Annual Report 2006-07

Sintex

Sintex Industries Limited

Contents

Corporate Information

SINTEX INDUSTRIES LIMITED

BOARD OF DIRECTORS :

Dinesh B. Patel	*Chairman*
Arun P. Patel	*Vice chairman*
Ramnikbhai Ambani	
Ashwin Lalbhai Shah	
Rooshikumar Pandya	
Indira J. Parikh	
Dr. Rajesh B. Parikh	
Dr. Lavkumar Kantilal	
Niten Malhan	
Rahul A. Patel	*Managing Director*
Amit D. Patel	*Managing Director*
S.B. Dangayach	*Managing Director*

MANAGEMENT TEAM :

Rahul A. Patel	*Managing Director*
Amit D. Patel	*Managing Director*
S.B. Dangayach	*Managing Director*
L.M. Rathod	*C.F.O. & Company Secretary*
Sunilkumar Kanojia	*Senior President (Corporate)*
S. Vekatachalam	*President – Opr (Plastic Div.)*
B.R. Jayswal	*President – Fin. & Acc. (Plastic Div.)*
Sanjib Roy	*President – Marketing (Plastic Div.)*
Sandeep Harsh	*C.E.O. (in waiting) (Zeppelin)*
Rajan Gulabani	*Vice President – Marketing (Plastic Div.)*
S.M. Anerao	*Vice President – Marketing (Plastic Div.)*
A.C.Saxena	*Vice President – Marketing (Plastic Div.)*
Shashidhar B.C	*President – Marketing. (Textile Div.)*
Surendra R.Sharma	*President (Home Textile)*
Ashoke Maitra	*President – Opr. (Textile Div.)*
R.A. Sharma	*President – Proc. (Textile Div.)*
Manven Dubey	*Vice President - MIS*
Joy Christian	*Head – Admin. (Textile Div.)*
Rajiv Naidu	*Head - IR & PR*

COMPANY SECRETARY :

L.M. Rathod

AUDITORS :

Deloitte Haskins & Sells
Chartered Accountants
Ahmedabad

REGISTERED OFFICE :

Near Seven Garnala, Kalol (N.G.) 382 721
Tel (91-2764) 253000
Fax : (91-2764) 253100, 222868
E-mail : bvm@sintex.co.in

REGISTRAR & SHARE TRANSFER AGENT

Pinnacle Shares Registry Pvt. Ltd.
Nr. Ashoka Mills, Naroda Road,
Ahmedabad – 380 025

BANKERS :

State Bank of India
Bank of Baroda
IDBI Bank Ltd.

MANUFACTURING FACILITIES AT:

- **Kalol**
  Nr. Seven Garnala
  Kalol – 382 721, (N.G.), District Gandhinagar, Gujarat.
- **Bangalore**
  61-C, Bommasandra Ind. Estate
  Hosur Road, Bommasandra – 562 158, Karnataka.
- **Kolkata**
  Plot No. 40 & 41, Uluberia Growth Center,
  Nr. Birsipur Railway Station, Dist. Howrah, West Bengal.
- **Daman**
  Plot No. 34, 39 & 40, Survey No. 168
  Dabhel Ind.Co. Op. Society Ltd.,
  Dabhel, Daman (Union Territory).
- **Baddi**
  Pillanvali Road, Nr. Raja Forging Gears Ltd.
  District : Solan, Himachal Pradesh.
- **Nagpur**
  Plot No : B/124 Batti-Bori, MIDC, Batti-Bori
  District Nagpur, Maharshtra.
- **Salem**
  131, Sandhiyur Attayampatti, Behind S.V.T. School
  Via-Mallur,Trichy Main Road, Salem, Tamilnadu - 636 203.
- **Bhachau**
  Plot No.1211/1, 1223/24/31, Bhachau Gandhidham Highway,
  District Kutch, Bhachau, Gujarat – 370 140.

(Rs.in lacs)

Ten years at a glance

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fixed assets (Net)	9431.32	8931.27	14973.62	38170.72	37882.29	36486.64	48025.14	49344.11	47064.33	63543.21
New project expenses	44.76	7164.03	5124.80	5644.42	5522.87	12148.88	1833.20	2962.47	1902.30	3878.50
Investments	836.40	1081.40	1368.83	1129.09	3106.85	1152.69	5686.22	16746.75	15682.60	20652.57
Net current assets	8252.87	8887.44	8507.09	13134.86	10079.45	12278.81	13604.50	21992.10	44958.58	51863.00
Miscellaneous expense (not written off)	203.84	257.25	262.45	191.19	406.87	351.47	319.89	610.28	339.85	211.60
Total assets (net)	**18769.19**	**26321.39**	**30236.79**	**58270.28**	**56998.33**	**62418.49**	**69468.95**	**91655.71**	**109947.66**	**140148.88**
Borrowings	6685.16	12478.47	14976.66	24567	21715.43	25032.93	29857.72	33840.92	58265.57	67825.90
Preference share capital	0.00	1000.00	1500.00	1500.00	1500.00	1500.00	0.00	0.00	0.00	0.00
Equity share capital	1456.17	1456.17	1456.17	1456.17	1456.17	1456.17	1456.17	1847.67	1973.17	2218.78
Share warrants	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1392.12	540.59	0.00
Reserves and surplus	10627.86	11386.75	12303.96	30747.11	31691.18	33523.12	33742.01	48871.44	42973.39	62867.94
Deferred tax liability	0.00	0.00	0.00	0.00	635.55	906.27	4413.05	5703.56	6194.94	7236.26
Total capital employed	**18769.19**	**26321.39**	**30236.79**	**58270.28**	**56998.33**	**62418.49**	**69468.95**	**91655.71**	**109947.66**	**140148.88**
Debt/Equity ratio	0.5:1	1:1	1.1:1	1.6:1	1.3:1	1.35:1	1.59:1	0.95:1	1.28:1	1.04:1
Sales and other income	**15832.85**	**18363.72**	**20965.76**	**29628.33**	**37655.91**	**44700.68**	**54727.09**	**68797.83**	**87474.35**	**118416.65**
Raw materials	5372.23	6955.76	8210.75	10621.75	14513.42	19651.22	25437.04	31814.72	51053.64	69539.48
Salaries and wages	1429.94	1632.29	1788.48	2107.85	2158.52	2325.46	2646.22	3055.00	3742.45	4789.82
Operations and other expenses	6070.38	6735.01	7211.53	10940.28	14392.95	14224.66	16834.96	21556.76	15226.02	19688.09
Interest	851.20	675.64	979.20	1929.43	2157.07	2849.44	2623.68	2485.26	2909.26	4099.33
Gross profit (Loss)	**2109.10**	**2365.02**	**2775.80**	**4029.02**	**4433.95**	**5649.90**	**7185.19**	**9886.09**	**14542.98**	**20299.93**
Depreciation	858.83	1077.03	1291.57	1808.03	2268.29	2206.57	2263.45	2825.03	3112.83	4146.99
Profit/(Loss) before taxes	**1250.27**	**1287.99**	**1484.23**	**2220.99**	**2165.66**	**3443.33**	**4921.74**	**7061.06**	**11430.15**	**16152.94**
Taxes	120.00	121.00	155.00	181.00	243.26	1048.72	1540.10	2049.01	2225.84	3093.09
Profit/(Loss) after taxes	**1130.27**	**1166.99**	**1329.23**	**2039.99**	**1922.40**	**2394.61**	**3381.64**	**5012.05**	**9204.31**	**13059.85**
Extraordinary items	(90.35)	(112.93)	(12.57)	373.74	0.00	0.00	(15.51)	378.63	(2.66)	(1.73)
Net profit	**1039.92**	**1054.06**	**1316.66**	**2413.73**	**1922.40**	**2394.61**	**3366.13**	**5390.68**	**9201.65**	**13058.12**
Dividend	179.74	235.20	359.86	405.92	405.92	478.73	563.39	739.07	886.08	1074.61
Tax on dividend	17.97	25.71	39.59	64.66	19.12	57.00	72.17	96.60	124.27	182.63
Retained earnings	1701.04	1870.18	2208.78	3751.18	3765.65	4065.45	4994.02	7380.04	11304.13	15947.87
Earning per equity share (Rs.)	1.55	1.45	1.81	3.32	2.36	2.97	4.43	7.14	9.95	12.15
Book value per equity share (Rs.)	83	88	94	221	232	246	272	313	52*	65*
Dividends per equity share (%)	15	15	15	15	15	20	30	40	44	48

* On subdivided equity share of Rs.2 each

Directors' Report

Dear Shareholders,

Your Directors take pleasure in presenting the 76th annual report and audited accounts for the financial year ending on March 31, 2007.

Financial Results

The financial performance of your Company for 2006-07 is given below.

(Rs. in lacs)

	2006-07	2005-06
Gross profit	20299.93	14542.98
Less : Depreciation	4146.99	3112.83
Profit before tax	16152.94	11430.15
Less: Provision for taxation - Current tax (including FBT of Rs.83.71 lacs)	1996.15	1734.46
Deferred tax	1096.94	491.38
Profit/(Loss) after tax before prior period items	13059.85	9204.31
Add/(Less): Short provisions for taxation of earlier years	(1.73)	(2.66)
Profit after tax	13058.12	9201.65
Balance of profit of previous year	17779.41	11088.11
Profit available for appropriation	30837.53	20289.76
Appropriations		
General reserve	1500.00	1500.00
Proposed dividend on equity shares	1074.61	886.08
Tax on dividend	182.63	124.27
Balance carried to balance sheet	28080.29	17779.41
Total	**30837.53**	**20289.76**

Review of operations

Your Company posted yet another year of impressive results testifying to the robustness of this corporate strategy, competitive position and national buoyancy notwithstanding a challenging business environment.

Gross turnover for 2006-07 grew by 32.69% to Rs.1212.80 crore, driven by attractive growth across all the businesses of your Company.

- 34.41% growth in gross turnover of the plastic division to Rs.888.74 crore
- 28.20% growth in gross turnover of the textile division to Rs.324.07 crore
- 39.81% growth in EBIDTA to Rs.243.99 crore
- 41.91% growth in post-tax profit to Rs.130.58 crore
- Rs.12.15 basic earnings per share for the year under review
- Rs.11.97 diluted earnings per share for the year under review

Dividend

To strike a balance between the need to sustain investments for prospective growth and the annual profit expectations of shareholders, your Directors are pleased to recommend a dividend of Rs.0.96 per equity share on a face value of Rs.2 each on 11,19,38,763 equity shares fully paid up on March 31, 2007 (previous year Rs.0.88 per equity share on a face value of Rs.2 each on 9,86,58,320 equity shares) and any further shares that may be allotted by the Company following the conversion of bonds prior to June 15, 2007 (book closure period begins on this day for the purpose of dividend entitlement) for 2006-07. This dividend will be paid subject to the approval of shareholders and the approval of financial institutions and banks.

Businesses review

Plastics

The Indian plastics industry is at an inflection point for important reasons: under-penetration in the domestic markets, increasing availability of plastic products, a booming Indian economy and a growing export market.

Despite a buoyant economy, India's per capita plastic consumption was a low 4.10 kg compared to a global average of 19.70 kg. To encourage consumption, the Union budget 2007 reduced the customs duty on plastics from 12.5% to 7.5%, while the central excise duty on nylon chips was rationalised from 16% to 12%. Going ahead, plastic consumption is expected to increase due to a growing affluence in India and the increasing use of plastics in non-conventional applications (building materials, road building and automotive components).

Performance

In 2006-07, the Company's plastics business delivered 32.67% revenue growth, amounting to Rs.80490.56 lacs. This was driven primarily by a sustained robustness in the performance of pre-fabricated structures, custom-moulded segment and BT shelters (BTS).

At Sintex Industries Limited, much of our competitive strength is derived from the interplay of the right technology with high asset utilisation, leading to high efficiency, one of the lowest product costs and a high quality. Our foresight in identifying products with attractive market potential and successful market place execution helped us acquire and maintain a leadership position in various product segments.

The Company reinforced its brand equity across a wide range of products (building construction materials, factory-made doors and frames, wood substitute plastic sections, water tanks, furniture and even material supplies to original equipment manufacturers).

Sintex Industries Limited also transitioned to higher value and service-oriented offerings, which progressively desensitised the Company to rising oil prices. As a result, the cost of raw materials (crude, HDPE and LDPE granules) comprise a modest proportion of the plastics business.

Pre-fabricated structures: The Company worked with several technologies leading to cost-effective housing shortage solutions, one of them being prefabricated construction. This is a growing area; the Urban Housing Department of the US identified manufactured homes as a low-cost viable solution for meeting mass housing needs; several structures – walling, roofing – can be mass-built in a factory. This concept is rapidly gaining acceptance in India as well, on account of the growing demand originating from government agencies and corporates across telecom, education, sanitation and power sectors.

Your Company is attractively positioned to leverage this growing demand: it is a prefabricated solutions company offering customisable, economic, efficient and quicker alternatives of site-built construction. It enjoys an expertise developed over 30 years; its prefabricated structure manufacturing facility has been certified for ISO 9000:2000.

The installation requires little or no use of machines; can be constructed with ease in remote locations; remains easy to transport without any reduction in the overall strength and can be used for creating multiple structures at different locations.

The Company's prefab business continued to grow attractively across nine Indian states in 2006-07. The Company manufactures 14 products in this category, enjoying heavy orders for shelters (to house the BTS) from most players in the industry. Equipment and solution providers are also committing large funds and orders for such shelters.

This business is growing for another reason. Education is a priority for governments; a number of states are accelerating the reach of education through the use of prefabricated schoolrooms. Besides, the National Rural Health Mission (NRHM) is a high-profile government programme, which envisages the creation of prefab facilities to provide ayurveda, yoga, unani, siddha and homeopathy (AYUSH) services. Besides, improved prefabricated toilets and modules are expected to generate attractive spin-off demand.

Monolithic prefabs: The housing sector accounts for 3 to 5% of the GDP in most developed economies; in India, it accounts for a mere 1% [source: Assocham]. With housing emerging as a critical component of the construction sector, India will require investments worth $25 billion over the next five years [Source: CII].

India remains one of the attractively growing markets for housing in the world — about 25 lac houses are built in the country each year, despite a widening demand-supply gap. The Indian housing sector faces a shortage of 20 million dwelling units for its lower middle and low income groups, expected to increase to 22.50 million by the end of the 10th Plan period *[Source: Assocham]*.

Sintex Industries Limited believes that the answer to India's extensive housing shortage is the development of low-cost-yet-durable houses. The Company's monolithic houses is a relevant solution. The Company evolved a state-of-the-art formwork system that enables the casting of concrete walls along with slab in one shot. Its advantages comprise:

› Consistent quality; all the electrical, plumbing and related supports will be integrated; the speed of construction is generally quicker than the conventional method.

› These houses are designed to meet all precautions related to seismic, waterproofing and fire etc.

- These houses have a longer life span compared to conventional construction with negligible maintenance.
- These houses use fly ash as an ingredient in the construction, reducing environmental pollution.

Your Company constructed nearly 1,500 low-income group houses for the Ahmedabad Urban Development Authority in 2006-07 and negotiations are on for similar assignments in Delhi, Chandigarh and other places. The Company's order book stood at more than Rs.1,000 crore for monolithic prefabs towards the close of 2006-07.

Multi-storeyed transit homes: In many Indian cities, slum improvement / rehabilitation is the critical need of the hour. The Company is in a position to offer multi-storeyed transit homes made with suitable sandwich panels with a life of over 25 years. With the government prioritising housing development for the needy, your Company is positioned to act as a major catalyst.

New introductions: Your Company developed PP profile for use in corner posts for PolyJohn Portable Toilet Blocks; it will commence contract manufacture for PolyJohn, which possesses a unique combination of roto moulding, thermoforming and PP extrusion. The Company enjoys exclusive marketing rights of PolyJohn in India and is working on various government programmes such as Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Sarva Siksha Abhiyan (SSA) and Mid-day Meal Scheme and National Rural Health Mission. The prefab business enjoys a healthy order pipeline from Mumbai and Delhi.

Custom moulding and lightweight engineering products: Sintex essentially has two sub-segments in the custom moulding business – auto components and electrical – both of which are enjoying a healthy demand.

In custom moulding business, the Company is attractively placed as the government is driving reforms in power distribution in several new states. To reduce T&D losses, meter boxes, energy boxes, fuse boxes and pillar boxes are needed, a pioneering area for the Company. The Rajiv Gandhi Gramin Vaidyutikaran Yojana (RGGVY) is a high-priority programme and the Company is supplying both products and undertaking turnkey jobs in certain areas to the satisfaction of various distribution and utility companies. Besides, the Company is working with several states and supplying equipment like SMC enclosures, polymeric enclosures, polymeric insulators and cross arms for power transmission grids. The Company is also working on various government programmes like the Accelerated Power Development and Reform Programme (APDRP) and Rajiv Gandhi Gramin Vaidyutikaran Yojana (RGGVY) – in the area of rural electrification (SMC products).

Industrial custom-moulded products are also performing well. There is a growing need for the Company's plastic pallets that provide totally hygienic and clean solutions for material handling and logistics. Being a segment leader, the Company expects to see a greater demand for pallets and related products in retailing, warehousing, pharmaceuticals, fruit processing, fisheries and related industries.

The auto components business, too, reported attractive growth, on the back of a continuing strong relationship with Cummins and other multinationals. Sintex continues to manufacture products specific to the requirements of clients like Cummins, Siemens, Wasaukee, Coca-Cola, GE, PepsiCo, New Holland Tractors and French Railways.

Water tanks: The Company launched a new range of products, namely underground water tanks and horizontal tanks meant for the transportation of water and other fluids. With a new emerging segment of sump tanks, septic tanks and transportation tanks, the Company is eyeing a sizeable business over the next few years. The implementation of VAT in line with global trends has also reduced competition in this small scale sector.

The sale of Sintex Premium, Sintex and Reno brands remained stable. The focus of the division is shifting from low-value water tanks to specialised applications in the infrastructure space.

However, underground tanks are yet to take off due to a tough year in the area of oil distribution and retailing companies. A technical approval has been secured and there are bright demand prospects from these sectors. The Company is working on various government programmes like Rajiv Gandhi Drinking Water and Sanitation Scheme and Indira Gandhi Water Supply Scheme.

Textiles

The contribution of India's textile sector to the national economy is visible in its significant contribution to industrial production, employment generation and foreign exchange earnings capability, inspiring favourable government policies.

The Indian textiles industry is poised for robust growth – both within and outside the country – due to a strong presence across the textiles value chain, government reform (for the benefit of organised textile manufacturers), abolition of the quota regime and the integration of textile and clothing trade under the WTO.

The last development is perhaps the most significant: the end of the multi-fibre agreement (MFA) in 2005 has accelerated a shift in textile capacities from the developed nations to low-cost Asian producers, with India and China emerging as principal beneficiaries.

India's trade data indicates impressive growth in textile and garment exports to Europe and U.S.A. Rising domestic demand along with free international trade have catalysed the growth of the Indian textile and apparel industries; going ahead, the sector is set to grow into a $100-billion industry by 2010 (exports 50%).

The Company is attractively placed to capitalise on the industry upturn. A 9%-plus GDP growth and favourable international factors has resulted in a healthy demand growth for the Company's products.

Correspondingly, the Company's production touched a record 191.98 lacs metres, a growth of 33% over the previous year. Besides, the Company's total revenues from this business rose by 27.53% to Rs.31802.39 lacs in 2006-07; exports rose by 6.16% to Rs.1419.07 lacs.

It would be pertinent to indicate that your Company is not just another textiles player. It is among the most profitable companies in the Indian textile industry. Even though input costs, particularly power and personnel, continued to climb rapidly, the Company embarked on an aggressive capacity expansion, wider product portfolio and global alliances to counter their impact.

For instance, the Company chalked out an ambitious phased four-year expansion programme to expand the annual capacity of 21 million metres to 24 million metres by FY08 (Phase I); it will add an additional 5 million metres by 2008-09 (Phase II).

This linear capacity expansion will be accompanied by a migration into high-end women's shirting. The Company is also strengthening its business through a Rs.4500 lacs investment in a gas-based power plant in Kalol, which will save Rs.1440 lacs per annum. The expansions in the Company's textile division are being funded through the Technology Upgradation Fund Scheme (TUFs).

New projects: Your Company plans to extend into the high-end women's wear segment and in this connection, embarked on a garmenting facility near Kalol (capacity 10,000 garments per day, scalable to 15,000) which will be commissioned by September 2008. This forward integration will enable Sintex to emerge as a one-stop solution provider for its premium customers.

International alliances: Sintex entered into collaborations with several European design houses with a view to benefit them in marketing, keeping abreast with the trends, higher realisation, technological direction, international designs and an eminent clientele.

Spring-Summer collection 2008: The Company launched its Spring-Summer 2008/09 Dobby and Jacquard collections across Europe in March 2007 comprising over 3,000 designs in the men's and women's wear ranges.

Marketing: In 2006-07, Sintex Industries Limited expanded its market footprint despite a decline in export realisations as well as lower orders for yarn and dyed fabric. The Company's innovative product line - Lycra Corduroy, 28 Wales and yarn-dyed shirting - helped raise exposure among domestic brands and exporters. Besides, the Company increased the depth in its product range to cater to high-end clients.

The Company strengthened its presence in the promising markets of Turkey and South America. It introduced new fabric range comprising pigment coating (especially in Dobbies), deriving attractive value-addition; it launched super-fine shirting for the Indian market with a distinctive European touch, which was successfully accepted.

The Company plans to launch compact weaves in the 60s, 70s, 80s, double and 2/120s and yarn-dyed products. The Company also started a new range of 80s collections with Canclini, testifying its capabilities in handing difficult products; as an extension, the Company is the only one in India providing this high-end range to Italian manufacturers.

Operations: During 2006-07, the Company reinforced its weaving section through the following initiatives:

› **Introduction of new counts/quality:** Developed the skill to produce fault-free structured fabric with super-fine yarn count in the 60s/70s/80s and 2/120s; launched jacquard and high-end furnishing fabrics to diversify exposure.

› **Improved efficiency:** Achieved a higher efficiency as production grew 33% following the installation of new equipment and improved efficiency in the weaving section.

› **Environment-friendly activities:** Improved housekeeping through the installation of dust filtration and auto collection systems of waste, reducing the incidence of loose fibres and micro dust.

› **Customer service:** Developed swatches identical to actual products; development of swatches on auto sample looms (instead of usual handlooms) with the objective to improve sample quality, reduce production time and samples.

› **New products:** Development of jacquard fabric on a trial basis; new finishes comprised the following:

- › Nano finish (water and oil repellent for a longer duration)
- › 3X Dry (one-side water repellent and the other side quick dry to keep the body fresh even in a moist environment)
- › Active fresh (anti-microbial finish)
- › Vitamin E (for health-conscious people)
- › Coated fabric (polymer and other chemicals for style, can be an independent line of business in the future)

› **Cost control:** Innovative approaches and efficient asset utilisation helps reduce production cost; the introduction