

2011-2012

Annual Report



SURAT TEXTILE MILLS LIMITED

BOARD OF DIRECTORS *

Sanjay S. Shah	Managing Director
M. R. Momaya	Director
Y. C. Papaiya	Director
Harish Bharucha	Director

* As on 30th May, 2012

AUDITORS

Messrs Natvarlal Vepari & Co.,
Chartered Accountants, Surat

BANKERS

Bank of Baroda

REGISTERED OFFICE

Garden Mills' Complex,
Sahara Gate
Surat - 395 010

MANUFACTURING FACILITIES

- i. Vareli Complex,
Village Vareli, Taluka Palsana,
Dist. Surat - 394 327
Tel. No. (02622) 271241-47
- ii. Village Jolwa, Taluka Palsana,
Dist. Surat - 394 305
Tel. No.: (02622) 271287-89
- iii. Survey No. 285, Village Khadoli,
Silvassa-Khanvel Road,
Silvassa (DNH).
Tel. No.: (0260) 2699009

REGISTRARS AND TRANSFER AGENTS**Karvy Computershare Private Limited**

Plot No. 17 to 24, Vittalrao Nagar,
Madhapur, Hyderabad - 500 081
Tel. No.: 040-44655000
Fax No.: 040-23420814
e-mail: einward.ris@karvy.com
[http:// www.karvy.com](http://www.karvy.com)

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(“Surat Textile Mills Limited” formerly known as “Garden Cottons & Yarns Ltd.”)

**66th Annual General Meeting on Monday, 30th July, 2012
at 10.30 a.m. at the Registered Office of the Company.**

NOTICE

NOTICE is hereby given that the Sixty-sixth Annual General Meeting of the Members of **SURAT TEXTILE MILLS LIMITED** will be held on **Monday, 30th July, 2012 at 10.30 a.m.** at the Registered Office of the Company at Garden Mills' Complex, Sahara Gate, Surat 395 010, to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Statement of Accounts together with Directors Report as also the Auditors' Report thereon for the year ended 31st March, 2012.
2. To appoint a Director in place of Shri Y. C. Papaiya, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Auditors, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS:

4. To consider and, if thought fit, to pass with or without modification(s), the following Resolution as an **Ordinary Resolution**:

"RESOLVED THAT Shri Sanjay S. Shah, who was appointed as an Additional Director of the Company by the Board of Directors pursuant to Section 260 of the Companies Act, 1956 and Article No. 165(b) of the Articles of Association of the Company and who holds the office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of Director u/s 257 of the Companies Act, 1956, being eligible for appointment to the office of Director, be and is hereby appointed a Director of the Company liable to retire by rotation."

5. To consider, and if thought fit, to pass with or without modification(s) the following Resolution as an **Ordinary Resolution**:

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, and all other applicable Sections of the Companies Act 1956 ("the Act"), read with and in accordance with the conditions specified in Schedule XIII thereto as amended up-to date, including any statutory modification(s) or re-enactment thereof, for the time being in force and subject to such approvals and sanctions as may be necessary, the Company hereby accords its approval to the appointment of Shri Sanjay S. Shah as Managing Director of the Company, for a period of 5 (five) years with effect from 30th May, 2012 to 29th May, 2017, on the terms and conditions and remuneration as set out in the agreement entered into between the Company and Shri Sanjay S. Shah, a copy whereof is placed before the Meeting duly initiated for the purpose of identification, which agreement is hereby specifically approved and sanctioned with authority to the Board of Directors to enter and vary the terms and conditions of the said appointment and/or agreement (including authority, from time to time, to determine the amount of salary and commission as also the type and amount of perquisites and other benefits payable to Shri Sanjay S. Shah), in such manner as may be agreed to between the Board of Directors and Shri Sanjay S. Shah, provided however, that the remuneration payable to Shri Sanjay S. Shah shall not exceed the limits specified in the said agreement and also the limit prescribed under Schedule XIII to the Companies Act, 1956 including any amendment, modification(s) variation, or re-enactment thereof;

RESOLVED FURTHER THAT in the event of any loss, absence or inadequacy of profits in any financial year, during the term of office of Shri Sanjay S. Shah, the remuneration payable to him by way of salary, allowances, commission and perquisites and other benefits shall be the minimum remuneration as specified above, subject to the overall ceiling prescribed under Paragraph A of Section II of Part II of Schedule XIII to the Act.

RESOLVED FURTHER THAT the Board of Directors of the Company (including any Committee of Directors) be and is hereby authorised vary and/or revise the remuneration of Shri Sanjay S. Shah as Managing Director with the overall limits under the said Act and to do all such acts, deeds and things and execute all such documents, instruments and writings as may be required, with power to settle all questions, difficulties or doubts that may arise in regard to the said appointment as it may in its sole and absolute discretion deem fit and to delegate all or any of its power herein conferred to any director(s) and/or officer(s) of the Company, to give effect to the aforesaid resolutions."

By Order of the Board of Directors

Sanjay S. Shah
Managing Director

Surat, 30th May, 2012.

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Company.
2. Proxies, in order to be effective, must be received at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
3. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, in respect of Item Nos. 4 and 5 of the Notice as set out above, is annexed hereto.
4. The Register of Members and Share Transfer Books of the Company will remain closed from Saturday, 21st July, 2012 to Monday, 30th July, 2012 (both days inclusive).
5. Members who hold shares in physical form in multiple folios in identical names or joint holding in the same order of names are requested to send the share certificates to the Company's Share Transfer Agent M/s. Karvy Computershare Private Limited, for consolidation into a single folio.
6. The unclaimed dividend upto the financial year ended 31st March, 1995 have been transferred to the General Revenue Account of the Central Government in terms of the provisions of Section 205A of the Companies Act, 1956. Those shareholders, who have so far not claimed their dividend for the financial year ended 31st March, 1995 may claim their dividend from the Registrar of Companies – Gujarat by submitting an application in the prescribed form.
7. Pursuant to the provisions of Sections 205A(5) and 205C of the Companies Act, 1956, unclaimed dividend for the financial year 1995-96 have been transferred to the Investor Education and Protection Fund (the IEPF) established by the Central Government. The Company did not declare any dividends on equity shares for the financial years 1996-97 and onwards. Please note that once the unclaimed dividend is transferred to the aforesaid Fund of the Central Government, no claim shall lie in respect thereof.
8. Members desiring any information about the Accounts are requested to inform the Company at least seven days in advance of the Annual General Meeting.
9. Members holding shares in electronic form are requested to intimate immediately any change in their address or bank mandates to their Depository Participants with whom they are maintaining their demat accounts. Members holding shares in physical form are requested to advise any change of address immediately to the Company/Registrars and Transfer Agent, M/s. Karvy Computershare Private Limited

NOTICE (Contd.)

10. The Securities and Exchange Board of India (SEBI) has mandated the submission of Permanent Account Number (PAN) by every participant in securities market. Members holding shares in electronic form are, therefore, requested to submit the PAN to their Depository Participants with whom they are maintaining their demat accounts. Members holding share in physical form can submit their PAN details to the Company/ Registrars and Transfer Agents, M/s. Karvy Computershare Private Limited.
11. Non-Resident Indian Members are requested to inform to the Registrars and Transfer Agents of the Company, M/s Karvy Computershare Private Limited of:
 - a) Change in their residential status on return to India for permanent settlement.
 - b) Particulars of their bank account maintained in India with complete name, branch, account type, account number and address of the bank with pin code number, if not furnished earlier.
12. Corporate Members intending to send their authorised representative to attend the Meeting are requested to send a certified copy of the Board Resolution authorising their representative to attend and vote on their behalf at the Annual General Meeting.
13. Members holding shares in single name and physical form are advised to make nomination in respect of their shareholding in the Company. The Nomination Form-2B, prescribed by the Government for the purpose, can be obtained from the Share Department or the Share Transfer Agent of the Company.
14. As a part of Green Initiatives in the Corporate Governance, The Ministry of Corporate Affairs vide its Circular Nos. 17 & 18 dated 21st April, 2011 and 29th April, 2011 respectively, clarified that a company would have complied with Section 53 of the Companies Act, 1956, if the service of the document has been made through electronic mode, provided the Company has obtained e-mail addresses of its members for sending the notice/ documents through e-mail by giving an advance opportunity to every shareholder to register their e-mail address and changes therein from time to time with the Company.
Accordingly, the members are requested to intimate their e-mail address to the Company's Registrar and Share Transfer Agent, M/s. Karvy Computershare Private Limited to their dedicated E-mail I.D. i.e., "stm.cs@karvy.com" and to the DP in respect of shares held in physical mode and demat mode respectively, in case the members wish to avail the aforesaid facility.
15. As required under the Revised Clause 49 IV G (i) of the Listing Agreement executed with the stock exchanges brief profiles of Directors are given as Annexure to the Notice.

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956**Item No. 4**

The Board of Directors of the Company at their meeting held on 8th May, 2012 appointed Shri Sanjay S. Shah as an Additional Director of the Company. The said appointment was in pursuance of the provisions of Section 260 of the Companies Act, 1956 and accordingly the said Director holds office up to the date of this Annual General Meeting. The Company has received a notice in writing along with the necessary amount as deposit from a member signifying his intention to propose his candidature for the office of the Director, in terms of Section 257 of the Companies Act, 1956.

The Board commends the Resolution at Item No. 4 for approval of members. Shri Sanjay S. Shah may be deemed to be concerned or interested in the said resolution relating to his appointment. No other directors are in any manner concerned or interested in the said resolution.

Item No. 5

Resolution under Item No. 5 of the Notice relates to the appointment of Shri Sanjay S. Shah as Managing Director of the Company for a period of five years from 30th May, 2012 to 29th May, 2017.

Shri Sanjay S. Shah who is B.A. from Essex University, U.K. has expertise in the field of Yarn Preparatory and Weaving. He possesses wide experience in overall business management particularly with regard to textile industry and has more than three decades of experience in Senior Corporate Management.

He has been on the Board of Directors of group company Garden Silk Mills Limited. During these years, he has performed the functions exceedingly well by assisting the Company in HRD and Administrative matters also.

In view of Shri Sanjay S. Shah having vast experience of Indian textile industry and in depth knowledge of the relevant field, the Board of Directors, at their meeting held on 30th May, 2012, had approved the same. The Remuneration Committee and the Board of Directors of the Company are of the opinion that he is fit and proper person to hold the said office and his appointment will be in the interest of the Company. The remuneration of Shri Sanjay S. Shah is considered reasonable having regard to the qualification, experience and expertise and the value which he is expected to add to the business of the Company.

The material terms of remuneration of Shri Sanjay S. Shah effective from 30th May, 2012 to 29th May, 2017 as approved by both Remuneration Committee and Board of Directors in their respective meetings held on 30th May, 2012 are as under.

The terms of re-appointment and remuneration payable to the aforesaid director, are in strict conformity with Schedule XIII to the Companies Act, 1956.

I. Period: From 30th May, 2012 to 29th May, 2017

II. Remuneration:

- a) **Salary:** upto ₹ 1,50,000/- (Rupees One Lac Fifty Thousand only) per month with such increments as may be decided by the Board of Directors (which includes any Committee thereof) from time to time, after taking into account the Company's performance.
- b) **Perquisites and Allowances:**
 - i) In addition to the salary and commission, Shri Sanjay S. Shah shall be entitled to perquisites and allowances, including furnished accommodation or house rent in lieu thereof, house maintenance allowance, together with utilities thereof such as gas, electricity, water and furnishings, repairs, servants salaries, society charges and property tax, medical reimbursement, medical and personal accident insurance, leave travel concessions for self and family, club fees, and such other allowances and perquisites as the Board may in its absolute discretion, determine from time to time provided that the aggregate value of such perquisites shall not exceed 125% of the salary mentioned at a) above.
Perquisites shall be valued as per the Income Tax Rules, wherever applicable and in the absence of such rule, perquisites shall be valued at actual cost.
 - ii) Company's contribution to Provident Fund and Superannuation Fund or Annuity Fund to the extent

NOTICE (Contd.)

these are either singly or together, not taxable under the Income Tax Act; Gratuity as per the Rules of the Company and encashment of leave at the end of the tenure will not be included in the computation of the ceiling for remuneration specified above.

- iii) Car for use on Company's business and telephone and other communication facilities at residence, shall not be considered as perquisites.
- iv) Leave with full pay or encashment thereof as per the Rules of the Company.
- v) Reimbursement of actual entertainment expenses, actual travelling and hotel expenses for the Company's business and/or allowances as per the Company's Rules.
- vi) Other perquisites:

Subject to overall ceiling on remuneration mentioned herein below, the Managing Director may be given any other allowances, benefits and perquisites as the Board of Directors (which includes any Committee thereof) may from time to time decide.

The Board is entitled to terminate the agreement forthwith by notice in writing on his vacation of office of Director by virtue of Sections 283, 284 and other applicable provisions of the Companies Act, 1956 or by giving 3 months' notice in writing by either party.

c) Commission:

Such remuneration by way of commission, in addition to the salary and perquisites and allowances, payable calculated with reference to the net profits of the Company in a particular financial year, as may be determined by the Board of Directors (which includes any committee thereof) in its absolute discretion deem fit, for each Corporate Financial Year, provided that the total remuneration including salary, perquisites and commission shall not exceed the overall ceilings prescribed under Section 198 and 309 of the Companies Act, 1956.

III. Overall Remuneration:

The aggregate of salary, commission, perquisites and other allowances in any one financial year shall not exceed the limits prescribed under Sections 198, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the said Act, as may, for the time being, be in force.

IV. Minimum Remuneration:

Notwithstanding anything to the contrary herein contained, wherein any financial year during the currency of the tenure of the Managing Director, the Company has no profits or inadequate profits, the Company will pay remuneration by way of salary, Perquisites and other allowances as specified above as minimum remuneration, subject to the overall ceiling prescribed under Paragraph A of Section II of Part II of Schedule XIII to the Act.

The terms and conditions of the said appointment and agreement may be altered and varied from time to time by the Board, as it may, in its discretion, deem fit within the maximum amounts payable to Managing Director, subject to the provisions of Sections 198, 309 and 310 and Schedule XIII of the Companies Act, 1956, or any other amendments made hereafter in this regard.

The Remuneration Committee of the Board has recommended and approved the aforesaid remuneration. In compliance with Sections 269 and 309 of the Act, the terms of remuneration and appointment specified above are now placed before the shareholders in general meeting for their approval.

The Board commends the Resolution at Item No. 5 for your approval.

The copy of the agreement as referred above is open for inspection by the members at the registered office of the Company during business hours on any working day, upto the date of the Annual General Meeting.

An abstract of Terms and Memorandum of Interest of the Director under Section 302 of the Companies Act, 1956, pertaining to the appointment and remuneration payable to Shri Sanjay S. Shah has been duly sent to the members.

Since the resolution at Item No. 5 relates to payment of remuneration to Shri Sanjay S. Shah, he is deemed to be concerned or interested in the said Resolution. None of the other Directors of the Company is, in any way, concerned or interested in the resolution.

By Order of the Board of Directors

Sanjay S. Shah
Managing Director

Surat, 30th May, 2012.

Particulars of Directors seeking appointment / re-appointment at the ensuing Annual General Meeting (Pursuant to Clause 49 of the Listing Agreement)

Name of the Director	Shri Y. C. Papaiya	Shri Sanjay S. Shah
Date of Birth	15.12.1952	19.02.1956
Date of Appointment on the Board	23.10.2000	01.05.2012
Qualifications	Fellow Member of Institute of Chartered Accountants of India (ICAI).	B.A. from Essex University, U.K.
Expertise in functional areas	He has over 28 years of experience in the field of Finance, Accounting and Auditing. He is also associated with the Group as Consultant and rendering his professional services to other companies also.	Well known industrialist having more than 3 decades of experience in the business of manmade textiles, technology and general management.
Directorship held in other companies	1. Saanika Textiles Private Limited	1. Garden Silk Mills Limited 2. Kashah Investments Limited
Chairmanships / Memberships of Committee	Nil	Nil
No. of shares held in the Company	Nil	3854131
Relationship between directors Inter-se	—	—

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

To the Members of Surat Textile Mills Limited

Your Directors are pleased to present their 67th report on the business and operations of your Company together with the Audited Statement of Accounts for the year ended 31st March 2012.

Summarised Financial Results

	(₹ in Lacs)	
	2011-12	2010-11
Revenue from Operations (Net of excise duty)	18841.79	27162.09
Other Income	2896.21	115.67
Profit before interest, depreciation and tax	3190.92	1639.08
Interest and Finance Charges	285.36	385.35
Profit before Depreciation and Tax	2905.56	1253.73
Depreciation	154.54	167.88
Profit before Tax	2751.02	1085.85
Provision for Tax	772.99	248.20
Profit for the year	1978.03	837.65

Dividend

In order to strengthen the reserves of the Company, your directors consider it prudent to plough back the profits and not to recommend any dividend for the financial year 2011-12.

Review of Operations

During the year under review, your Company achieved revenue from operations of ₹ 188.42 Crore as compared to ₹ 160.43 Crore (net of trading sales of ₹ 111.19 Crore) in the previous year.

In view of the volatility in raw material prices prevailed throughout the year, your Company considered it appropriate to discontinue the trading activities in the current year and focused on its core business operations.

Your Company achieved sale of Polyester Chips of ₹ 122.59 Crore as compared to ₹ 97.47 Crore during the previous year, an increase of about 26%. The Company maintained its sale of Polyester Filament Yarn (PFY) at ₹ 72.69 Crore for the year as compared to ₹ 72.94 Crore in the previous year. The sale of Spun Yarn was adversely affected due to subdued market conditions and competitive pressures.

The production of PFY during the year was at 5884 MT as compared to 7310 MT achieved in the previous year. The lower production was primarily on account of subdued market conditions, demand recession and price fluctuations in raw materials during the year. The production of chips during the year was also marginally lower at 15653 MT as compared to 16225 MT achieved in the previous year.

Fluctuation in raw material prices coupled with competitive pressures continued to hamper the profitability of the Company. Moreover, the increase in the cost of major inputs could not be entirely passed on to the customers.

During the year under review, your Company disposed off some of its surplus land and building thereon. The sale proceeds were utilized towards repayment of the loan from promoters. The net surplus realized on disposal of such assets forms part of other income.

The overall volume of Company's manufacturing activity of Cotton Spun Yarn and doubling of polyester / cotton / viscose yarn at its plant located at Silvassa and the margins from such activity remained under pressure during the year. This was primarily on account of high price of cotton single yarn and other input costs coupled with poor demand growth of the product and un-remunerative price realization. Under the circumstances, the management has decided to partially shift the machineries to another location in order to put it in use and to dispose of the remaining freehold land along with

building, plant and machinery and other assets of such undertaking in one or more trenches from time to time. The Company has obtained the shareholders' approval through postal ballot process to give effect to the aforesaid transaction.

Overview of Economy

India's economic growth rate slipped to 5.3 per cent in the fourth quarter of 2011-12, lowest in nearly 9 years due to poor performance of the manufacturing and farm sectors. The Gross Domestic Product (GDP) growth in January-March quarter of 2010-11 was 9.2 per cent. GDP in 2011-12 also moderated to 6.5 per cent from 8.4 per cent in the 2010-11. As per RBI's credit policy, growth is likely to improve moderately in 2012-13 while inflation has moderated; risks to inflations are still on the upside.

Growth in emerging markets, especially China and India is slowing beyond what was earlier anticipated. In spite of a deep in growth, the world economy is unlikely to lapse into another recession. The growth slowdown has been driven by a sharp fall in investment, some moderation in private consumption and a fall in next external demand.

The path of inflation in 2012-13 could remain sticky around current levels due to high oil prices, large suppressed inflation, exchange rate pass through, hike in freight etc. On the macro economy level the GDP growth for 2012-13 have been estimated at 7.6% +/- 0.25% and the fiscal deficit is targeted at 5.1% of GDP.

Chinese Yuan appreciated about 3.4% in the current fiscal as compared to Rupee which depreciated 24.70% making textile products more competitive in the export market, while at the same time making imports more costly. In China average wage cost is increasing over the years. Further higher ageing population is expected to cause wage inflation to rise at an even brisker pace.

Industry Scenario

The Indian textile industry is currently passing through a turbulent phase. With the global downturn ravaging economies, the textile sector is one of the worst hit. The prospect of synthetic textile industry in short term is linked with the domestic demand growth viz-a-viz the movement of crude oil prices in international markets.

The production growth in case of PFY was low due to sluggish demand. In Polyester Chips, the domestic supply has increased with the start-up of new C.P. Plants and outstrips demand. This has put pressure on sales and margins.

In the budget 2012-13, the Central Excise Duty has been raised to 12% from the existing level of 10%. Inflation continued to play a vital role in the economic growth. The increase in raw material prices and input costs during the year has been the major cause of concern.

Raw material price of PTA and MEG were hovering around USD 1400 and USD 1200 per metric ton respectively during April, 2011. The prices started to taper down from September, 2011 and reached a low of around USD 1100 and USD 1000 per metric ton.

As per CRISIL research, demand growth for Polyester Staple Fiber (PSF) and Viscose Staple Fiber (VSF) is expected to be moderate, while consumption of Partially Oriented Yarn (POY) and Viscose Filament Yarn (VFY) is expected to decline due to overall slowdown in textile consumption in both the domestic and global markets.

Feedstock [PTA (Purified Terephthalic Acid) and MEG (Mono Ethylene Glycol)] prices are expected to remain firm in 2011-12 and soften in 2012-13 following the anticipated correction in naphtha and ethylene prices.

Opportunities, Threats and Challenges

The average per capita consumption of fabrics in India is much lower than its neighbouring countries. India has the advantage of large growing domestic market and a good GDP growth.

Revised TUF scheme would motivate the players in the industry to make further investments looking to the opportunity available both in the overseas and domestic markets.

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS (Contd.)

The polyester industry is dependent on the international prices of crude oil, which directly impacts the price of both our key raw materials PTA and MEG. In the domestic market uncertain supply of raw material and price volatility could have an adverse impact on the performance of the Company.

Slowing down of Indian economy in general and the lower demand growth may further reduce the growth of the industry. Price realization of PFY is partly dependent on cotton yarn prices. If demand of finished products stagnates, margins in the Company's product i.e. Chips and PFY will be affected, given the large capacities in place.

The continuing demand sluggishness and oversupply situation does not indicate an immediate upswing in the performance of Polyester industry. However, with a lot of global feedstock capacities expected to go onstream, this may result in a softening of feedstock prices and improvement in margins.

The Company is facing challenge in terms of higher production costs due to high power cost, fuel oil and other inputs etc. as compared to its peers in the neighboring states.

There is also a threat of high inflation rate as the prices of commodities have been increasing. Textile being a labour intensive industry, rising labour and skilled human resource costs can put pressure on margins.

Large fluctuations in crude oil prices and the consequent impact on raw material and polyester prices hurt growth. Large volatility in the international markets especially on the down side will have adverse temporary effects on the polyester industry.

For sale of chips and yarns outside of Gujarat State, the Company has a disadvantage compared with sales tax exempted units in Silvassa and Daman. The Government intends to introduce GST to overcome this situation and provide level playing field. Until then the disadvantage will continue.

Slowdown in India's major export market viz. USA and Europe, resulting into consolidation of sourcing; thereby affecting the small players in terms of loss of business.

Business Outlook

The growth in demand is expected in the medium term to rely on high consumption in the domestic market. Your Company is committed to build business with long term goal based on your Company's intrinsic strength in terms of product quality and customer network.

Your Company is pursuing cost control measures, increased productivity, improving efficiencies in manufacturing areas and a thrust in sale and better price realization with better product mix. However, the performance of the Company would be largely dependent on the overall industrial and economic scenario.

On account of newer capacities of POY and Chips coming into operation in the domestic market in recent times, coupled with competition arising out of cheap imports, the domestic supply position in the Polyester Yarn and Chips segment is likely to be competitive and margins will remain under pressure.

The introduction of GST in the coming years should see a level playing field between your Company and other companies which are tax-exempt. This should further improve margins for your Company in the long run, other things being same.

The demand for polyester filament yarn is growing briskly. However, the current year will see a large increase in POY capacity, well in excess of demand. This will put a pressure on POY margins, which are expected to be lower than last year.

The Company will continue to focus on specialty and differentiated products in yarn and chips segment.

Internal Control

The Company has an adequate internal audit system commensurate with its size and nature of operations. All the major business processes

are currently run on the ERP system. The internal control system is supported by the internal audit process. The internal audit department review and ensures that the audit observations are acted upon. The Audit Committee of the Board reviews the internal audit report and the adequacy and effectiveness of internal control.

Risk Management

The Company is exposed to risks from market fluctuations of foreign exchange, interest rates, commodity prices, business risk, compliance risks and people risks.

The Company is exposed to the risk of price fluctuation on raw materials as well as finished goods in all of its products. The Company proactively manages these risks in inputs through forward booking, inventory management, proactive management of vendor development and relationships. The Company's strong reputation for quality, product differentiation and services, the existence of a powerful brand image and a robust marketing network mitigates the impact of price risk on finished goods.

The Company is exposed to risks attached to various statutes and regulations including the Competition Act, 2002. The Company is mitigating these risks through regular reviews of legal compliances, through internal as well as external compliance audits.

Health, Safety and Environmental Measures

Your Company is conscious of the importance of environmentally clean and safe operations. Your Company's policy requires the conduct of all operations in such manner so as to ensure safety of all concerned, compliance of statutory and industrial requirements for environment protection and conservation of natural resources to the extent possible.

Cautionary Statement

Statements in this report on Management's Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be "forward looking statement" within the meaning of applicable laws and regulations. These statements are based on certain assumptions and expectation of future events. Actual results might differ materially from those either expressed or implied.

Directorate

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Shri Y. C. Papaiya, Director, retire by rotation and being eligible, offers himself for re-appointment at the ensuing Annual General Meeting.

The Board at its meeting held on 8th May, 2012, appointed Shri Sanjay S. Shah as an additional director who will hold office as Director up to the date of the forthcoming Annual General Meeting. A notice in writing has been received from a member of the Company under section 257 of the Companies Act, 1956, signifying his intention to propose Shri Sanjay S. Shah as a candidate for the office of Director of the Company.

In the subsequent Board Meeting held on 30th May, 2012, the Board had, subject to the approval of shareholders in the forthcoming General Meeting, appointed Shri Sanjay S. Shah, as Managing Director of the Company for a term of five years effective from 30th May, 2012 to 29th May, 2017. On the recommendations of Remuneration Committee the Board has fixed the remuneration of Shri Sanjay S. Shah for a period of five years. Your Directors commend the resolutions for the appointment and remuneration of Shri Sanjay S. Shah for your approval.

Shri M. R. Momaya, Wholetime Director of the Company requested the Members of the Board to relinquish him from the responsibilities of Wholetime Director and submitted his resignation to the Members of the Board. Shri M. R. Momaya will however continue to be a Member of the Board as non-executive Director.

Smt. Shilpa P. Shah, Wholetime Director of the Company submitted her resignation as Member of the Board with effect from 30th May, 2012.

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS (Contd.)

While accepting Smt. Shilpa Shah's resignation, the Members of the Board placed on record their sincere appreciation of the valuable services rendered by her during her tenure as a Director of the Company.

Finance and Accounts

The observations made by the Auditors in their Report have been clarified in the relevant notes forming part of the Accounts which are self-explanatory. The Schedule VI of the Companies Act, 1956 has been revised by the Ministry of Corporate Affairs vide its notification dated February 28, 2011. The notification is in force and is applicable for all Balance Sheets and Statement of Profit and Loss to be prepared for the financial year commencing on or after April 1, 2011. Therefore, the previous period figures have been regrouped / re-cast wherever necessary.

Fixed Deposits

The Company has not accepted any public deposits within the meaning of Section 58A of the Companies Act, 1956 and, as such, no amount on account of principal or interest on public deposits was outstanding as on the date of the Balance Sheet.

Energy, Technology and Foreign Exchange

Additional information on conservation of energy, technology absorption, foreign exchange earnings and outgo as required, to be disclosed in terms of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Directors) Rules, 1988 is annexed herewith and forms part of this report.

Human Resources and Industrial Relations

Your Company recognizes human resources as the backbone of its long term success and has tried continuously to provide a challenging work environment thereby adding value to their professional growth. Our relationship with the employees continuous to remain cordial at all units.

Particulars of Employees

Information as per section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 forms a part of this report and will be sent on demand to the shareholders. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary.

Insurance

The properties and insurable assets and interests of your Company, like building, plant and machinery and stocks, among others, are adequately insured.

Auditors

Messrs Natvarlal Vepari & Co., Chartered Accountants, who are Statutory Auditors of the Company hold office upto the forthcoming Annual General Meeting and are recommended for re-appointment to audit the accounts of the Company for the Financial Year 2012-13. As required under the provisions of the Section 224(1B) of the Companies Act, 1956, the Company has obtained written confirmation from Messrs Natvarlal Vepari & Co. that their appointment if made would be in conformity with the limits specified in the Section.

The Notes on Financial Statements referred to in the Auditors' Report are self-explanatory and do not call for any further comments.

Cost Auditors

As per the requirement of the Central Government and pursuant to the provisions of Section 233B of the Companies Act, 1956, the audit of the cost accounts relating to textiles is being carried out every year.

The Central Government has approved the appointment of M/s P.M. Nanabhoy & Co., Cost Accountants as Cost Auditors, Mumbai for conducting cost audit for the financial year 2011-12. The cost audit report in respect of financial year 2011-12 will be filed on or before the due date. The cost audit report for the Financial Year 2010-11 which was due to be filed with the Ministry of Corporate Affairs on 30th September, 2011 was filed on 21st September, 2011.

Cash Flow Analysis

The Cash Flow Statement for the year under reference in terms of clause 32 of the Listing Agreement with the stock exchanges forms part of the Annual Report.

Directors' responsibility statement:

Pursuant to the requirements under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, your Directors report that

- (i) in the preparation of the annual accounts for the year ended 31st March, 2012, the applicable accounting standards have been followed along with proper explanations relating to material departures, if any;
- (ii) they have selected such accounting policies, and 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 as at 31st March, 2012 and of the profits of the Company for the year ended on that date;
- (iii) they 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 of the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (iv) the annual accounts have been prepared on a going concern basis.

Reports on Corporate Governance

Your Company continuous to be committed to good Corporate Governance aligned with good practices. Your Company is in compliance with the standards set out by Clause 49 of the Listing Agreement with the Stock Exchanges.

A separate report on Corporate Governance along with the Auditors' Certificate on compliance with the Corporate Governance as stipulated in Clause 49 is set out in this Annual Report and forms part of this report.

Appreciation

Your Directors place on record their appreciation for the continued support and co-operation received from customers, suppliers, dealers, banks and government authorities. The Board also, expresses its appreciation for the understanding and support extended by the shareholders and employees of the Company.

By Order of the Board of Directors

Sanjay S. Shah
Managing Director

Surat, 30th May, 2012.

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS (Contd.)**ANNEXURE 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.

I. CONSERVATION OF ENERGY:

- a) Energy Conservation measures taken:
- The Company makes an ongoing study to identify and implement energy saving system to reduce energy consumption and cost of production.
 - Energy conservation is an ongoing process in our organisation. Continuous monitoring, planning, development and modifications for energy conservation are done at the plants.
 - Energy Audit is also being carried out by external agencies.
- b) Impact of above measures for reduction of energy consumption and consequent impact on the cost of production:
- Reduction in consumption of electricity and fuel oils with consequent reduction in the cost of production.
- 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.

	2011-12	2010-11
A. Power and Fuel Consumption		
1. Electricity		
a. Purchased Unit in lacs	154.17	176.08
Total amount ₹ in lacs.	1347.44	1290.27
Rate / Unit ₹	8.74	7.33
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 ₹	NIL	NIL
ii. Through Steam turbine/Generator		
Units	NIL	NIL
Units per Ltr. of fuel oil/gas	NIL	NIL
Cost/Unit ₹	NIL	NIL
2. Coal/Lignite for Generation of Steam		
Quantity (M.T.)	NIL	NIL
Total Cost ₹ in lacs	NIL	NIL
Average rate ₹/M.T.	NIL	NIL
3. Furnace Oil		
Quantity (K. Ltrs.)	81	546
Total Amount ₹ in lacs.	32.99	135.78
Average rate ₹/ Ltr.	40.73	24.87
4. Others/Internal generation		
Quantity	NIL	NIL
Total Cost	NIL	NIL
Rate / Unit ₹	NIL	NIL
B. Consumption Per Unit of Production		
Product Details	SPUN YARN	SPUN YARN
Unit	Kg.	Kg.
Electricity (Unit) *	5.37	4.62
Product Details	PFY	PFY
Unit	Kg.	Kg.
Electricity (Unit) *	1.56	1.38

	2011-12	2010-11
Product Details	CHIPS	CHIPS
Unit	Kg.	Kg.
Electricity (Unit) *	0.23	0.21
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.

II. TECHNOLOGY ABSORPTION

Efforts made in Technology absorption as per Form - B

- a) Research & Development (R & D)
- Specific areas in which R & D carried out by the Company:
 - Productivity enhancement and development of new products.
 - The Company has quality control department to check the quality of different products manufactured.
 - Benefits derived as a result of the above efforts:
 - Reduction in operating and maintenance costs.
 - Improvement in quality, customer satisfaction and enlargement of market base.
 - Future Plan of Action
 - Management is committed to strengthen quality control department, further to improve its competitiveness in times to come with productivity enhancement and development of new products.
 - Expenditure on R & D:
 - The Company, from time to time exposes itself to better technology and keeps itself abreast of technological improvements.
 - Capital expenses Nil
 - Recurring expenses Nil
 - Total Nil
 - Total R & D expenditure as a % of total turnover Not Applicable

Technology absorption, adaptation and innovation

- The Company has not taken any new technology in particular or entered into any technology agreement during the period hence the information required as per Form D is not applicable.
- The technology used by the Company is indigenously developed and no technology has been imported.
 - Technology imported Nil
 - Year of import: Not Applicable
 - Has the technology been fully absorbed: Not Applicable

III. FOREIGN EXCHANGE EARNINGS AND OUTGO:

- Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and exports plans:

Efforts were made to export the products of the Company in international market, however, due to subdued market conditions and the competitive pressure, the Company could not export its products during the year.
- Total foreign exchange earnings and outgo : Nil.

By Order of the Board of Directors

Sanjay S. Shah
Managing Director

Surat, 30th May, 2012.

REPORT ON CORPORATE GOVERNANCE

The report on Corporate Governance is pursuant to Clause 49 of the Listing Agreement entered into with the Stock Exchanges and forms a part of the report of the Board of Directors. The Company has complied with the applicable requirements of Code of Corporate Governance as prescribed in the Listing Agreement and in this regard the following details are provided for the information of stakeholders and public at large.

A. MANDATORY REQUIREMENTS

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE:

Your Company is continuously working towards building trust with shareholders, employees, customers, suppliers and other stakeholders based on the principles of good corporate governance, viz. integrity, equity, transparency, fairness, disclosures, accountability and commitment to values.

2. BOARD OF DIRECTORS:

(a) Composition

The Board has an optimum combination of Executive and Non-Executive Directors, and is in conformity with Clause 49 of the Listing Agreement entered into with the stock exchanges. The management of the Company is entrusted in the hands of Key Management Personnel, and is headed by the Managing Director, who operates under the supervision and control of the Board.

As on 31st March, 2012 the Board comprises of four directors including two Wholetime Directors. The Board has two Non-Executive Directors. The Non-Executive Directors are having diverse backgrounds with considerable professional proficiency, with expertise and experience in technical, general corporate management, finance, banking, legal and other allied fields which enables them to contribute effectively to the Company in their capacity as member of the Board.

The Independent and Non-Executive Directors do not have any material pecuniary relationship with the Company. The Senior Management have made disclosures to the Board confirming that there are no material, financial and/or commercial transactions between them and the Company, which could have potential conflict of interest with the Company at large.

The names and categories of Directors, the number of Directorship and Committee position(s) held by them in the companies, meetings attended by them and other relevant particulars are given below:

Name	Category	No. of Board Meetings attended	Attendance at the last AGM held on 28.07.10	No. of Directorships in other public limited companies	No. of Committee positions held in other public limited companies
Shri M.R. Momaya	Wholetime Director	06	Yes	N.A.	—
Smt. Shilpa P. Shah	Wholetime Director	04	No	02	—
Shri Y.C. Papaiya	Non-Executive, Independent	05	Yes	N.A.	—
Shri Harish Bharucha	Non-Executive, Independent	04	N.A.	01	—

No director is related to any other Director on the Board in terms of the provisions of the Companies Act, 1956.

(b) Directors' membership in Board/Committees of other Companies.

In terms of the listing agreement, none of the Directors on the Company's Board is a member of more than ten committees and Chairman of more than five committees (Committees being, Audit Committee and Investors' Grievance Committee) across all the companies in which they are Director. All the Director have made necessary disclosures regarding Committee positions held by them in other companies and do not hold the office of Director in more than fifteen public companies.

(c) Board Meetings

During the financial year 2011-12 the Board of Directors met six times on the following dates:-

4th May, 2011, 6th July, 2011, 3rd August, 2011, 2nd November, 2011, 31st January, 2012 and 14th February, 2012. The gap between any two Board Meetings did not exceed four months.

(d) Board Meeting Procedures

The agenda papers containing all the information relevant for discussions at the meeting are sent to the directors in advance so that each director have enough time for a meaningful discussion at the Board Meetings. Besides the business items, the agenda includes the items required to be considered by the Board of Directors as per the Listing Agreement. The required information as enumerated in Annexure I A to Clause 49 of the Listing Agreement are regularly made available to Board of Directors for discussion and consideration at Board Meetings.

3. BOARD COMMITTEES:

(a) Audit Committee

Constitution:

The Audit Committee comprises of the following Directors.

- | | | |
|-------------------------|----------|---------------------------|
| 1. Shri Y. C. Papaiya | Chairman | Non-Executive Independent |
| 2. Shri Harish Bharucha | Member | Non-Executive Independent |
| 3. Shri M. R. Momaya | Member | Wholetime Director |

Terms of reference

The role and terms of reference of the Audit Committee cover the matters specified under Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956.