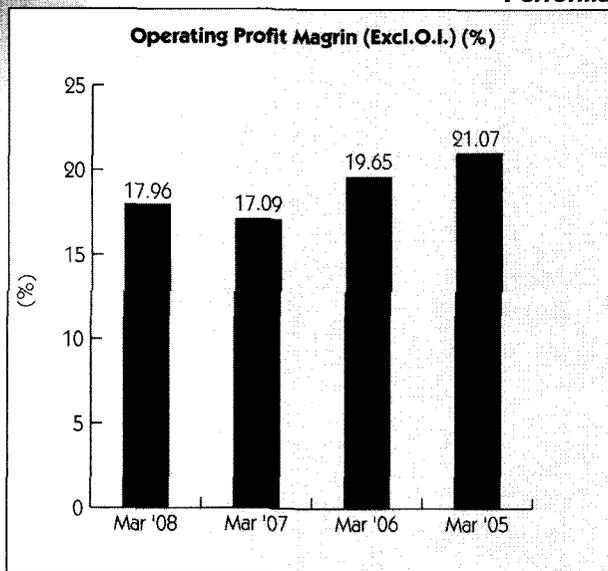
Investors services e-mail id	investors@sarlafibers.com
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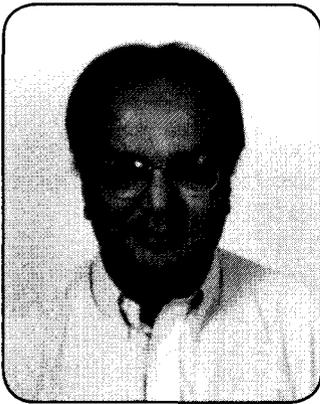
Registrars & Transfer Agents	M/s. Sharex Dynamic (India) Pvt. Ltd., 17/B, Dena Bank Building, 2nd Floor, Horniman Circle, Fort, Mumbai – 400 001.
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Performance at a glance





From the Desk of Managing Director

Dear Shareholders

“the entrepreneur is like an artist, only business is the means of his expression.”

Its heartening to communicate to you about the year gone by and what is in store.

Recently, I came across Tarun Khanna’s book “ Billions of Entrepreneurs” which paints a vivid picture on how the 2 billions plus population of China and India are today reshaping the business, politics and society around the world. We are fortunate that some of these entrepreneurs run your Company along with me today. Let me make you familiar with their characteristics.

Passion for Superior Customer Experience

Just like any other 15 year old we enjoy exciting challenges, camaraderie, compassion, hope, intimacy, community, a sense of purpose, feelings of accomplishment and so on. The enthusiasm and passion in our 150 odd team members is a contagion! They live on the passion of performance yarn and thrive on the joy of contributing something great and unique to the customer’s requirement whether it be in better logistics, design, colour or strength of yarn. They create an experience for the customer. When customers come in contact with such a business, they can’t help but feel the attraction. **Our customers are spread in more than 35 countries today and our tally as of last year is 100. We, feel its just the beginning.**

Growth with Discipline

We want to bring growth with discipline. It is quite tempting to chase growth at a certain point in a Company’s life. It’s easy to fall into the trap of thinking that if you are maximizing growth, you are also maximizing success. It feels like you are winning, and who doesn’t like to win? But we know that it takes a little neglect. If you allow yourself to get distracted, if you stop working on whatever it is that ties you to the people you do business with, the intimacy will vanish, the trust will dissipate, and the bonds will erode. An average customer takes a minimum of 12 months to start doing business after a rigorous process of product development, quality stabilization and customization. In FY 08 textile and other export focused industries witnessed unusual degree of foreign exchange volatility and consequent losses. To some extent, it was driven by the quest for maximizing growth. We have preferred to grow with discipline.

Some milestones reached, and many more to come

A small but important milestone was reached last year when we crossed Rs.100 crores in sales. I am confident, the next Rs.100 crores mark will come much faster and will position us better in chosen segments without compromising our promise to customers for quality products and to shareholders for a disciplined growth. Another milestone was our success in going global. As you would read more about the performance of our joint venture in Honduras – Savitex, you too would feel proud about painstaking efforts by our entrepreneurs. They have taken pains to go to a little known place on world map and made it profitable in less than 15 months.

Negative perceptions about textile sector overshadow our consistent growth

In today’s global growth environment the textile industry is an exception which continues to diminish in sales growth, value and profitability with subdued outlook. Due to no excitement like other sectors the companies in our sector have met with very poor investor perception. This negative perception has impacted market capitalization growth for companies like us despite consistent earnings and dividends but then we believe the day of better recognition will come.

Last but not the least, the encouragement to write to you with confidence of sustaining our performance comes from your unstinted support and faith.

With best wishes

Krishnakumar Jhunjunwala

The loser wants a short run to look like a long run, so that the odds will prevail. The winner wants a long run to look like a short run, so that the odds will be suspended.

Directors' Report

To,
The Members,

Your Directors have pleasure in presenting their Fifteenth Annual Report on the business and operations of the Company together with Audited statement of Accounts for the year ended 31st March, 2008.

1. FINANCIAL RESULTS

	2007-08	2006-07
Total Income	11224.79	10149.97
Profit before Financial Charges and Depreciation	2089.80	1935.18
Less : (1) Financial Charges	188.21	159.68
(2) Depreciation	384.91 573.12	294.48 454.16
Profit before Tax	1516.68	1481.02
Less: Provision for Tax	224.39	310.00
Provision for Deferred Tax	65.12	27.45
Provision for Fringe Benefit Tax	5.10	6.05
Profit after Tax	1222.07	1137.52
Prior period Adjustments	(9.78)	(59.34)
Balance brought forward	2450.93	1910.51
Short Provision of Income Tax of earlier years	33.97	0
Surplus available for appropriation	3629.25	2988.69
APPROPRIATION		
Transfer to the General Reserve	300.00	300.00
Dividend @ 35% (P. Y. 30%)	243.26	208.51
Dividend Tax	41.34	29.24
Balance carried forwarded to the Balance Sheet	3044.65	2450.94

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. 11135.43 lacs as against Rs. 9908.01 lacs in 2006-07 registering an annual growth of 12%. The FOB value of exports increased by 14% from Rs. 6094.72 lacs to Rs. 6958.97 lacs.

Profitability

The profit before Depreciation, Interest & Tax was Rs. 2090 lacs as compared to Rs. 1935 lacs in the previous year. After providing for depreciation of Rs. 384.91 lacs (Previous Year Rs. 294.48 lacs) & provision for taxation of Rs. 294.61 lacs (Previous Year Rs. 343.50 lacs) there was a net profit of Rs.1222 lacs as compared to Rs. 1138 lacs in the Previous Year.

Dividend

Your Directors have pleasure in recommending dividend @ 35% for the year ended 31st March, 2008. The increase in dividend rate is a result of our confidence coming from expanded capacities and expected future growth.



3. MANAGEMENT DISCUSSION & ANALYSIS

This section of the Directors' 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 8.5 per cent in the last five years and is widely estimated to continue this growth rate in the long-term. However, in current fiscal most estimates suggest a slower growth in the range of 7.5 to 8 per cent. This growth 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 was growing at more than 5 per cent in recent years, 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 1-2 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. In recent times the pressures of rising interest rates, inflation and growth slow down have surfaced causing pain in the short term.
- **Business Overview :** Sarla Performance Fibers ,is one of the well established and niche companies exporting Regular as well as High Tenacity Polyester and Nylon Yarns. It started its operations 15 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 11464 MTPA for manufacturing yarns in Silvassa and a Dyeing unit at Vapi. The company's emphasis has been to focus on niche end user applications, higher value added yarns to leading global apparel brands and companies. While it still manufactures some 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, the largest market for performance yarns in the world. With this JV, it now positions the company to supply the global textile majors 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 want to set up base in India apart from China and wish to diversify their outsourcing. As we are learning early, 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. As we work on the learning curve of people, technology, quality processes and infrastructure we will be able to achieve scalability in this business.

Turnover Break Up (Customer Segmentwise)

Segment	FY 2007-08 (% / Total Sales)	FY 2006-07 (% / Total Sales)
Innerwear, Narrow Fabrics, Hosiery and Sportswear	39.06	32.53
Threads	34.81	30.62
Industrial Yarns	10.03	8.52
Commodities	16.10	28.33

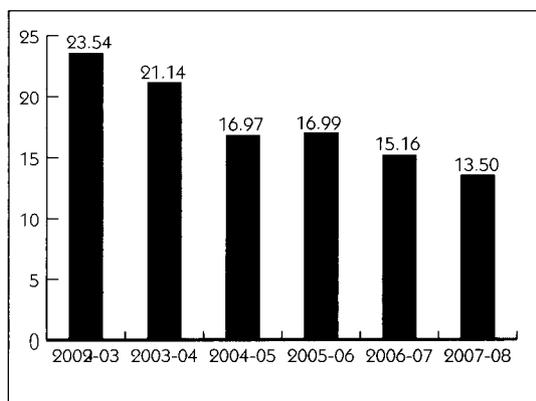
Turnover Break Up (Geographical)

Segment	FY 2007-08 (% / Total Sales)	FY 2006-07 (% / Total Sales)
South, North & Central America	20.63	14.23
Middle East & Europe	20.98	19.05
Africa	7.92	1.21
Asia Pacific	51.17	65.52

In all, we export to over 35 countries and about 100 customers.

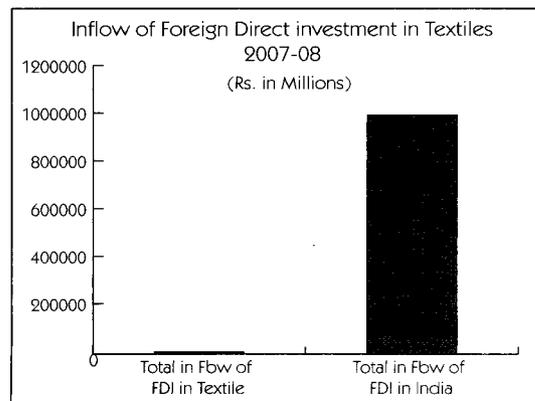
- b. Opportunities and Threats :** The Indian Textile sector was expected to undergo a major structural change as the government wanted it to be a significant part of exports growth. However in the last five years, no worthwhile progress has taken place on the key factors influencing the sector such : 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 volatile rupee against dollar and euro. This phenomenon has broken the back of many players in the SME segment and even in case of the large scale players. This has eroded the global 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 growth 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. Unfortunately, despite having similar size of exports compared to software our industry is referred more as 'dying' in terms of capital market and attracting foreign investment. Unless the new government in 2009 addresses a lot of above concerns seriously, the sector will actually head towards a more precarious situation.

Textile Exports as % of Total Exports Declining Trend



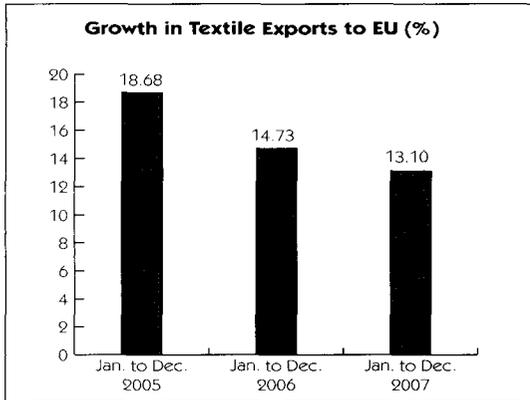
Source: DGCIS - Kolkatta

Foreign Direct Investment in India for Textiles Sector is very lower

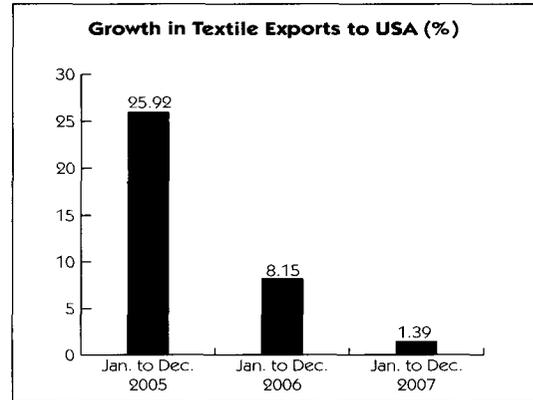


Source: ERMU - Ministry of Textile

Growth showing declining Trend to USA and EU Countries form India



Source: ERMU - Ministry of Textile



Source: ERMU - Ministry of Textile

- c. Outlook :** Despite the textile industry's continuing woes, your 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. Our pursuit for tackling cost efficiencies, quality enhancement will enable greater growth in future on organic basis. Also, we will look for growth beyond Indian boundaries by setting up new manufacturing facilities. Our endeavour is to at least double the present revenues in the coming three to four years, without sacrificing profitability. So far, we have managed the exchange rate adversity also quite adequately with our natural hedge and increased free on board (FOB) pricing from customers.

d. High tenacity Nylon yarn business

PCI anticipates fibers will remain the largest end use for nylon66 polymer until 2012 and for nylon6, until at least 2020. fibers will therefore be the largest market for nylon polymer for some considerable time.

Probably the greatest structural challenge for nylon fiber is raw material cost which has remained almost exactly double that of polyester over the past 10 years, with little sign of change. Nylon is therefore a relatively expensive fiber and needs to be positioned carefully to deliver clear aesthetic or technical advantage : where it does this it can continue to justify its premium over competitors.

Despite the cost challenge, PCI forecasts no significant fall off in nylon fiber demand with global activity at 3.96 million tons in 2007, probably easing slightly to 3.90 million tons in 2010 and 3.88 million tons in 2015. But behind this global stability there is vigorous regional change as nylon fiber mill consumption migrates in pursuit of competitive advantage. China is the obvious beneficiary, increasing from a current 25% of global nylon fiber consumption to 33% in 2010 and 40% by 2015.

Nylon industrial filament yarn is valued in technical textiles for its impact resistance and flex/extension properties. Although widely used in cross ply tires, its longer term core markets are probably in cap ply for high performance tires and in specialist end uses such as airbags and light denier industrial segments. Threatening current nylon industrial filament activity is progressive tire radialisation, the confrontation with polyester in many mainstream industrial markets and the growing availability of high tech fibers such as aramids.

Nylon will require skilled end use focus to reinforce its specialist role in the industry plus intelligent innovation to generate value for all participants in these textiles chains.

We have invested significant time and assets into nylon yarn business over the past 5 years. We are amongst the very few Nylon 6 producers in the country and intend to further expand the value chain.

The word "risk" derives from the early Italian risicare, which means "to dare." In this sense, risk is a choice rather than a fate.

e. Financial Performance

- **Turnover :** The Company turnover grew by 12% in FY 07-08. This increase can be attributed to 19% volume and (6%) per unit value growth.

Item	2007-2008	2006-2007	% increase
Raw Material Cost	6,027.27	5,625.43	7.14
Expenditure	3,192.31	2,566.68	21.65
EBIDTA	2,089.80	1,935.18	7.99
Interest Cost and Debt	188.21	159.68	17.87
Fixed Assets (Gross Block)	6,673.05	4,851.36	37.55
Net Current Assets	5,375.90	4,337.91	23.93
Working Capital Finance	4,178.10	2,926.04	42.79
Cash & Bank Balances	918.74	1,333.96	-31.13

Note : standalone performance comparison.

f. Risks and Concerns

- **Interest Rates :** The Company's average gross interest cost in the last year was 7% as compared to the previous year 9.3%. The Company's present Debt equity Ratio is 0.71. The long-term Debt equity Ratio is zero. Interest costs and debts are being managed in best effective manner. The rising interest rates at present are not posing us a threat, given the Company's strategy to grow from internal accruals.
- **Exchange Rate :** 62 per cent of Company revenue is in foreign currency (dollar and euro) and balance revenue in Indian Rupee. Also, we import 39 per cent of turnover (62% of total raw material purchases) creating a natural hedge to that extent. Apart from this, from time to time forward cover is taken to hedge exposure in foreign currency.
- **Inflation :** The Company does not cater to retail customers. Its sales are to the business segment and hence it has been able to pass on inflationary pressures. It does not expect any major impact due to current high level of inflation.
- **Competition :** The Company strives to be one step ahead of the competition. This is accomplished by being a vertically integrated in almost all the segments of our business. This not only gives a cost advantage against the competition but also allows for better quality control and service to supply the special needs of the customer. While serving various global customers in the industrial yarns, covered yarns and other special applications we have made several process innovations and that provides us with a competitive advantage. We remain confident that by using this innovative methods and experience, we will continue to sustain this competitive advantage in time to come.

- g. Internal Control System and their Adequacy :** The Company has in place reasonable internal control system both from the business process and regulatory compliance point of view. The system is reviewed and updated on regular basis. The Company is continuously upgrading its internal control systems by measures such as strengthening of Information Technology infrastructure and use of external management consultant services.

- h. Human Resources/Industrial Relations :** The Company has always valued and nurtured its human resources, nonetheless, globalization, high growth of the Indian economy in recent times and its ambitious growth targets have made talent attraction and retention amongst the biggest challenges the Company faces today.

The Company has in place a good appraisal system to motivate all the employees of the Company. The Company believes in continuous development for all its employees and for that Company is planning to frame a program wherein all the employees will be provided training into related areas of skill development.

- i. Capital Expansion and Investment:** In the year under review, major investments have been made in all three targeted segments of the business in preparing for Scalability. With the start up of Unit 3 in the 2nd quarter of 2007-08 the capacities in each product segment have been increased substantially to cater to the growing needs of global customers. The Company has remained quite conservative in budgeting its capital expenditure requirements and has carried out this expansion at a very competitive cost, to enable faster payback of its investments.