



ANNUAL REPORT 2003-2004

STM
SURAT TEXTILE MILLS LIMITED

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BOARD OF DIRECTORS

M. R. MOMAYA	Wholtime Director
S. M. VIG	Director
S. N. GOUR	Director (upto 14.08.03)
Y. C. PAPAIYA	Director
M. PARMESWARAN	Nominee Director of UTI

AUDITORS

MESSRS NATVARLAL VEPARI & CO.,
Chartered Accountants

BANKERS

DENA BANK

COST AUDITORS

P.M. NANABHOY & CO.
Mumbai.

REGISTERED OFFICE

Garden Mills' Complex,
Sahara Gate,
Surat 395010.

PLANTS

- i. Varachha Road, Surat 395 006.
Tel.: (0261) 2548444, 2551192, 2554451
Fax: (0261) 2553346
- ii. Vareli Complex, Village Vareli,
Taluka Palsana, Dist. Surat 394 327
Tel.No. (02622) 276046.
- iii. Village Jolva, Taluka Palsana,
Dist. Surat 394 305
Tel.No.(02622) 273287, 273289, 276050
- iv. Survey No.285, Village Khadoli,
Silvassa-Khanvel Road,
SILVASSA (DNH)
Tel. No.(0260) 2699009

REGISTRARS & SHARE TRANSFER AGENTS

MCS LIMITED,
Neelam Apartment,
88, Sampatrao Colony, Alkapuri,
Baroda 390 007.
Tel. No. (0265) 2339397, 2314757
Fax No. (0265) 2341639.
e-mail: mcsbaroda@iqara.net

FIFTY-EIGHTH ANNUAL GENERAL MEETING

Date : 24th August, 2004
Day : Tuesday
Time : 10.30 a.m.
Place : Garden Mills Complex,
Sahara Gate,
Surat 395010
Book Closure Dates : 17th August, 2004 to
24th August, 2004
(both days inclusive)

["Surat Textile Mills Limited" formerly known as "Garden Cottons & Yarns Limited"]

NOTICE

NOTICE is hereby given that the Fifty-eighth Annual General Meeting of the Members of SURAT TEXTILE MILLS LIMITED will be held at the Registered office of the Company at Garden Mills' Complex, Sahara Gate, Surat 395010 on Tuesday, 24th August, 2004, at 10.30 a.m. to transact the following business:

1. To receive, consider and adopt the audited Profit and Loss Account for the year ended 31st March, 2004 and the Balance Sheet as at that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr. S. M. Vig, who retires by rotation and, being eligible, offers himself for re-appointment.
3. To appoint Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and, to fix their remuneration, and for the purpose, to pass the following Resolution, which will be proposed as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 224, 224A and other applicable provisions, if any, of the Companies Act, 1956, Messrs Natvarlal Vepari & Co., Chartered Accountants, the retiring Auditors, be and are hereby re-appointed Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting on such remuneration as may be mutually agreed upon between the Board of Directors and the auditors."

NOTES:

- (1) **A MEMBER ENTITLED TO ATTEND AND VOTE AT THIS MEETING IS ENTITLED TO APPOINT PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.**

Proxies, in order to be effective, must be received by the Company at its Registered Office not less than 48 hours before the Meeting.

- (2) The relevant Explanatory Statement pursuant to section 173 (2) of the Companies Act, 1956 setting out the material facts in respect of the business under item No.(3) of the Notice is annexed hereto.
- (3) The Register of Members and Share Transfer Books of the Company will remain closed from Tuesday, 17th August, 2004 to Tuesday, 24th August, 2004 (both days inclusive).

- (4) Members are requested to notify immediately any change of address
 - to their Depository Participants in respect of their electronic share accounts, and
 - to the Company at its Share Department or to the Company's Registrar & Transfer Agent, MCS Limited, where shares are held in physical form.
- (5) Pursuant to Section 205A to 205C of the Companies Act, 1956, read with Investor Education & Protection Fund (awareness and protection of the investors) Rules, 2001, the unclaimed dividend in respect of the year 1995-96 has been transferred to the "Investor Education & Protection Fund".
- (6) Members, who hold shares in dematerialised form are requested to write their Client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.
- (7) Members desirous of getting any information about the Accounts and Operations of the Company are requested to address their queries to the Secretary at least 7 days in advance of the Meeting so that the information required can be made readily available at the Meeting.
- (8) Members, holding Shares in more than one folio in the same name are requested to send the details of their folios with the Share Certificates so as to enable the Company to consolidate their holdings into one folio.
- (9) The Shareholders may kindly note that as mandated by the Securities & Exchange Board of India (SEBI), the Equity Shares of the Company are traded in compulsory dematerialised form by all the investors since 17th January, 2000.
- (10) Pursuant to the provisions of Section 109A of the Companies Act, 1956, Members are entitled to make a nomination in respect of Shares held by them. Members desirous of making a nomination are requested to send their requests in Form No.2B to the Company's Registrar and Share Transfer Agent - MCS Limited.
- (11) Corporate Members intending to send their authorised representatives to attend the Annual General Meeting are requested to send to the Company at its Registered Office a duly certified copy of the Board Resolution authorizing their representatives to attend and vote at the Annual General Meeting.

NOTICE (Contd.)**(12) Re-appointment of Director:**

At the ensuing Annual General Meeting, Shri S. M. Vig retires by rotation and being eligible, offers himself for re-appointment. The information relating to the Director proposed to be reappointed, as required by Clause 49(VIA) of the Listing Agreement, is as under:

Mr. S. M. Vig is a qualified engineer having vast experience and in depth knowledge of the polyester textile industry. He is a technocrat and an entrepreneur par excellence. Mr. Vig is closely involved with the Group and heading a team of qualified persons under his

leadership. He is also involved in the day to day operations of the division engaged in the activity of manufacturing PFY yarn. Mr. S. M. Vig does not hold the directorship in any other public company or private company.

By Order of the Board of Directors

Surat, 29th June, 2004

M. R. MOMAYA
Wholtime Director

ANNEXURE TO NOTICE**EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956.****Item No. 3**

Section 224A of the Companies Act, 1956, provides, *inter alia* that in the case of a Company in which not less than 25% of the subscribed share capital is held, either singly or in combination by public financial institutions or any Government or nationalised banks or any other financial institutions referred to therein, the appointment or re-appointment of Auditors shall be made by a special resolution.

The Subscribed Share Capital of the Company held collectively by Public Financial Institutions and Nationalised Banks is more than 25% thereof. It is, therefore, necessary that the re-appointment of Auditors be made by a Special Resolution.

The Shareholders' approval is also being sought to authorise the Board of Directors to determine the remuneration payable to the Auditors in consultation with them. The Special Resolution is accordingly, recommended for approval of the Members.

None of the Director of the Company is, in any way, concerned or interested in the resolution.

By Order of the Board of Directors

Surat, 29th June, 2004

M. R. MOMAYA
Wholtime Director

DIRECTORS' REPORT

To the Members of

SURAT TEXTILE MILLS LIMITED

The Directors present their Fifty-eighth Annual Report and the Audited Statement of Accounts for the year ended 31st March, 2004.

FINANCIAL RESULTS

	(Rs. in Lacs)	
	2003-04	2002-03
Total Income	17266.65	17933.50
Profit / (Loss) before interest, depreciation and tax	246.48	(24.22)
Financial Charges (Net)	30.77	76.21
Profit / (Loss) before Depreciation	215.71	(100.43)
Depreciation	866.48	868.55
Profit / (Loss) for the year	(650.77)	(968.98)
Profit / (Loss) Brought Forward	(5765.47)	(4796.49)
Balance carried to Balance Sheet	(6416.24)	(5765.47)

DIVIDEND

Your Directors regret their inability to propose any dividend in view of the accumulated losses of the Company.

OPERATIONS

During the year under review, sales of polyester filament yarn increased to Rs.174.98 Crore, compared to Rs.157.77 Crore in the previous year; however the sale of spun yarn was lower at Rs.19.41 Crore as compared to Rs.21.82 Crore for the previous year.

Despite market conditions being more competitive than the previous year, the company's improved performance was due to its product mix. During the year, major raw materials like DMT and MEG were under severe upward price pressure. Given the high raw material costs and the fact that key differentiated products were commoditised in the past year, the performance may be considered reasonable compared to the previous year.

PROVISIONS OF SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT, 1985

The reference made by the Company U/s.15(1) of the Sick Industrial Companies (Special Provisions) Act, 1985 was registered by the Board for Industrial and Financial Reconstruction (BIFR) in March, 2003. The matter is pending with the Board and no hearing has taken place till date.

MANAGEMENT DISCUSSION & ANALYSIS

Industry Scenario

The major producers of Polyester Filament Yarn (PFY) in the Country are in the process increasing their production capacities of Commodity PFY with cutting edge technologies. The cost of production for such units is likely to be lower due to economies of scale and they may reduce the selling prices

of their products. Under the circumstances, there is likely to be pressure on your company to maintain the margins and the volume of dispatch as achieved during the year under review.

Outlook

The margins during the current financial year is likely to be lower on account of increase in raw material prices and increase in supply of PFY.

Your Company is pursuing cost cutting measures and focusing on increased productivity, better product mix, introduction of new products and a thrust in sales and better price realisation. However, the performance in the coming months, would be dependent on the overall industry scenario.

Opportunities, Threats & Challenges

The domestic consumption has shown a reasonable growth and the trend is expected to continue. The implementation of WTO in January, 2005 will open new markets to Indian producers. With the better market conditions, it is expected that the increase in selling prices may partly compensate the incidence of higher input costs. The substantial expansion in production capacity of PFY by the major producers and with the rationalization in import duty structure, the PFY prices are expected to remain under pressure.

Your Company is gearing up to meet the challenges through continuous improvement in quality, reduction in costs, better marketing arrangements for higher value added products.

Internal Control Systems

The Company has adequate internal control system to ensure operational efficiency, protection and conservation of resources, accuracy and promptness in financial reporting and compliance of laws and regulations. Standard operating procedures and guidelines are issued from time to time to support best practices for internal control. Your Company remains committed to maintain internal control systems and procedures designed to provide reasonable assurance for orderly and efficient conduct of business and security of its assets.

Cautionary Statement

Statements in this report on Management Discussion and Analysis describing the Company's objectives, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws or regulations. These statements are based on certain assumptions and expectations of future events. Actual results may differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand / supply, finished goods prices, raw material cost and availability, changes in government regulations, tax regimes, economic development within India and other factors such as litigation and industrial relations. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any

DIRECTORS' REPORT (Contd.)

subsequent developments, information or events.

DIRECTORS

Shri S. M. Vig retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

The Company has received the requisite Form 'DD-A' from Shri S. M. Vig, in terms of Companies (Disqualification of Directors under 274(1)(g) of the Companies Act, 1956) Rules, 2003 confirming his eligibility for such re-appointment.

The Board recommends the re-appointment of Shri S. M. Vig at the ensuing Annual General Meeting.

FIXED DEPOSITS

During the year, your Company has not accepted any deposit within the meaning of Section 58A of the Companies Act, 1956 and the rules made thereunder.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The information relating to Energy Conservation, Technology absorption and Foreign Exchange earnings and outgo, required to be disclosed under The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in the Annexure 'A' forming part of this report.

PERSONNEL

None of the employees of the Company are in receipt of remuneration prescribed under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

AUDITORS & THEIR OBSERVATION

The statutory auditors, Messrs Natvarlal Vepari & Co., retires at the conclusion of the ensuing Annual General Meeting.

The Company has received a letter from the retiring auditors to the effect that their appointment, as Auditors, if made, would be within the prescribed limits under Section 224(1B) of the Companies Act, 1956 and also that they are not otherwise disqualified within the meaning of sub-section (3) of Section 226 of the Companies Act, 1956, for such appointment.

With reference to Auditors' observation in Para 2(e)(i) of their report, in the opinion of the Company, the quoted investments are held as long term Investments and the diminution in the value of such investments due to decline in their present market value are considered temporary in nature.

The other observations of the Auditors read with relevant notes to the accounts and paras in italics in the Auditors' Report are self explanatory and, therefore, do not call for any further comments.

COST AUDITORS

The Central Government had directed an audit of the Cost Accounts maintained by the Company in respect of its Textiles

business and further approved the appointment of M/s P. M. Nanabhoy & Co. for conducting the cost audit, for the year ended 31st March, 2003. As the said activity at its plant Varachha Road remained discontinued throughout the year, the Company has submitted an application to the Department of Company Affairs, Cost Audit Branch, New Delhi for exemption from cost audit in respect of cotton textile activity for the year ended 31st March, 2003.

DIRECTORS' RESPONSIBILITY STATEMENT

In compliance of Section 217(2AA) of the Companies Act, 1956, your Directors hereby state:

- (1) That in the preparation of the annual accounts, the applicable accounting standards as specified by the Institute of Chartered Accountants of India have been followed alongwith proper explanation given in the notes to accounts, relating to material departures;
- (2) That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2004, and of the loss of the Company for the year ended on that date;
- (3) That the Directors have taken proper and sufficient care 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; and
- (4) That the Directors have prepared the annual accounts of the Company on a 'going concern' basis.

CORPORATE GOVERNANCE

A separate section on Corporate Governance and a certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under clause 49 of the Listing Agreement with the Stock Exchanges, forms part of the Annual Report.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation of the support and cooperation received from the financial institutions, banks, suppliers, customers and the Government authorities. Your Directors also comment the unstinting efforts put in by employees at all levels.

For and on behalf of the Board

Surat, 29th June, 2004

M. R. Momaya
Wholetime Director

ANNEXURE "A" TO THE DIRECTORS' REPORT

Information as per Section 217(1)(e) read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report.

The Energy Audit is also being carried out by external agencies.

I. CONSERVATION OF ENERGY:

a. Measures taken for conservation of energy:

- Energy conservation is an ongoing process in our organization. Continuous monitoring, planning, development and modifications for energy conservation are done at the plants.

- b. Impact of above measures for reduction of energy consumption and consequent impact on the cost of production:

- Reduction of fuel / electricity consumption.

- c. Total energy consumption and energy consumption per unit of production as per Form "A" as per annexure to the Rules.

FORM "A"

Form for Disclosure of Particulars with respect to Conservation of Energy

	2003-04	2002-03
A. Power And Fuel Consumption		
1. Electricity		
a. Purchased Unit in lacs	122.45	160.30
Total amount Rs. in Lacs.	665.69	870.52
Rate / Unit Rs.	5.44	5.43
b. Own Generation		
i. Through Diesel Generator		
Units in lacs	NIL	NIL
Units per Ltr. of Diesel Oil	NIL	NIL
Unit per SCM of Gas Consumption	NIL	NIL
Cost/Unit Rs.	NIL	NIL
ii. Through Steam turbine/Generator		
Units	NIL	NIL
Units per Ltr. Of fuel oil / gas	NIL	NIL
Cost/Unit Rs.	NIL	NIL
2. Coal/Lignite for Generation of Steam		
Quantity (M.T.)	NIL	NIL
Total Cost Rs.in lacs	NIL	NIL
Average rate Rs./M.T.	NIL	NIL
3. Furnace Oil		
Quantity (K.Lts.)	4494	4837
Total Amount Rs. in Lacs.	451.19	452.67
Average rate Rs./ Lts.	10.04	9.36
4. Others/Internal generation		
Quantity	NIL	NIL
Total Cost	NIL	NIL
Rate / Unit Rs.	NIL	NIL
B Consumption Per Unit Of Production		
Product Details	SPUN YARN	SPUN YARN
Unit	Kg.	Kg.
Electricity (Unit) *	5.50	5.26
Product Details	PFY	PFY
Unit	Kg.	Kg.
Electricity (Unit) *	0.62	0.81
Product Details	CHIPS	CHIPS
Unit	Kg.	Kg.
Electricity (Unit) *	0.09	0.13
Furnace Oil	NIL	NIL
Coal / Lignite (Kg.)	NIL	NIL
Others	NIL	NIL

* The variation in consumption of Electricity per unit of production is due to changes in product mix.

ANNEXURE "A" TO THE DIRECTORS' REPORT (Contd.)**II. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION****Research and Development**

1. Specific areas in which R & D carried out by the Company:

The Company has no specific Research & Development Department however, the Company has quality control department to check the quality of different products manufactured.

2. Benefits derived as a result of the above efforts:
The Company has been continuously improving the quality of its existing products and also been able to reduce the cost of production.

3. Future Plan of Action
Management is committed to strengthen quality control department, further to improve its competitiveness in times to come.

4. Expenditure on R & D:

- The Company, from time to time incurs capital expenditure, exposes itself to better technology and keeps itself abreast of technological improvements.

Technology Absorption, Adaptation And Innovation

1. Efforts in brief, made towards absorption, adaptation and innovation:
 - Modifications of process and products are carried out from time to time to suit market requirements and to improve operational efficiency.
2. Benefits derived as a result of the above efforts:
 - Better quality of yarn will be produced at low costs.
3. Particulars of Technology Imported:
 - The technology used by the Company is indigenously developed and no technology has been imported.

III. FOREIGN EXCHANGE EARNINGS AND OUTGO

Details relating to foreign exchange earnings and outgo are given in Note No.15 of Schedule 13 annexed to the accounts.

By Order of the Board of Directors

Surat, 29th June, 2004

M. R. MOMAYA
Wholtime Director

CORPORATE GOVERNANCE REPORT

I. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE:

The Company strongly believes in fair, efficient and transparent business operations, fairness to all stakeholders in the company, proper disclosure of relevant financial and non-financial information and enhancing shareholder value on a continuing basis.

II. BOARD OF DIRECTORS:

(a) Composition and Category of Directors:

Name of the Director	Category	No. of Other Directorship held	No. of other Board / Committee/s of which he is a member	No. of other Board / Committee/s of which he is a Chairperson
Mr. M.R. Momaya	Executive Director	None	None	None
Mr. S.M. Vig	Non-executive, Independent	None	None	None
Mr. Y.C. Papaiya	Non-executive, Independent	None	None	None
Mr. M.Parneswaran	Non-executive, Independent	1	None	None

Mr. S. N. Gour has resigned from office of the Directorship with effect from 14th August, 2003.

(b) Number of Board meetings held during 2003-04:

The Board meets at least once in a quarter to consider amongst other business, the performance of the Company and financial results.

Five Board Meetings were held during the financial year ended 31st March, 2004. The dates on which the meetings were held are as follows:

29th April, 2003, 25th June, 2003, 31st July, 2003, 30th October, 2003 and 27th January, 2004.

(c) Attendance of each Director at the Board Meetings and at the last AGM.

Name of Director	No. of Meetings attended during 2003-2004	Whether present at the last AGM held on 25.09.2003
Mr. M.R. Momaya	5	Yes
Mr. S.M. Vig	3	Yes
Mr. S.N. Gour *	2	N.A.
Mr. Y.C. Papaiya	5	Yes
Mr. M. Parneswaran	2	No

* Mr. S. N. Gour resigned w.e.f. 14.08.2003.

III. AUDIT COMMITTEE

The Board of Directors has constituted an Audit Committee of Directors to exercise powers and discharge functions as stipulated in Section 292A of the Companies Act, 1956, Clause 49 of the Listing Agreement with Stock Exchanges and other relevant statutory/regulatory provisions. The Audit Committee of Directors consists of three Non-executive Directors viz.; Mr. Y. C. Papaiya as Chairman of the Committee and Mr. S. M. Vig and Mr. M. Parneswaran as members.

Besides the Committee Members, representative from various divisions of the Company, internal auditors and Secretary who is acting as Secretary to the Audit Committee were also present at the meetings to answer the queries raised by the committee members.

The Audit Committee met three times during the financial year 2003-2004 on 29.07.2003, 30.09.2003 and 29.03.2004. Mr. Y. C. Papaiya and Mr. S. M. Vig were present for each of the three meetings.

IV. REMUNERATION COMMITTEE

The remuneration committee consists of three Non-executive Directors viz; Mr. Y. C. Papaiya, Mr. S. M. Vig and Mr. M. Parneswaran, as members. Mr. M. Parneswaran was appointed as member of Remuneration Committee after Mr. S. N. Gour resigned as Director of the Company. The terms of reference of the Remuneration Committee in brief pertain to determining the Company's policy on and approve specific remuneration packages for executive directors after