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VICTORY IN SUSTAINABILITY

16th ANNUAL REPORT

2008-09

VICTORY IN SUSTAINABILITY

"Victory, victory at all costs, victory in spite of all terror, victory however long and hard the road may be; for without victory there is no survival."

Our idea of victory is achieving sustainable performance for all our stakeholders including shareholders, employees, suppliers and customers. This spirit will guide us in good years and bad and will not move us away from this core objective of value creation.

Our idea of victory is achieving out performance in our sector which has been reeling under pressure of sales, margins, profits and debt. Given the severe pressure it also resulted in cutting down employment this year. We have been able to progress by remaining ahead in all these aspects due to our core values and conservative approach.

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Board of Directors

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

Company Secretary

Manish Agarwal

Audit Committee

Arun Vaid	Chairman
Madhusudan Jhunjhunwala	Member
Sanjay Karandikar	Member

Auditors

M/s. Sundarlal, Desai & Kanodia,
Chartered Accountants, Mumbai

Bankers

Andhra Bank	Citibank	Corporation Bank
Standard Chartered Bank	DBS Bank	

Registered Office:

Survey No. 59/1/4, Amli Piparia Industrial Estate, Silvassa - 396 230, U.T. of Dadra & Nagar Haveli

Plants:

- 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, 61/2, 62/5, 63/5, 63/7, 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.

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.



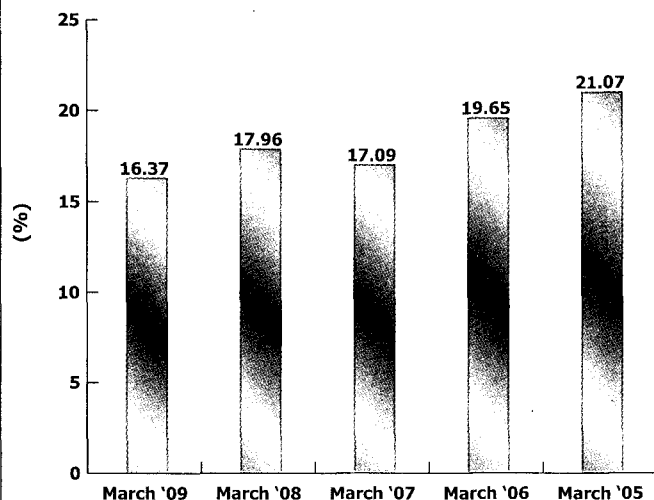
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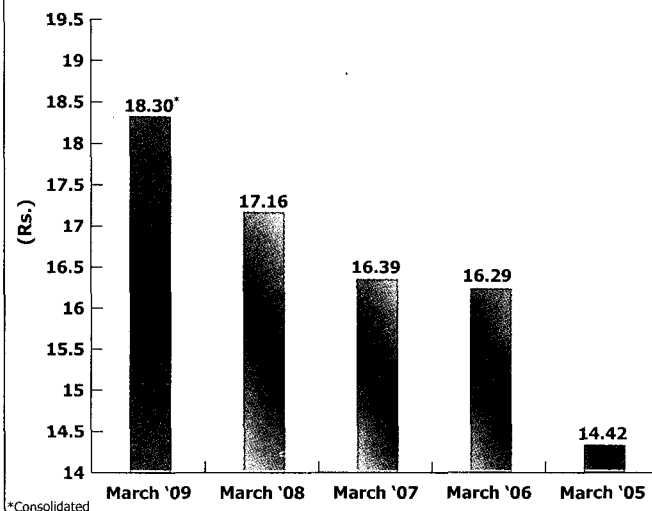


PERFORMANCE AT A GLANCE

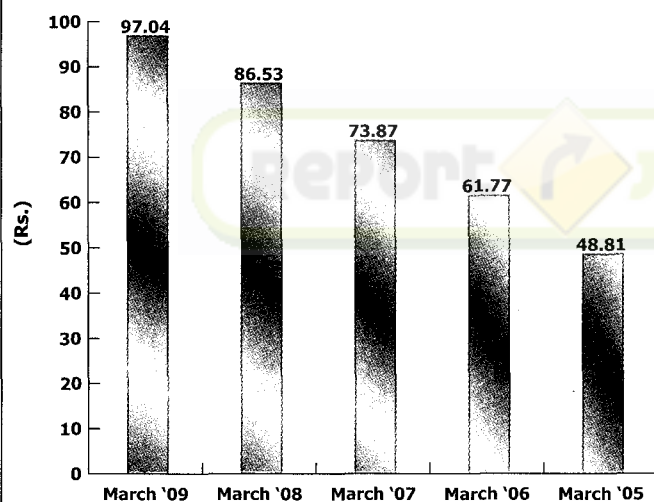
Operating Profit Margin (Excl.O.I.) (%)



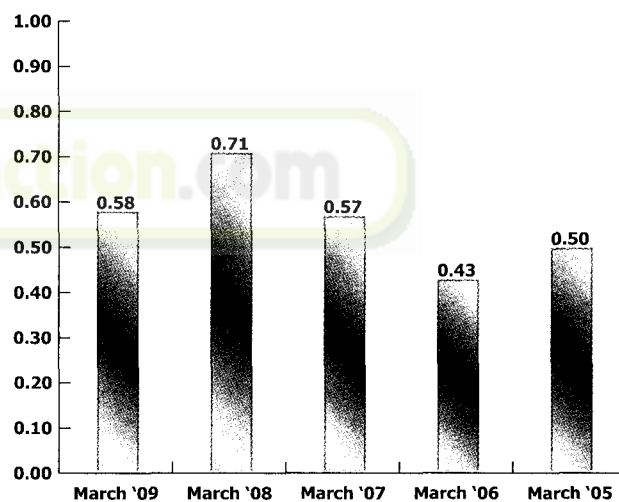
Earning Per Share (Rs.)



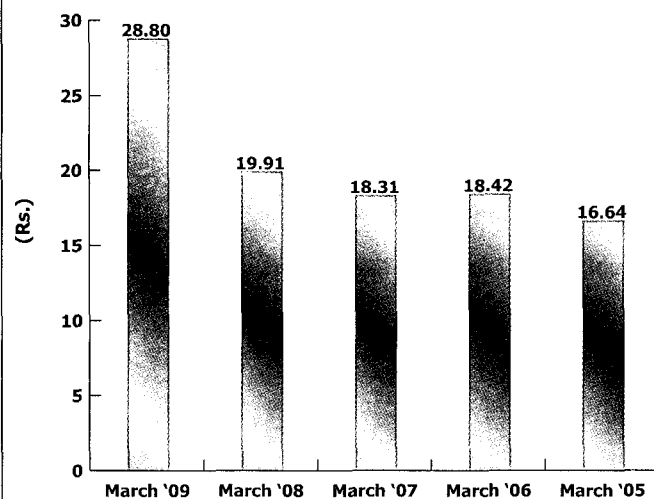
Book Value (Rs.)



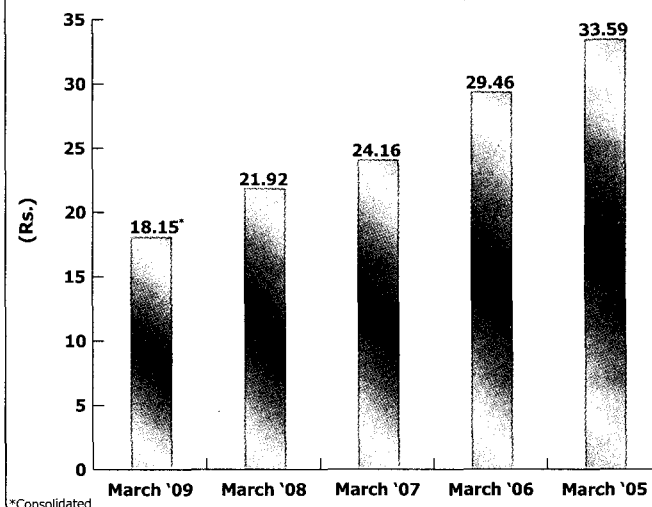
Debt / Equity (X)



Dividend Payout (%)



Return on Avg. Net Worth (%)



FROM THE DESK OF MANAGING DIRECTOR

Dear Shareholders,

"You do your worst and we will do our best."

Winston Churchill's above quote best reflects our response to the situation last year. The sudden emergence of the greatest economic crisis after 1929 in the world economy was no less than a bloody battle ! The demand for textile products has been affected severely , driving down the inventories. This has in turn affected intermediate manufacturers like us. In general exports are down 30% for the last 6 months. The year also saw the ghastly terrorist attack in Mumbai and crucial elections.

We had to redefine priorities to operate in such an environment. Let me explain them as under:

1. Offset fall in sales by tapping new geographies and customers
2. Keep tight control over operating costs
3. Maintain discipline over cash flow, working capital and borrowings



I am glad that our team has adhered to above priorities very well and we have ended the year without spoiling our selling price, receivables and to a good extent our margins. Though, there will be near term pressure on these but we are reasonably confident of overcoming these challenges in the medium term and grow from current levels. In the bargain, we did not focus on achieving very rapid growth and will wait for environment to stabilize.

Our net profits are lower than previous year but these are impacted by temporary factors such as a) increased interest costs b) non recurring foreign exchange loss. Lower net profit can also be attributed to higher employee expenses and tax out go. Our EBITDA remained nearly the same reflecting the strength of our core business and operating performance.

This year we expect moderation in interest costs and minimization of foreign exchange losses.

Our initiatives of entering Europe market through dedicated arrangement with a few large customers will help to some extent this year. A better utilization of capacity for our high tenacity nylon yarns should help offset pressure on revenue and earnings.

One concern which is unlikely to go away immediately is poor quality of power in our Silvassa plant and substantial increase in electricity tariff. Despite no major change in production our power costs were higher by Rs. 180 Lacs, shaving nearly 150 basis points from our EBITDA margin.

Finally, I want to highlight this year's theme which is – V sign. I also want to complement our team for their Victory spirit and performance under the circumstances.

" The V sign is the symbol of unconquerable will. " . Last year we demonstrated this V sign and this year too is full of challenges requiring us to show that we will last longer than the tough time. We are inspired by the great Winston Churchill and his famous speeches which he made during and after world war 2. We have used some of his words of wisdom extensively in this report which will impart us a lot of strength to defy the odds.

We sincerely appreciate the support and faith of our shareholders and will strive for better rewards to come to them through higher dividends and capital growth in the medium to long run.

Best Regards.

KRISHNAKUMAR JHUNJHUNWALA.



DIRECTOR'S REPORT

"Nothing is more dangerous...than to live in the temperamental atmosphere of a Gallup Poll always feelings one's pulse and taking one's temperature."

To,
The Members,

Your Directors have pleasure in presenting their Sixteenth Annual Report on the business and operations of the Company together with Audited statement of Accounts for the year ended 31st March, 2009.

1. FINANCIAL RESULTS

(Rs. in Lacs)

Particulars	2008-09	2007-08
Total Income	12,184.37	11,224.79
Profit before Financial Charges and Depreciation	2,012.03	2089.80
Less: Financial Charges	299.91	188.21
Depreciation	476.15	384.91
Profit before Tax	1,235.97	1,516.68
Less: Provision for Tax	324.24	224.39
Provision for Deferred Tax	60.76	65.12
Provision for Fringe Benefit Tax	6.34	5.10
Profit after Tax	844.63	1,222.07
Prior period Adjustments	(12.22)	(9.78)
Balance brought forward	3,044.65	2,450.93
Short Provision of Income Tax of earlier years	-	33.97
Surplus available for appropriation	3,877.06	3,629.25
APPROPRIATION		
Transfer to the General Reserve	300.00	300.00
Dividend @ 35% (P.Y. 35%)	243.26	243.26
Dividend Tax	41.34	41.34
Balance carried forwarded to the Balance Sheet	3,292.46	3,044.65

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. 12163.75 Lacs as against Rs. 11135.43 lacs in 2007-08 registering an annual growth of 9.23%. The FOB value of exports increased by 0.30% from Rs. 6958.97 Lacs to Rs. 6980.04 Lacs.

• Profitability

The profit before Depreciation, Interest & Tax was Rs. 2012.03 Lacs as compared to Rs. 2089.80 Lacs in the previous year. After providing for depreciation of Rs. 476.15 Lacs (Previous Year Rs. 384.91 lacs) & provision for taxation of Rs.391.34 Lacs (Previous Year Rs. 294.61 lacs), there was a net profit of Rs. 844.63 Lacs as compared to Rs. 1222.07 Lacs in the Previous Year.

• Dividend

Your Directors have pleasure in recommending dividend @ 35% for the year ended 31st March 2009. We have maintained the rate of dividend and increased the pay out ratio to 29% from 19% in previous year as a result of our confidence on long term prospects of your company and shareholder value creation.

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, last fiscal it grew at a rate of 7% and similar growth is expected for this year given the impact of global economic slowdown. The global slowdown is having a wide ranging impact on consumption and saving habits of people in the developed market. The emerging markets are spared from this negative impact to some impact and have shown encouraging signs of an early recovery in the first quarter of calendar 2009. With slowing economic growth to persist in developed world for a long period the centre of attention has shifted to India and China. Both these countries with their vast population and huge growth potential are getting set for the next stage of growth. In the near term, lack of growth in developed nations will reduce the outsourcing and exports of these countries but it does not undermine the importance of sustainable low cost manufacturing advantage which cannot be replicated easily. In the long run we remain confident of large outsourcing opportunity in general and that for the textile sector in particular. In fact, removal of constraints like capacities at port for container load exports, turnaround time of ships and surplus power in 5 years time period should provide significantly better positioning of grabbing more share of the high tenacity yarn outsourcing. Amidst all the gloom the bright spark is the new government in India with a majority in many years which will allow it to execute long pending policy reforms.
- Business Overview:** Sarla Performance Fibers Limited, 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 11700 Tonnes per annum for manufacturing yarns in Silvassa and 2400 Tonnes per annum for 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 has enabled the company to tap the North American market, the largest market for performance yarns in the world. With this JV, the company supplies to 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. Your company is in the process of establishing a similar arrangement for tapping outsourcing arrangement in Europe. We expect to put in place this business in Europe during 2009.
- 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

Of the above segments we faced significant reduction in demand for industrial yarns last year. This happened mainly as large garment manufacturers decided to stop inventory creation and instead focused on clearing their stocks. This phase of stock clearance is not yet fully over and some revival in demand could be expected not before early 2010.

Segment	FY 2008-09 (% of Total Sales)	FY 2007-08 (% of Total Sales)
Innerwear, Narrow Fabrics, Hosiery and Sportswear	41.03	39.06
Threads	36.30	34.81
Industrial Yarns	3.29	10.03
Commodities	19.38	16.10
	100.00	100.00



Turnover Break Up (Geographical)

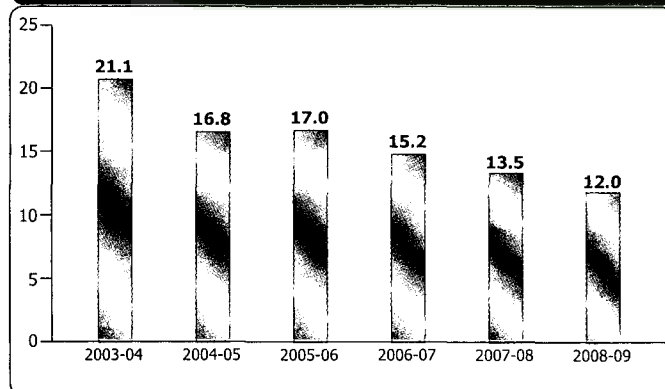
Region	FY 2008-09 (% of Total Sales)	FY 2007-08 (% of Total Sales)
South, North & Central America	14.78	20.63
Middle East & Europe	28.13	20.98
Africa	2.08	7.22
Asia Pacific	55.01	51.17
	100.00	100.00

In all, we export to over 41 countries and about 108 customers. Our customer concentration is well distributed and no one customer exceeds more than 8.00% of our revenue.

B. Opportunities And Threats:

Unfortunately, there are only threats and weaknesses to highlight for India's textile sector. The opportunities are significant but to realize will require a totally different mindset of government and companies engaged in this sector. The textile sector exports amounted to approximately Rs. 900bn in FY09 at a similar level to that in FY08. The growth in ready made garment exports and man made fibers was yet good while the other segments like cotton and handloom sector suffered badly. To support the sector which is a large employment generator the government has continued to provide incentives such as a) extension of textile up gradation fund (TUF), b) increased budget outlay, c) schemes to promote integrated textile park in many states, d) lower interest rates for exporters etc. The income tax benefits for exporters have also been extended for one more year. However, this is not adequate to provide a long term growth platform to the sector. Most of the units are small and fragmented and suffer from lack of automation. Due to poor logistics and power supply their cost of production is very high and with these deficiencies one cannot expect this sector to achieve economies of scale like it has in China. Also, the emphasis on value addition is missing. There is no additional benefit to those who are focusing on value added production. Thus, structurally the sector will continue to suffer until these gaps are addressed. Textile sector certainly cannot expect to become software sector in the near to medium term.

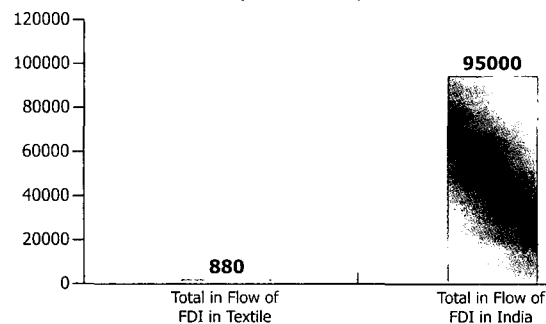
Textile Exports as % of Total Exports Declining Trend



Source: Ministry of Textile

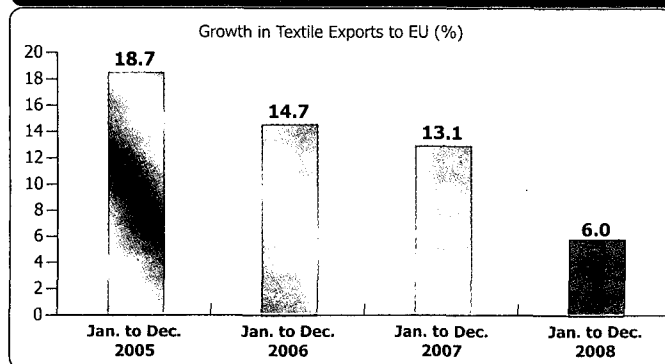
Foreign Direct Investment in India for Textiles Sector is very lower

Cummulative Inflow of Foreign Direct Investment in Textiles upto FY09
(USD in Millions)

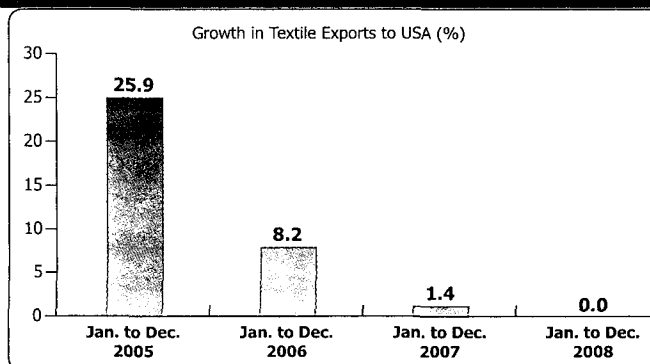


Source: Ministry of Textile

Growth showing declining Trend to USA and EU Countries from India



Source: Ministry of Textile



Source: Ministry of Textile

C. Outlook:

Despite the textile industry's continuing woes, your company has built significant capabilities and will look to find suitable opportunities for growth. 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. We have talked about a 20% plus growth on an annual basis in the past but situations like last year have been extraordinary which forced us to give priority to risk management. We have not taken sights off that target and will get to that benchmark with little support from the environment.

D. Financial Performance:

Turnover: The company turnover grew by 9.23 per cent in FY 08-09. This is despite decrease in volume by 0.92 percent.

Item	2008-09	2007-08	% increase
Raw Material Cost	6,678.54	6,027.27	10.81
Other Expenditure	3,785.86	3,122.61	21.24
EBIDTA	2,012.03	2,089.80	(3.72)
Interest Cost	299.91	188.21	59.35
Fixed Assets (Gross Block)	7,256.42	6,673.05	8.74
Net Current Assets	5,781.39	5,378.67	7.49
Working Capital Finance	3,695.45	4,178.10	(11.55)
Cash & Bank Balances	963.14	918.74	4.83

Note: standalone performance comparison.

E. Risks and Concerns:

Interest Rates: The company's average gross interest cost in the last year was 8.80% as compared to the previous year 7.0%. The company's present Debt-Equity Ratio is 0.58. The long term Debt-IEquity Ratio is zero. Interest costs and debts are being managed in an effective manner. A rising interest rates scenario will not be a threat, given the company's strategy to grow from internal accruals.

Exchange Rate: 57 per cent of company revenue is in foreign currency (USD/EURO/GBP) and balance revenue in Indian Rupee. Also, we import 49 per cent of turnover (83.51% 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 competitiveness in time to come.

F. 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.

G. 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.

"Never give in, never give in, never, never, never, never - in nothing great or small, large or petty - never give in except to convictions of honour and good sense."



H. Capital Expansion and Investment:

Last year, we did not incur any major capital expenditure as the utilization of present capacities remained below 70%. We do not expect to incur major capital expenditure in the current year as well.

I. Performance Analysis

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
A. Operational Performance (%)						
Operating Profit Margin (excl. O.I.)	16.37	17.96	17.09	19.65	21.07	18.4
Operating Profit Margin (incl. O.I.)	16.54	18.77	19.53	20.48	21.89	18.21
Interest / Sales	2.47	1.69	1.61	1.38	1.07	1.69
Tax/PBT	31.66	19.42	23.14	20.11	19.78	16.96
Net Profit Margin	6.94	10.97	11.48	12.91	14.04	11.9
B. Financial Performance						
Debt / Equity (x)	0.58	0.71	0.57	0.43	0.50	0.43
Interest Coverage (x)	6.71	11.1	12.17	15.02	20.63	10.87
Average Cost Of Debt (%)	7.36	5.24	6.63	6.73	5.43	10.06
Debtors Period (days)	108.55	112.76	90.77	97.57	85.03	79.17
Closing stock (days)	69.15	71.12	61.37	60.17	55.74	56.13
Inventory Turnover Ratio (x)	5.28	5.13	5.95	6.07	6.55	6.50
Fixed Assets Turnover (x)	2.39	2.24	2.80	2.59	2.19	2.08
Net Current Assets Turnover (x)	2.10	2.07	2.28	3.00	3.74	5.21
C. Valuation Parameters						
Earnings Per Share (Rs.)	12.33	17.16	16.39	16.29	14.42	10.22
Cash Earnings Per Share (Rs.)	19.00	23.12	20.62	20.01	17.84	12.12
Dividend Per Share (Rs.)	3.50	3.50	3.00	3.00	2.40	1.20
Dividend Payout (%)	28.80	19.91	18.31	18.42	16.64	11.75
Profit Ploughback (%)	71.20	80.09	81.69	81.58	83.36	88.25
Book Value (Rs.)	97.04	86.53	73.87	61.77	48.81	37.09
Return on Avg. Net Worth (%)	13.24	21.92	24.16	29.46	33.59	30.66
Return on Avg. Cap. Employed (%)	14.36	19.49	21.72	25.46	27.92	26.53

4. PREFERENTIAL ISSUE OF WARRANTS

During the financial year 2007-08 the members of the Company in the Extra Ordinary General Meeting held on 26th March, 2008 had accorded their consent to issue 12,00,000 warrants of Rs. 152/- each, aggregating Rs.1824 Lacs (6,00,000 warrants to the Promoter group and 6,00,000 warrants to others) through a preferential offer on a private placement basis with a right exercisable by the warrant holders to subscribe 1 Equity Share of the company of Rs. 10/- each, at a premium of Rs. 142/- per share, against 1 warrant.

After obtaining the Consent of Members, Company had issued the aforesaid warrants on 10th April, 2008. The Warrant holders can exercise their option at any time upto 9th October, 2009.

5. SUBSIDIARY COMPANY

Sarla Overseas Holdings Limited

The company had floated a 100% wholly owned subsidiary namely Sarla Overseas Holdings Limited, registered under The BVI Business Companies Act, 2004, British Virgin Islands during the year 2006-07. The parent company M/s Sarla Performance Fibers Limited has invested in the capital of M/s Sarla Overseas Holding Limited, a total of US\$ 4,35,000 equivalent to Rs. 183.22 Lacs. The Subsidiary Company is holding 33.25% stake in M/s Savitex, SA De CV, a Joint Venture and the parent company is also holding 6.75% stake in the said JV.

The Joint Venture M/s Savitex, SA De CV has made a total turnover of Rs. 3098.13 Lacs and earned a total net profit of Rs. 922.64 Lacs after depreciation in the financial year 2008-09. This joint venture of the company has established a strong presence in the growing market of Central America, the biggest market for high tenacity nylon and polyester products in the world.