

# 21st Annual Report 2008-2009



**Supreme Tex Mart Limited**

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# SUPREME TEX MART LIMITED

(Formerly Supreme Yarns Limited)

## Board of Directors

Mr. Ajay Mahajan  
Mr. Sanjay Ahuja  
Mr. S.S. Chugh  
Mr. R.C. Singal  
Mr. S.K. Duggal  
Mr. B.B. Goel  
Mr. Alok Goel  
Mr. Ram Lal Gupta  
Mr. Sanjay Gupta  
Mr. Ajay Gupta

Chairman

Vice Chairman  
Managing Director  
Jt. Managing Director

## Secretary Cum V.P. (Finance)

Mr. Rajeev Bhambri

## Auditors

M/s S.C. Vasudeva & Co.

## Bankers

State Bank of India  
Punjab National Bank  
UCO Bank

## Registrar & Share Transfer Agent

M/s. Beetal Financial & Computer Services (P) Limited,  
Beetal House, 3rd Floor,  
99, Madangir, Bh-Local Shopping Complex  
Near Dada Harsukhdas Mandir,  
New Delhi - 110 062.

Demat At CDSL & NSDL ISIN-INE651G01027

## Registered Office

424, Industrial Area-A, Ludhiana-141003  
E-mail : info@supremetexmart.com  
Website : www.supremetexmart.com  
Phone : 0161-2600593, 2222719, 6614400  
Fax : 0161-2609949

## Works

1. Spinning Unit-1  
Village Kanganwal,  
P.O. Jugiana, Ludhiana.
2. Spinning Unit-2  
Village Kanganwal,  
P.O. Jugiana, Ludhiana.
3. Dyeing Unit B-72, Phase VIII,  
Focal Point, Ludhiana.
4. Apparels & Knits Unit  
Village Paharuwal, P.O. Budhewal  
Chandigarh Road, Ludhiana.
5. Hand Knitting Yarn Unit  
B-72, Phase-VIII,  
Focal Point, Ludhiana

# SUPREME TEX MART LIMITED

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## DIRECTORS' REPORT

**Dear Members,**

The Directors hereby present their Twenty-first Annual Report on the business and operations of the Company together with the audited Financial Accounts for the year ended March 31, 2009.

### FINANCIAL RESULTS

Particulars	(Rs. In Crore)	
	Year ending 31.03.2009	Year ending 31.03.2008
Net Turnover	314.81	165.69
Profit before Depreciation	6.94	15.05
Profit / Loss (-) before Tax	-6.51	8.57
Less Provision for Tax (including deferred and FBT)	2.47	3.05
Profit / Loss (-) after Taxes	-4.04	5.52

### OPERATIONS

Production in both the spinning units was 147.40 lacs kgs. as compared to the figure of 94.23 lacs kgs. In the garment unit, 12.03 lacs pcs. of garments & 370 MT Fabric were produced as compared to the figure of previous year of 2.58 lac pcs. of garments and 63MT of fabric. Net Turnover during the year under review has shown an increase of 90%. There is net loss of Rs.4.04 crore as compared to net profits of Rs.5.52 crore in the previous year. The reason for loss is the higher depreciation of Rs.13.45 crore and higher interest of Rs. 16.55 crore as compared to the figures of Rs.6.48 crore & Rs.6.41 crore in the previous year. Higher depreciation and interest is due to implementation of new projects, which has been installed but they have not achieved the desired production level, thus failing to absorb the said interest and depreciation cost.

### MANAGEMENT DISCUSSION AND ANALYSIS REPORT

#### Industry Outlook

Last year among all the sectors that were badly hit by the squeezing of the global vis-à-vis the Indian economy, it was the textile sector. Its probable impact on the sector could be gauged from the fact that the government released not one but two consecutive fiscal stimulus packages.

The contribution of textile sector in India is 14 per cent to industrial production, 4 per cent to the GDP, and 17 per cent to the country's export earnings.

The roller-coaster ride of the sector in the last fiscal came with the drastic erosion of its cost competitiveness that Indian textiles exporters had enjoyed in the US and EU. High input and transaction costs also bleed the sector profusely.

The dip in the export prospects started happening at the time when the target set for the export of textile-based product for the year 2007-08 was US\$ 25.06 billion, while the actual exports performance touched US\$ 22 billion, as per the provisional figures. However, there has been an increase of US\$ 2.3 billion compared to the exports performance in the year 2006-07.

The textile sector which is the largest employer in the country with more than 3.5 crore workers, in November 08 came out with a disturbing figure that in 6 months, 7 lakh workers had lost their jobs in the contraction of the global economy that had a cascading affect on the sector.

The first fiscal stimulus package declared by Government on December with slew of measures like 2% interest rate subvention in pre-and post-shipment credit for textiles up to March 31, 2009; followed by infusing Rs.1,100 crore to ensure full refund of Terminal Excise duty/CST, also failed to bail out the shrinking

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sector. Other measures, the allocation of Rs.350 crore each for export incentive schemes and for back-up guarantee for ECGC for exports to difficult markets/products; service tax refund on foreign agent commissions of up to 10% of FOB value of exports, also botched to revive the sector.

In the emerging scenario, it is likely that eventually only large integrated textile mills with complete value chain would emerge in the industry. In view of global dynamics mentioned above, the competencies required in the textile industry are also changing rapidly with cost, services and innovation as the key drivers. Customers now aggressively seek alternatives, compare offers and hold out for the best option. The product portfolios are having a shorter product life cycle and ever growing levels of variety. The textile producers in order to sustain their existence will have to recognize these factors and build better competencies to face these global challenges. Supreme Tex Mart Limited (STML) realizing these global challenges had undertaken a few initiative in last couple of years to bring about economies of scale by undertaking expansion of capacities in spinning division by increasing capacity from 33216 spindles to 45648 spindles with 720 rotors and increase in capacity in dyeing division by 17.5mt/day. The Company is also looking at producing higher value added products like knitted garments and dyed fabric, as well as making its presence felt in new markets in Europe in order to achieve substantial growth in this business by establishment of state of art garment division. The association of big names likes Adidas, Reebok, Flemingo, Spenser with the garments division of company the company will help the company in getting the best buyers in the world and this will not only add to the goodwill of company but it will help us to improve our bottom line.

## **Opportunities, Threats & Outlook**

STML has also added its capacities in the spinning division and dyeing division and has added new capacities in knitted garments with state of the art technology. STML is also aiming at reducing the cost of production by achieving scale of economy. The consumption of textile products even in slowdown is bound to increase due to growing population. The Company consolidated its position in cotton yarns during last three years through a constant process of evaluation and subsequent upgradation and modernisation of integrated processes. The Company is focused on value-addition and cost control, in order to be competitive and survive in global markets. The threats to the segments in which the Company operates are severe competition among textile producers, pricing pressures, stricter environment laws and high volatility in Exchange rate. The increase in capacity in the yarn spinning industry in recent time and globalization momentum have led to manifold increase in competition internationally as well as domestic. Cotton sourcing is creating challenges day after day as the demand is increasing drastically and sourcing opportunities are getting limited. Seeing the inflationary trends in the market related to cotton and other such commodities, the raw material cost is posing a possible threat for manufacturers.

The Company expects that demand for fabrics and yarn is likely to increase in the months to come, as exports of textiles and apparel from the country should rise. The Company offers to its customers the finest quality of yarn and an increased demand for Indian yarn and fabric in the months to come would benefit the Company. The yarn, fibre and fabric dyeing facility will help the Company to increase the margins. The knitted garment facility will contribute a major portion of profitability in the years to come. Since this unit manufactures global quality garments and textile made-ups, it is attracting the best names in industry, viz. Adidas, Flemingo, Spencer, TNG to name a few.

## **Financial / Operational Performance**

Supreme is manufacturer and exporter of cotton yarn, synthetic yarn, blended yarn, knitted fabric (both grey and processed) and knitted garments. During the year under review, the Company's exports (FOB value) were to the tune of Rs. 30.28 crore and accounts for about 10% of company's revenues. The company has identified two segment yarn segment and garments segment. The yarn segment comprises production of various types of yarn (from cotton, man made fibres and blend thereof) and yarn processing activities.



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Garment segment comprises of Fabrics and garments. Detailed segment wise performance is given in Notes to the accounts attached in this Annual Report

## **Risk Management**

The textile business, like other businesses, is susceptible to various risks. The primary risk factor is the raw material prices, which is the largest component of cost, as the commodity prices are cyclical in nature. As a result, they exert significant impact on profitability. The Company has significant exports. The recent volatility in foreign exchange markets has a bearing on the profitability and the cost of production. We are taking all possible measures to mitigate the adverse impact of the movements in the foreign exchange markets. The cost of cotton has gone up significantly in the past years. This has impacted cost of inputs used by the Company. The Company is focusing on value added products like knitted garment and dyed fabrics to increase its margins. The Company is also exploring untapped destinations in Europe in order to increase its exports, and is moving beyond the traditional market of exports.

## **Internal Control Systems and their adequacy**

At Supreme, the internal control system encompasses the policies, processes, tasks, behaviors and other aspects of the Company that taken together facilitates effective and efficient operation, quality of internal and external reporting, compliance with applicable laws and regulations.

The Company has a proper and adequate system of internal controls and policies in all its spheres of activities. The Company's Internal Control Systems ensure effective monitoring of operations to make sure that there is maximum utilization of resources and that all assets are safeguarded and protected against loss from unauthorized use and dispositions and that all transactions are authorized, recorded and reported diligently. The Management of the Company reviews the reports of deviations and recommends suitable steps to take corrective measures.

## **Human Resources**

STML continued building sustainable competitive advantage through its human resources and maximizing human resource potential to match the market environment. Your Company focuses on the training and development of its people through continuous internal and external, training and development programmes. Your Directors believe that performance management is the key word for the Company. The dedicated services rendered by the employees at all levels resulted in significant enhancement in quality and productivity. Proactive policies pursuit by STML for industrial relations helped in evolving a peaceful and harmonious situation. Company at present employs about 1478 persons

## **Corporate Social Responsibility**

Corporate Social Responsibility is crucial in today's business environment. STML takes the concept of Corporate Social Responsibility very seriously. STML has a long tradition of community service and a strong sense of Corporate Social Responsibility towards various stakeholders viz.

**Employees:** Providing a competitive and challenging work environment to the employees, having ethical recruitment, remuneration, promotion and other policies, ensuring a safe working environment for the employees, having fair policies for the solution of employee disputes;

**Shareholders:** representing a fair picture of the company's financial position and profit/loss to the shareholders;

**Government:** providing the necessary information to the government as and when required, payment of the due taxes and duties at the proper time, abiding by the laws and regulations of the area in which the Company operates, contributing to the economy through exports;

**Customers:** providing quality products to the customers at reasonable prices;

**Investors:** giving the investors a true and fair picture of the financial condition of the business;

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**Suppliers:** making competitive payment to the suppliers for the products purchased from them and maintaining a good relationship with the suppliers;

**Competitors:** indulging in ethical and healthy competition;

**Society:** creating job opportunities;

**Environment:** ensuring the purchase of environment-friendly supplies, ensuring a pollution free process of production, having an efficient system for the disposal of waste, making the product and the process of production as much environment-friendly as possible.

## **Cautionary Statement**

Certain statements in this Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be 'forward-looking statements' within the meaning of applicable laws and regulations. Forward-looking statements are identified in this report by using words like 'anticipates', 'believes', 'expects', 'intends' and similar expressions in such statements. Although we believe our expectations are based on reasonable assumptions, these forward-looking statements may be influenced by numerous risks and uncertainties that could cause actual outcomes and results to be materially different from those expressed or implied. Some of these risks and uncertainties have been discussed in the section on 'Risk Management'. The Company takes no responsibility for any consequence of decisions made based on such statements, and holds no obligation to update these in the future.

## **DIVIDEND**

In view of loss, company has decided not to declare any dividend.

## **EXPANSION PLAN**

The project for installation of 1920 Rotors is going on and is expected to be completed by September 2009.

## **AUDITORS**

The Auditors, M/s.S.C.Vasudeva & Co., Chartered Accountants, New Delhi will retire at the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

## **AUDITORS' REPORT**

The Statutory Auditors of the company in their Report have made an observation that the possible loss, if any, on valuation of open derivative options could not be determined by the company due to certain reasons as specified in Note 19 of the Notes to Accounts. The ultimate outcome of these transactions and their effect on the financial statement cannot be ascertained at this stage.

The Company hedges its foreign currency fluctuation exposure in export sales by way of foreign currency derivative options. The Company has taken one USD/INR put and call option from a bank and having a maturity period upto Dec.2012. This derivative option is proprietary product of bank which does not have a ready market and such are marked to a model, which is usually bank specific instead of being marked to market. However in the view of significant uncertainty associated with the above derivative options whose ultimate outcome depends on future events, which is not in the control of the company, the loss if any, on such open derivative options cannot be determined at this stage and accordingly not been provided in the books of account. The other points of Auditors' report on the Accounts are self-explanatory and needs no comments.

## **DIRECTORS**

Mr Ajay Gupta, Mr.S.S.Chugh & Mr.S.K.Duggal, retire by rotation at the conclusion of the forthcoming Annual General Meeting. Mr.Marcel Menda appointed Mr.Kalyan Arambam as his alternate director and afterwards he appointed Mr.Alok Goel as his alternate director in place of Mr Kalyan Arambam. The nomination of Ms.Neeta Sood was withdrawn by IDBI after the repayment of their term loan by company.

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Mr.Subhash Kejriwal was appointed and resigned in the current year. Your directors on behalf of company convey their thanks to the outgoing directors for the services rendered by them.

## **PERSONNEL**

Since there is no employee receiving salary more than Rs.24 Lacs, P.A. or Rs.2.00 Lacs P.M., there is no information requires to be given pursuant to the provisions of Section 217(2A) of the Companies Act, 1956.

## **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO**

Particular with respect to conservation of energy and other areas as per Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are annexed hereto and form part of this report.

## **CORPORATE GOVERNANCE**

Company was required to comply with the provision of Clause 49 of the Listing Agreements with Stock Exchanges and Company has complied all the required provisions as detailed in annexure of Annual Report.

## **LISTING**

Shares of the company are listed on National Stock Exchange of India Limited and Bombay Stock Exchange Limited.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to Section 217 (2AA) of the Companies Act, 1956, the Directors, confirm that –

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;
- ii) that have, in the selection of the Accounting Policies, consulted the Statutory Auditors and have applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year viz. 31.03.2009 and of the profit of the Company for that period;
- iii) they have taken proper and sufficient care to the best of their knowledge and ability for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) they have prepared the annual accounts on a going concern basis.

## **APPRECIATION AND ACKNOWLEDGEMENTS**

Your Directors take this opportunity to place on record their appreciation of the dedication and commitment of employees at all levels. Your Directors thank and express their gratitude for the support and co-operation received from customers, suppliers, investors, service providers as well as regulatory and governmental authorities.

FOR AND ON BEHALF OF THE BOARD

PLACE : LUDHIANA  
DATED : 27.06.2009

(SANJAY GUPTA)  
MANAGING DIRECTOR

(AJAY GUPTA)  
JT.MANAGING DIRECTOR



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## ANNEXURE TO THE DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(1)(e) READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2009 :-

### 1. CONSERVATION OF ENERGY:

With continuous efforts, company keeps on trying to reduce and control the consumption of fuel & electricity.

#### FORMA:

#### A) POWER AND FUEL CONSUMPTION:

		<u>2008-09</u>	<u>2007-08</u>
1. Electricity - Own Generation			
a) Unit Produced -	(KWH IN LACS)	12.19	6.95
b) Unit Produced /Ltr. of Diesel	(KWH)	3.70	3.64
c) Cost Per Unit	(RS.)	7.27	8.51
2. Electricity-Purchased			
a) Unit Purchased	(KWH IN LAC)	423.96	282.04

#### B) ELECTRICITY CONSUMED PER KG OF PRODUCTION

a) Yarn	(KWH/KG)	2.79	3.00
b) Dyeing	(KWH/KG)	0.90	0.82
c) Garment	(KWH/KG)	1.24	1.04

### 2. TECHNOLOGY ABSORPTION:

Technology absorption, Innovation and Research & Development (R & D) is a continuing Process and a continued emphasis is given on quality improvement and product upgradation. Information as per Form-B of the Annexure to the Rules is given below:

#### RESEARCH & DEVELOPMENT (R & D)

##### (a) Specific Areas in which R & D carried by the Company:

The Company has adopted latest new technology. However, R & D has been carried in the areas of new product development, improvement in the production process and quality of products.

##### (b) Benefits desired as a result of above R & D:

The efforts have resulted in cost competitiveness.

##### (c) Future Course of action:

The management is committed to continue R&D to increase market competitiveness.

### 3. FOREIGN EXCHANGE EARNINGS AND OUTGO:

(Rs.in Crore)

Foreign Exchange Earned	30.28
Foreign Exchange Used (CIF Value of Imports)	37.05



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## CORPORATE GOVERNANCE REPORT

### 1. Company's Philosophy on Corporate Governance:

Company's Corporate Governance system is encompassing the entire mechanics of the functioning of a company and is about doing the right things, at the right time, in the right manner. It is simplified and transparent corporate structure driven solely by business needs and hence is a journey and not a destination. The fundamental objective of our Corporate Governance policies is to promote corporate fairness, transparency, accountability and responsiveness. These policies seek to focus on enhancement of stakeholder value with integrity, social responsibility and compliance with the laws, thereby satisfying the law in spirit and not merely in word.

### 2. BOARD OF DIRECTORS

#### a) Size & Composition of Board

The Board is in conformity with clause 49 of listing agreement and the composition as on 31.03.2009 was as under:

One Non-Executive Independent Chairman

Three executive directors

Five independent directors

One Non-executive not independent director

None of the Directors on the Board is a Member on more than 10 Committees and Chairman of more than 5 Committees (as per Clause 49(I)(C)(ii)) across all the companies in which he is a Director. All the Directors have made the requisite disclosures regarding Committee positions held by them in other companies.

The detail of the Composition of the Board, number of directorship and committee position held by each of the directors are given here under:

NAME OF DIRECTORS	DESIGNATION	CATEGORY	NO.OF DIRECTORSHIP HELD IN OTHER COMPANIES	NO. OF BOARD COMMITTEE MEMBERSHIP HELD IN OTHER COMPANIES	NO. OF BOARD COMMITTEE CHAIRMAN HELD IN OTHER COMPANIES
Ajay Mahajan	Chairman	C-NE-I	10	1	1
S.K. Ahuja	Director	NED-I	10	2	2
S.S.Chugh	Director	NED-I	10	--	--
S.K.Duggal	Director	NED-I	9	3	2
R.C. Singal	Director	NED-I	13	5	3
B.B.Goel	Director	NED-I	2	--	--
Ram Lal Gupta	Vice Chairman	EXE	1	--	--
Ajay Gupta	Jt.MD	EXE	2	--	--
Sanjay Gupta	MD	EXE	2	--	--
Alok Goel	Director	NENI	--	--	--

"C-NE-I" Chairman — Non Executive-Independent

"EXE" Executive

"NED-I" Non Executive –Independent

"NENI" Non Executive Not Independent

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## 2. BOARD OF DIRECTORS

### a) Board Meeting:

During the year ended 31<sup>st</sup> March, 2009 five Board Meetings were held on the following dates: 26.05.2008, 27.06.2008, 29.07.2008, 31.10.2008 & 30.01.2009.

### b) Directors Attendance Record :

Attendance of Directors at Board Meeting and at Annual General Meeting (AGM).

NAME OF DIRECTORS	NO. OF BOARD MEETING ATTENDANCE	WHETHER ATTENDANCE THE AGM HELD ON 20.09.2008
Ajay Mahajan	1	No
S.K. Ahuja	2	No
S.S.Chugh	2	Yes
S.K.Duggal	2	Yes
B.B.Goel	5	No
R.C. Singal	4	No
Neeta Sood	0	No
Ram Lal Gupta	2	No
Ajay Gupta	3	Yes
Sanjay Gupta	5	Yes
Alok Goel	4	Yes
Kalyan Arambam	1	No

### c) BOARD PROCEDURE

The annual calendar of Board Meetings is the beginning of the financial year. The Agenda is circulated in advance to the Board members. The items in the Agenda are backed by comprehensive background information to enable the Board to take appropriate decisions. The Board is also kept informed of major events/items and approvals taken wherever necessary. The Managing Director at the Board Meetings keeps the Board apprised of the overall performance of the Company.

### d) SHAREHOLDINGS OF NON-EXECUTIVE DIRECTORS

Shareholdings of Non-executive directors as on March 31, 2009 are as under:

Name	No. of Equity shares held	% of Paid-up Capital
S.K.Duggal	2000	0.006

## 3. CODE OF CONDUCT

The Company had adopted the Code of Conduct for all the Board members and senior management personnel. Further all the Board members and senior management personnel (as per Clause 49 of the listing Agreement) have affirmed the compliance with the respective Code of Conduct. A declaration to this effect signed by the Managing Director forms part of this report.

## 4. AUDIT COMMITTEE

The audit committee has been constituted as per section 292A of the Companies Act, 1956 and the guidelines set out in the listing Agreement with the stock exchange.