



WE HAVE TAKEN THE LEAP. WE ARE GROWING.

Building a business without the borders

21st
ANNUAL REPORT
2013-2014



'WE HAVE TAKEN THE LEAP. WE ARE GROWING.'

Sarla started its globalization journey, or in other words building of a business without borders in 2006 with its first JV in Honduras, Central America. Since then it has built JVs and subsidiaries in Europe and set up presence in Asia. Last year, it took a LEAP by setting up its own manufacturing facility in the heart of the US textile industry, in South Carolina. Sarla is now a global brand. One that has marked its presence across the world. With its interconnections between different countries of the world, it offers an unique promise of connected thinking- the export and import of ideas and concepts across the globe. We understand the client needs anywhere and everywhere. Being global means transferring experience and expertise across the globe, and also realising the distinctiveness that makes up each culture, every client and every interaction.

QUALITY CERTIFICATION



CORPORATE DETAILS



Board of Directors:

MADHUSUDAN JHUNJHUNWALA	Chairman & Whole-time Director
KRISHNAKUMAR M. JHUNJHUNWALA	Managing Director
ARUN VAID	Director
JIGAR A SHAH	Director
ANIL KUMAR JAIN	Director (upto 20th June 2013)
LALITA PERSAD AGGARWAL	Director (with effect from 1st November 2013)

Chief Financial Officer & Company Secretary:

MAHENDRA SHETH

Audit Committee:

ARUN VAID	Chairman
MADHUSUDAN JHUNJHUNWALA	Member
JIGAR A SHAH	Member

Auditors:

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

Bankers:

ANDHRA BANK	BANK OF BAHRAIN & KUWAIT BSC	CITIBANK N. A.
COMMONWEALTH BANK OF AUSTRALIA	DBS BANK LTD.	INDUSIND BANK LTD.
STANDARD CHARTERED BANK	YES BANK LTD.	

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.
- 4) Sarlaflex Inc, 1497, Industrial Road, Walterboro, South Carolina, USA - 29488

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.,
Unit - 1, Luthra Ind. Premises, Safed Pool, Andheri Kurla Road, Andheri (E), Mumbai - 400 072.

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AT A GLANCE - Sarlaflex, USA Plant



Frontal view of Sarlaflex plant at South Carolina, USA



Texturising Solution Dyed POY



Trolley with POY Spools



Texturising Auto Doff Module



Doffing Robot



Two For One Twisters



POY Winders

DELIVERING VALUE OVER A DECADE

2002

Expanded product portfolio to sewing thread from commodity polyester yarns.

2004

Established 2nd manufacturing unit in Silvassa.

2006

- A change in the company's name from Sarla Polyester Limited to Sarla Performance Fibers Limited (SPFL).

- Established its 1st joint venture overseas in Honduras, Central America under the name Savitex S.A. de C.V.

- Set up a spinning plant for conversion of nylon chips into high tenacity nylon 6 and nylon 66 industrial yarns.

2007

- Created Sarla Overseas Holdings Limited (SOHL), a wholly owned subsidiary as a separate investment arm for the company.

- The company's shares were listed on the National Stock Exchange of India Limited (NSE).

- Expanded production capacities in Silvassa.


PROFIT & LOSS AND BALANCE SHEET	Mar 2004	Mar 2005	Mar 2006	Mar 2007	Mar 2008
Equity Paid Up	6.95	6.95	6.95	6.95	6.95
Networth	25.78	33.92	42.93	51.34	63.84
Capital Employed	36.79	50.84	61.52	80.7	106.37
Gross Block	33.69	39.91	43.66	48.55	69.91
Net Working Capital (Incl. Def. Tax)	8.06	14.84	24.66	38.81	51.89
Net Sales	55.22	70.28	86.09	98.51	122.33
Profit before Interest, Depreciation, Tax	10.87	16.07	18.42	20.00	24.57
Profit after Tax	7.10	10.02	11.32	11.38	15.22
Book Value (Rs./Share)	37.09	48.81	61.77	73.87	91.85
Market Capitalisation	11.33	43.79	89.59	81.45	94.52
Earning Per Share	9.91	14.09	15.87	15.96	21.89
Dividend (%)	24.00	24.00	30.00	30.00	35.00
Payout	1.67	1.67	2.09	2.09	2.43
Payout (%)	24.24	17.06	18.95	18.85	15.98

KEY RATIOS	Mar 2004	Mar 2005	Mar 2006	Mar 2007	Mar 2008
Debt-Equity Ratio	0.43	0.47	0.46	0.51	0.67
Long Term Debt-Equity Ratio	0.05	0.05	0.03	0.00	0.01
Current Ratio	1.08	0.98	1.07	1.15	1.22
Turnover Ratios					
Fixed Assets Ratio	2.26	1.98	2.12	2.20	2.07
Inventory Ratio	7.60	7.35	7.06	6.54	5.09
Debtors Ratio	4.96	4.99	4.47	4.23	3.43
Interest Cover Ratio	9.55	11.32	9.54	7.58	10.36
PBIDTM (%)	18.40	22.01	20.80	19.76	17.68
PBITM (%)	16.17	18.77	17.87	16.85	14.03
PBDTM (%)	16.71	20.36	18.92	17.53	16.10
ROCE (%)	28.90	31.28	28.18	23.99	22.18
RONW (%)	30.66	33.57	29.46	24.14	26.43
Debtors Velocity (Days)	57.00	59.00	63.00	70.00	105.00
Creditors Velocity (Days)	36.00	52.00	49.00	57.00	49.00

Actions speak louder than words. Last decade is one of action for us.
Achievements of last decade are humbling and install more responsibility on us to deliver.

(Rs. in Crores)

Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014
6.95	6.95	6.95	6.95	6.95	6.95
74.47	89.17	108.24	124.41	146.48	169.15
113.44	126.10	155.84	192.63	258.22	402.41
76.85	90.83	113.11	125.07	153.23	258.16
60.13	62.82	77.54	97.99	113.86	114.58
135.59	155.33	193.02	233.6	258.69	261.82
24.89	29.57	35.95	34.52	47.61	57.52
12.72	16.91	22.53	18.90	27.98	32.15
107.15	128.30	155.73	178.99	210.75	243.37
23.87	61.92	78.54	69.29	100.78	117.63
18.30	24.34	32.42	27.22	40.25	46.26
35.00	35.00	45.00	50.00	60.00	75.00
2.43	2.43	3.13	3.48	41.7	52.13
19.12	14.38	13.88	18.40	14.90	16.21


17% 10 year sales CAGR
18% 10 year EBITDA CAGR
16% 10 year net profit CAGR
21% 10 year book value CAGR
26% 10 year MCAP CAGR

2009
Established a joint venture in Portugal, Sarla Europe LDA,.

2010
Installed first windmill in Gujarat of 1.25 MW.

2011

- Started joint venture operations in Turkey.
- Installed windmill of 2 MW in Satara, Maharashtra. Total wind power generation capacity of 3.25 MW.

2012
2 more windmills of 2 MW each in Sangli, Maharashtra. Total wind power generation capacity of 7.25 MW.

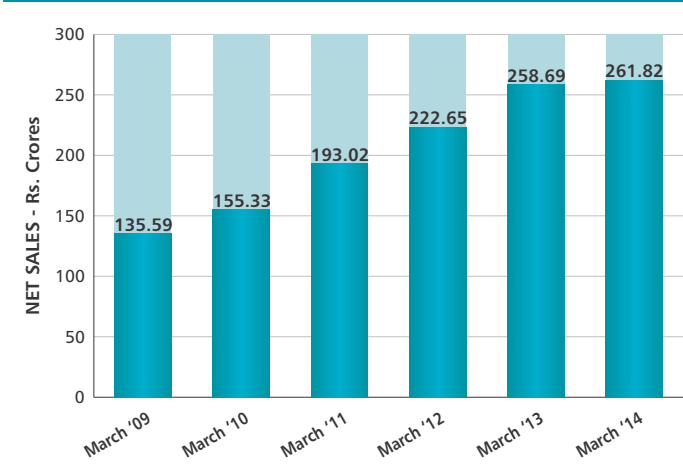
2013
Directly entered American POY Market through setting up wholly owned subsidiary Sarla flex Inc., at South Carolina

2014
Started commercial production of POY from a green field plant at South Carolina, USA in January 2014.

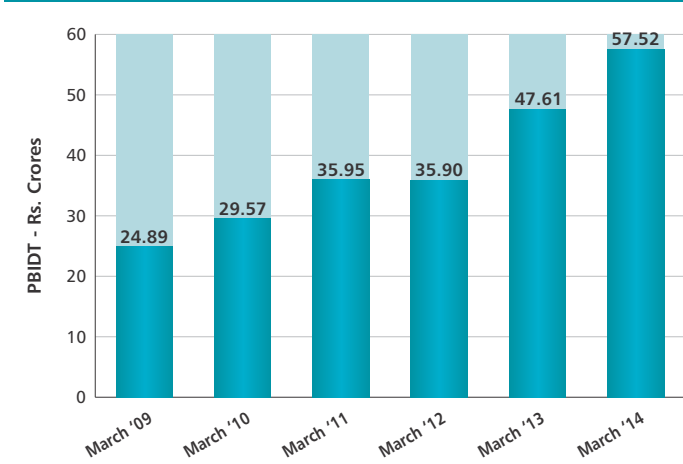
Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014
0.52	0.42	0.44	0.55	0.76	1.38
0.02	0.05	0.11	0.11	0.28	0.94
1.42	1.55	1.73	1.56	1.53	1.50
1.85	1.85	1.89	1.96	1.86	1.27
4.64	5.22	4.41	4.31	4.47	3.37
4.92	3.59	3.79	3.70	4.43	3.91
6.52	10.07	15.43	8.90	8.06	9.63
15.47	16.01	16.09	14.77	18.40	21.97
11.60	12.43	12.66	11.33	15.22	17.77
13.25	14.47	15.10	13.50	16.72	16.52
18.41	20.47	21.21	15.72	17.75	14.08
18.39	20.67	22.83	16.25	20.96	20.37
100.00	98.00	92.00	99.00	80.00	93.00
44.00	49.00	52.00	78.00	40.00	52.00

PERFORMANCE AT A GLANCE

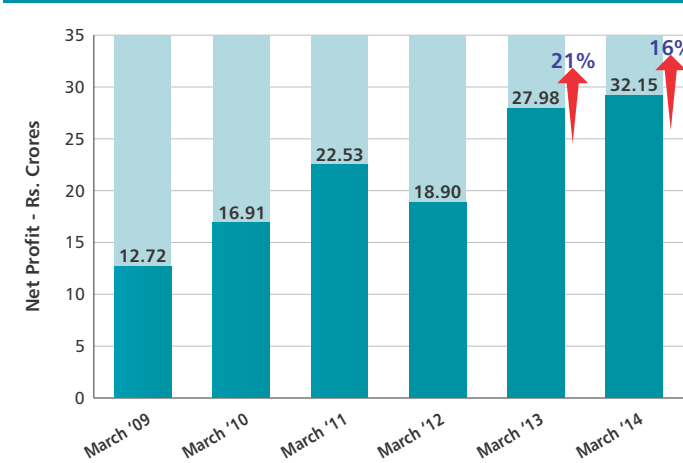
SALES



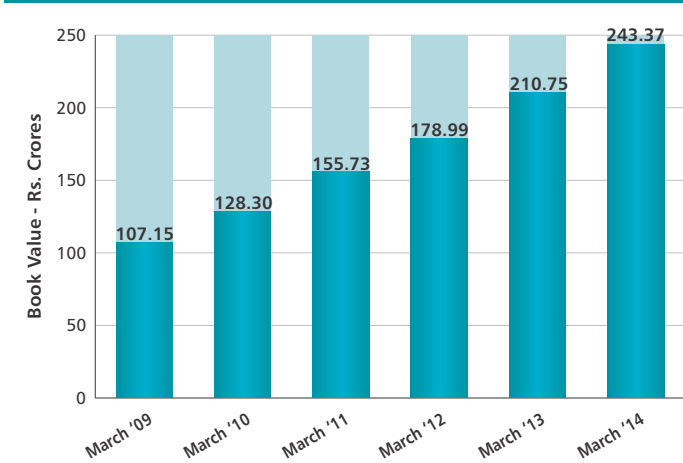
EBIDTA



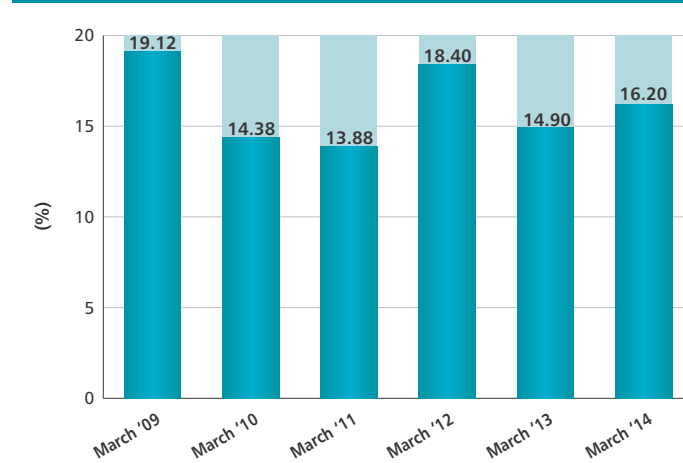
NET PROFIT



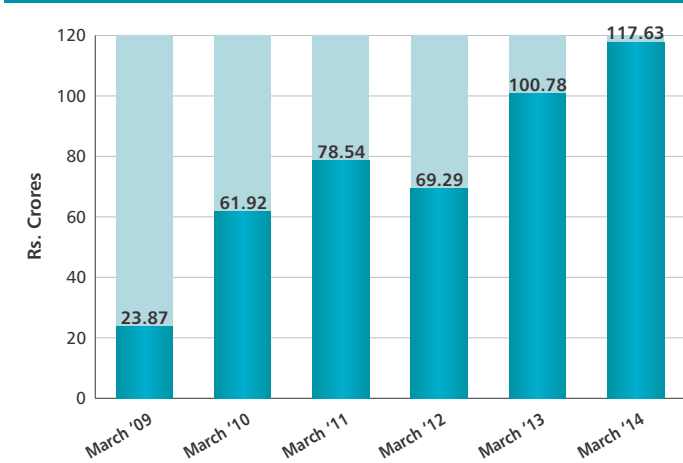
BOOK VALUE



DIVIDEND PAYOUT (%)



MARKET CAPITALISATION





I am pleased to write to you again. This time it seems that the year went by faster than ever before. We have been immersed with completing our maiden venture in the USA. You would be pleased to note that we started commercial production at South Carolina plant in January of 2014. It is no mean achievement for us

because it was the first new plant to start in POY manufacturing in the USA in the past 25 years. It is path-breaking in many ways because of the several impediments that we had to face including obtaining work permits for our people, working within budgets, achieving the right quality for the tougher standards set by US clients etc. And yes, we are not a big software company, so you can imagine how tough it must be to deal with the softer issues such as training the American workforce and getting them to produce what we want and at the right cost.

There is a sense of anxiety in our stakeholders relating to this new plant and I must share with them the latest developments. We are now operating close to 20% of our rated capacity of 30 tons per day. We have supplied trial quantities to at least 20 customers. We are beginning to attain the right quality across spinning, texturizing and twisting processes. We have hired senior managers to set right the quality standards demanded by large US textile companies. We have spent considerable time training the American workforce which is not exactly conversant with all the processes. Our top management team from India has spent considerable time to make sure this unit comes up to its expectations and charts our future course of growth as envisaged last year.

The good news is that since the time we started building this plant in 2013, the US apparel market is witnessing good demand. The CAFTA market where most US textile makers are located is witnessing decent increase even as overall US retail market remains soft. We as makers of compliant yarn, have an edge over the exporters from around the world and have started dispatching small quantities to a wide range of clients in sewing threads, hosiery, lingerie, and furnishing related applications. The made in USA movement is catching up and more corporations are joining the same, improving the prospects of yarn markets such as Sarlaflex. We were to the first to gauge the rising demand and now few

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competitors have announced capacity addition programmes.

Another good development is that we managed to secure a state sponsored incentive for operating in a backward area within the USA. Some of USA's largest banks are involved in financing of our project at concessional rates optimising our overall project cost and funding. Concerns over the trans pacific partnership agreement allowing cheaper imports to come into the US have not progressed and are unlikely to hurt the textile makers in CAFTA/NATFA regions for the next few years. This augurs well for us and will help us build a solid presence before any such threat becomes realistic. On the other hand, the trans atlantic partnership is beginning to take shape which may ease exports from USA to the Europe. We as a group based in US, Europe and India are already seeing benefits of multiple geographic presence. Many of our clients have evinced interest in buying nylon yarns from our India facility as well as polyester yarns from India and Europe. The impact of all this should be visible over the next 2-3 years, as we attain full utilization of our plant in the USA.

As clearly mentioned last year in my letter, FY14 was a moderate year for us due to capitalization of investment in the US subsidiary and resultant increase in operating expenditure, interest and depreciation. These investments are the growth drivers for next 2 years.

Our theme for this year is 'LEAP'. We have embarked on the path of positioning Sarla Performance Fibers as a global brand and building a business without the borders. I am confident from the 2nd half of FY15, we shall usher into a stronger growth phase.

As always, we seek your best wishes to fulfill the aspiration to be different, and better. In turn, we hope to create value for all stakeholders. I wish to thank all the stakeholders and most specifically our team at Sarla India and US for their spirited contribution and untiring zeal.

Sincerely,

KRISHNAKUMAR JHUNJHUNWALA
(MD and CEO)

Q & A WITH MANAGING DIRECTOR

Q.: What is the rationale for setting up a polyester fibre manufacturing unit in the USA?

- A.:**
- We became compliant yarn makers by having direct manufacturing facility in the US (can supply anywhere in the NAFTA, CAFTA region). The apparels, inner ware and hosiery made from compliant yarn does not attract any duty. This makes us a preferred supplier to large textile companies in the NAFTA and CAFTA region.
 - We found the cost of manufacturing to be very competitive in the US with India except in terms of labour. However, to a large extent this is offset by cheap cost of power and capital.
 - We are in proximity to world's largest textile companies and the largest markets, providing us greater scope for a value add. We can truly work with large corporations as partners and customize products to their need as well as cut down on logistics cost.

Table 1: Apparel Market Size Projection from 2012 to 2025 (US \$ Billion)

REGION	2012	2025	CAGR
China	150	540	10%
EU 27	350	440	2%
United States	225	285	2%
India	45	200	12%
Japan	110	150	2%
Brazil	55	100	5%
Russia	40	105	8%
Canada	30	50	4%
Australia	25	45	5%
Rest of World	75	195	8%
Global	1,105	2,110	5%

As can be observed from the above table, a large proportion of the apparel market will remain in the US, EU and Brazil even though the rate of growth will be higher in India and China. With the US facility, we are now truly a global supplier with already established manufacturing in India and distribution/marketing set up in Europe. We are comfortable with growing in the developed markets as compared to India or other emerging market and will stick to that strategy for at least the next few years.

Q.: What are the biggest challenges that you see in the US market? When will start making profits?

- A.:** We could set up a full fledged POY production unit in the US within 12 months of selecting a site. In terms of time to set up and cost, we benefitted immensely as compared to a similar Greenfield facility in India. Thus, our first hurdle was over when we started commercial production in Jan 2014. The second challenge is that the US customers have their norms for product trial and for the past few months, we supplied trial quantity to several of them. We even participated in trade fairs and have created a