



SURYALAKSHMI COTTON MILLS LTD.

6th Floor, Surya Towers, 105, S.P.Road,
Secunderabad – 500 003



BRAND BEHIND THE BRAND

47th ANNUAL REPORT, 2009-10

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make, contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, our actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Corporate Information

Board of Directors

Sri L.N. Agarwal
Sri Paritosh K. Agarwal
Sri R. Surender Reddy
Dr. A. Nageswara Rao
Sri Navrang Lal Tibrewal
Sri R.S. Agarwal
Sri B. Rama Rao
Sri K. Sunil Kumar
Sri H.L. Ralhan
Sri V.S.V. Rao

Chairman and Managing Director
Managing Director

Nominee – IDBI

Director and Chief Executive (Denim Division)
Nominee – IFCI

Company Secretary

Sri E.V.S.V.Sarma

Vice-President (Finance)

Sri P.S.Subramanyam

Auditors

M/s.Brahmayya & Co
Hyderabad

Bankers

State Bank of India
Industrial Finance Branch
Hyderabad
State Bank of Hyderabad
Commercial Branch
Secunderabad

State Bank of Mysore
Sarojini Devi Road
Secunderabad

State Bank of Indore
Abids
Hyderabad

Registered Office

6th Floor, Surya Towers
105, S.P.Road
Secunderabad – 500 003
Phone Nos : (040) 27819856/57, 30571600
Fax No : (040) 27846854
Website : www.suryalakshmi.com

Factories

Yarn Division
Amanagallu
Mahabubnagar District
Andhra Pradesh – 509 321

Denim Division

Ramtek Mauda Road
Village Nagardhan
Tehsil Ramtek
Nagpur
Maharashtra – 440 010

Registrar & Transfer Agent

M/s. Sathguru Management Consultants Pvt Ltd
Plot No 15, Hindi Nagar, Behind Saibaba Temple
Punjagutta, Hyderabad – 500 034
Phone Nos : (040) 23356507, 23356975, 23350586
Fax No : (040) 23354042



International brands like
VF Corporation, Levi's, Wal-Mart,
Perry Ellis, Jones International,
M&S, C&A, ASDA, George, Next,
Miss Sixty, Mango, Otto, Carrefour
and Sainsbury have dozens of
eligible international denim
vendors to select from. They
prefer to work with one.
Suryalakshmi Cotton Mills Limited.
The brand behind the brand.

Suryalakshmi Cotton Mills Limited is a leading integrated textile company in India, enjoying decades of stakeholder trust and respect.

Vision

Through an integrated system of tools, techniques and training, Suryalakshmi constantly thrives to achieve and maintain the highest quality parameters in the most versatile processes.

Continuous improvement and development of its own processes are keys to the consistency of the Company’s survival and success over a period.

Mission

The mission of Suryalakshmi Cotton Mills is to empower the dominance of the organisation in the Indian market while it expands and develops a strong presence in the international market.

Suryalakshmi’s products, operations and services, are globally benchmarked against the best.

Parentage

- Incorporated in 1962; promoted by Mr. L. N. Agarwal (Chairman and Managing Director)
- Captured the extensive value chain from the manufacture of cotton yarn to denim fabric to garments
- Recognised as an export house by the Government of India
- Promoter’s stake of 61.12% in the Company’s equity capital
- Market capitalisation of Rs. 76.3 crore as on 31st March 2010

Presence

- Headquartered in Secunderabad (Andhra Pradesh), India
- Denim manufacturing facility in Ramtek (Maharashtra) and two spinning units of polyester cotton and synthetic yarn in Amanagallu (Andhra Pradesh)
- Products marketed in India and more than 20 countries such as, Israel, Panama, Egypt, Bangladesh, Sri Lanka, Indonesia, Mauritius, Singapore, UK, Guatemala, Syria, Taiwan, Turkey and USA, among others
- Shares listed and traded on the Bombay Stock Exchange and National Stock Exchange.

Pride

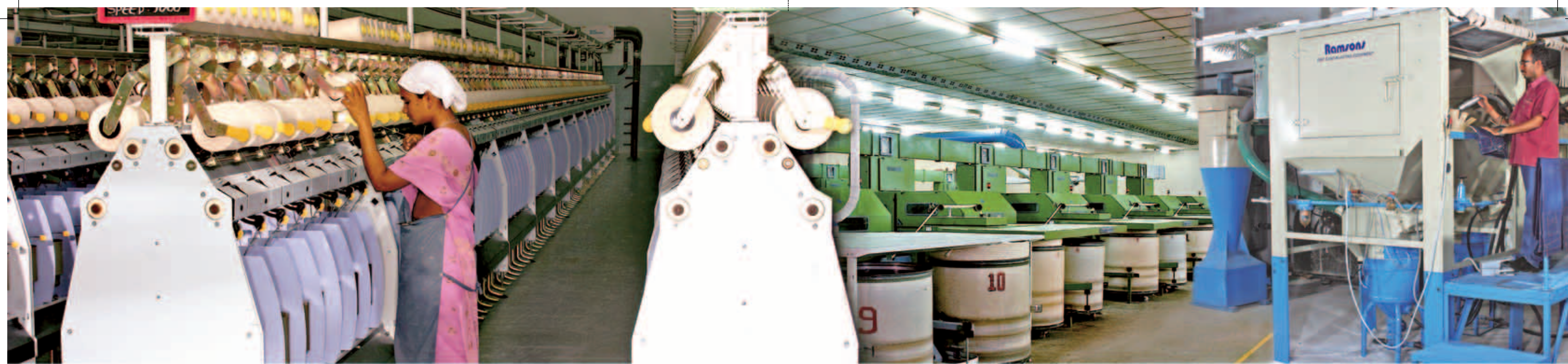
- Manufacturing units certified for ISO 9001:2000
- Certified with Global Organic Textile Standard (GOTS) for organic cotton and organic exchange.
- Certified for Oeko Tex Standard 100 Product Class II up to 31st December, 2010.

Partners

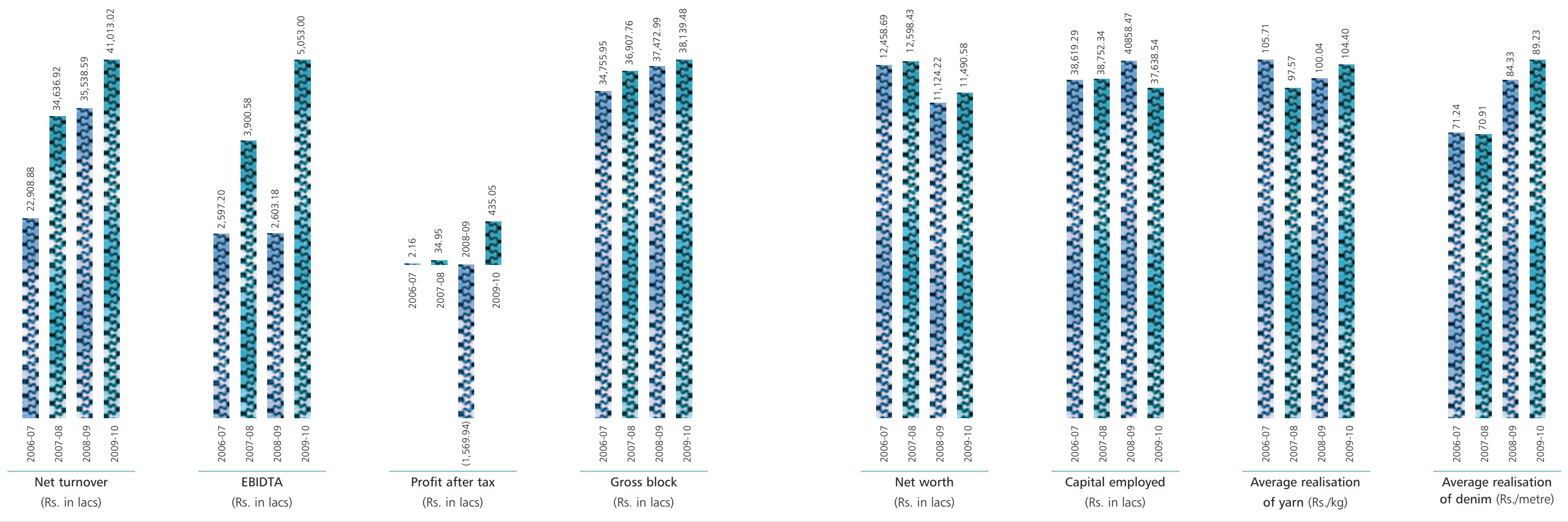
- The Company caters to reputed brands like VF Corporation, Levi’s, Wal-Mart, Perry Ellis, Jones International, M&S, C&A, ASDA, George, Next, Miss Sixty, Mango, Carrefour, Sainsbury, Mothercare, Li & Fung and Woolworth, among others.

Products

Yarn division	Fabric division	
	Denim fabric	Bottom weight
<ul style="list-style-type: none">● 100% spun polyester yarn.● Polyester cotton blended yarn (combed/carded).● Polyester/viscose blended yarn.● Ne 6 to Ne 40● Single/Double	<ul style="list-style-type: none">● Products category includes 100% cotton, cotton stretch, slubs, mixed counts, cotton warp with poly micro weft● Mercerised denim● Coated denim● Colour denim	<ul style="list-style-type: none">● Product weaves includes bull denims, twills, drills, herring bone canvas shoe ducks, Oxfords broken twills, satin pique cords, dobbies and rib stops● Special finishes like wrinkle free, water repellant, coating, silky finish and paper finish● Cotton stretch



Our growing numbers, 2009-10



Chairman’s overview



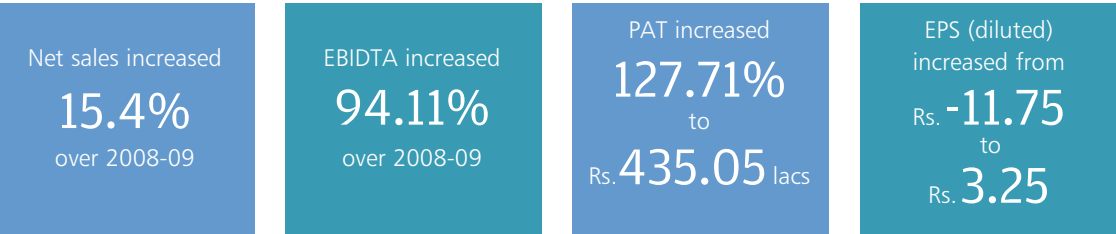
L. N. Agarwal, Chairman and Managing Director

“We will capitalise on the industry turnaround through a Rs. 500 crore turnover in 2010-11 and fresh investments to sustain our growth over the coming years.”

Dear Shareholders,

I am pleased to report a favourable year during which the textile industry emerged from the global slowdown faster than most other sectors and your Company reported a rapid turnaround with the prospect of reporting robust sustainable growth over the foreseeable future.

Our performance for the year under review is given in the following numbers:



Last quarter, 2009-10

However, I must caution shareholders that these numbers appear muted only because the first two quarters of the financial year under review were subdued for the industry (the Company reported a loss after tax of Rs. 404.47 lacs for the first half) and the full potential of a rebound was only fully reflected in the last quarter.

Hence a comparison of what the Company reported for the first three quarters with what it reported in the last quarter would be advisable for a fair insight into the Company’s prospects for the current financial year.

- Average quarterwise net sales of Rs. 9,754.76 lacs for the first three quarters compared with Rs. 11,748.75 lacs net sales in the last quarter of 2009-10
- Average quarterwise EBIDTA of Rs. 1,095.51 lacs for the first three quarters compared with Rs. 1,766.47 lacs EBIDTA in the last quarter of 2009-10
- Average quarterwise PAT of Rs. 7.42 lacs for the first three quarters compared with Rs. 412.80 lacs PAT in the last quarter of 2009-10

Industry overview

The global textiles sector turned around vigorously after an extended downtrend, one of the most visible sectors to emerge from the international slowdown. This turnaround was reflected in robust offtake and an increase in realisations, strengthening the prospects of manufacturing companies. The revival was on account of a structural global industry shift, a global cotton shortage (strengthened raw material costs and end product realisations), revival in US demand and robust offtake from within Asia.

World man-made fibre production strengthened in 2009; output increased 7.8% to 41.6 mn tonnes following a 6.5 % drop in 2008, synthetic fibres

accounting for most of the increase. Indian manmade fibre output rose by 10.2% after a 7.2% drop in 2008. The optimism for the textile industry is derived from the supply of US raw cotton being threatened on account of a growing pressure on US to reduce the subsidy for its cotton growers, which will in turn reduce US cotton supply and strengthen prospects of cotton product manufacturers in other countries.

India retained its position as the world’s second largest cotton producer, with cotton acreage crossing a record 10 mn hectares in 2009 despite poor monsoons at a time when other countries suffered from a paucity of raw material.

India's cotton area, production and yield

Year	Area in lac hectares	Production in lac bales (1 bale : 170 kg)
2006-07	91.44	280.00
2007-08	94.14	307.00
2008-09	94.06	290.00
2009-10	101.71	292.00

(Source: Cotton Corporation of India)



The Indian Government encouraged the export of raw cotton in 2009-10, which strengthened synthetic yarn realisations. China withdrew export incentives, so the supply of synthetic yarn into India was restricted. The result: month-on-month realisations were higher, strengthening prospects. The Indian consumption of textile products outperformed global sectoral growth for the following reasons: increase in incomes, demographic dividend, growing aspirations, stronger spending and progressive correction of decades of under-consumption. The Indian textiles industry capitalised on low labour cost, large market, increased offtake of quality products, domestic offtake being higher than export and receptivity to newly introduced varieties.

Strengths

The Company reported a sharp swing in its profits and margins on account of a number of strengths that had been invested in the Company across the years.

Over the years, the Company invested in cutting-edge technologies resulting

in high product quality and process efficiency. The Company consciously prioritised value over volume. The Company selected to work on value-added product segments, whether in yarn or denim fabric. The Company selected to work with large quality-respecting brands. The Company graduated from one-off transactions to extended supply contracts resulting in revenue and profit predictability.

This is how these strengths have played out in the Company: a majority of our business comprises sales to prominent brands and companies. The Company’s fabric exports grew 58% and the value of yarn exports grew by 50% in 2009-10 despite a tentative global environment. The Company’s export realisations strengthened in fabric and yarn in a hesitant industry environment.

Segment wise performance

Yarn division: The yarn division progressively switched from cotton yarn to polyester blends in view of improved realisations in the latter. As a result, the product mix evolved from 8:92 for cotton: blends in 2008-09 to 0:100

during 2009-10. As a result, the division reported a 4.36% increase in average per kg realisations and strengthened capacity utilisation from 95.74% in 2008-09 to 97.43% in 2009-10.

Denim division: The division focused on value-added products and stronger brands. The division introduced organic denim, among the few companies in India to manufacture this niche product. As a result, the division reported a 5.81% increase in average per metre realisations and strengthened capacity utilisation from 88% in 2008-09 to 92% in 2009-10. In view of this, the division accounted for 62.27% of the Company’s EBIDTA during the year under review compared with 49.06% in 2008-09.

Performance of Suryakiran International Ltd, a subsidiary: The subsidiary reported a net loss of Rs. 89.20 lacs in 2009-10, against Rs. 183.15 lacs in the previous year. Engaged in garment manufacturing, the Company, during the year, added major customer brands like Levi's, Perry Ellis, Otto-Germany, Woolworth S.A

and French Connection, among others. It also tied up with Levi's for a dedicated capacity not only for its domestic requirements but also international supplies. Moreover, the division diversified from Europe in to American markets.

Road ahead

The industry and national scenario augur well for the Company. While the uptrend in the global textile sector is expected to sustain, India is likely to capitalise on the industry rebound for the reasons indicated above. India is projected to report GDP growth of 9.2% in 2010-11 (source: CMIE). Besides, Indian household incomes are expected to treble in two decades leading to 2025 as the country raises its global consumption ranking from twelfth to fifth by 2025 (Source: McKinsey)

India’s per capita cotton consumption is low compared to the developed countries, which will progressively correct as rural consumption rises and the industry widens its product offering.

Cotton per capita consumption

Country	Per capita consumption (in kg)
India	5-6
China	14.6
North America	38
Thailand	19.8
World average	10.8

(Source: FICCI)

Strengthening our business

Suryalakshmi Cotton is strengthening its business model through the following initiatives:

- The Company is investing in an additional 12,624 spindles, which, when commissioned by August, 2010, will enhance the Company’s capacity to 60,864 spindles. At peak utilisation, the revenue potential from yarn sales (assuming that everything is marketed externally without captive consumption) would be an estimated Rs. 21,616 lacs in 2010-11 compared to Rs. 14,925 lacs in 2009-10. This expansion of the latest generation spindleage will increase production, revenues, value-addition and margins.
- The Company will enhance the utilisation of its denim production

capacity and scout for profitable acquisition opportunities.

- The Company intends to commission a 25 MW thermal power plant for Rs. 135 crore, leveraging the plant’s proximity to coal mines on the one hand, and a growing captive need for low cost power on the other. The power plant will provide for 100% of the Company’s power needs, the rest being exported to the state electricity grid. The project is likely to be funded through debt of Rs. 93 crore and internal accruals of Rs. 42 crore and expected to be commissioned in 2011-12. The attractively low cost of generation will enable the Company to strengthen its overall competitiveness, considering that power accounts for Rs. 22.63 crore, the largest cost component (8.67% of revenues) in the Company’s denim business.

The Company expects to grow its revenues to Rs. 60,000 lacs from a full year’s operation and to touch Rs. 100,000 lacs in the next three years after all its ongoing projects are commissioned, with room for wider margins, an attractive value-play that is intended to enhance value in the hands of all those who own shares in our Company.

Experience

The promoters of the Company have been engaged in the business of spinning and weaving for more than 50 years.

Integrated

The Company's facilities are integrated from raw cotton to denim fabric, resulting in value-addition and an EBITDA margin of 15.3% (last quarter, 2009-10). Nearly 70% of the Company's yarn requirement for the denim division was produced in-house.

Environment friendly

The effluent treatment plants make all the effluents worthy of being reused to water in-plant plantation areas. It is a zero-discharge unit.

Quality

The Company's products attained the highest quality level of Uster 5%. The Company's manufacturing units were certified for ISO 9000:2000. The Company's denim plant at Ramtek was approved and audited for social and technical compliance by well known international brands like Levi's and VF, among others. The Company's products were well below the challenging permissible norm of 20 DP points across 100 square yards, attracting industry respect.

Technology

The Company possesses automated state-of-the-art equipment sourced from high-end manufacturers like Trutzschler, Toyota, Nissan, Reed Chakwood Inc. and KTM USA, among others. A majority of the Company's spinning and weaving equipment were less than five years old as on 31 March 2010.

Our strengths

Raw material proximity

The Company sources all its coarse count cotton requirements from nearby areas in Vidharba while raw materials for the blended yarn units are procured from Reliance Industries.

Client portfolio

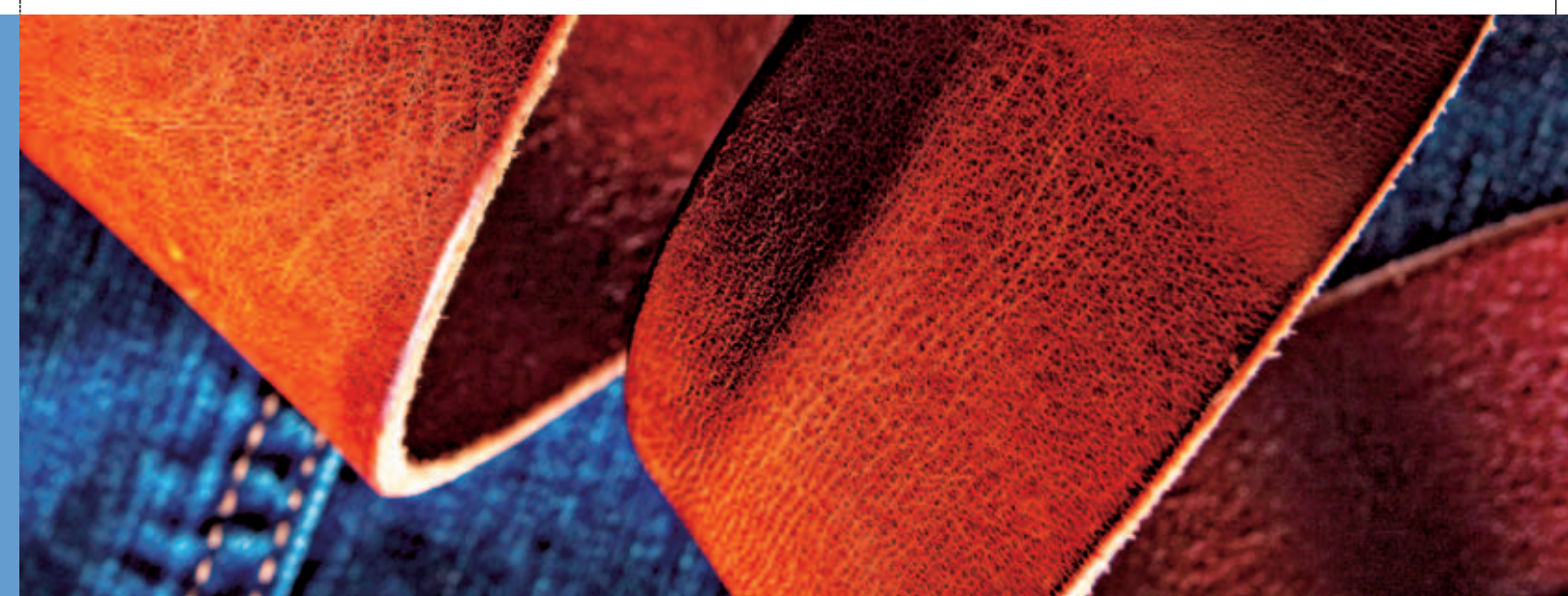
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Relationships

The Company is the core vendor for VF Corporation in India, the largest Indian supplier to Mother Care, one of the largest vendors for the European business of George (Wal-Mart, UK, brand) and one of two vendors of Wal-Mart from India. The Company is a major supplier of Levi's requirements for its Levi Signature brand.

Economies of scale

The yarn capacity of 60,864 spindles and denim capacity of 40 million metres per annum represent attractive economies of scale.



Growing demand from customers...

VF Corporation is one of the biggest global denim buyers. It is procuring only about 5% of its requirement from India and plans to raise it to 8-10% in a year's time, which can potentially catalyse growth for the Company.

Integrated denim division



The Indian textile industry



THE GLOBAL ECONOMY SHOWED SIGNS OF REVIVAL IN THE SECOND HALF OF 2009 WHEN A NUMBER OF ECONOMIES POSTED GROWTH IN GROSS DOMESTIC PRODUCTION. GOING AHEAD, GLOBAL GROWTH IS EXPECTED TO REBOUND FROM (0.8)% IN 2009 TO 3.9% IN 2010 AND A PROJECTED 4.3% IN 2011 (SOURCE: WORLD ECONOMIC OUTLOOK) WITH CORRESPONDING POSITIVE IMPLICATIONS FOR THE TEXTILE INDUSTRY.

The Indian economy grew 7.4% in 2009-10 – 8.6% in the fourth quarter – against 6.7% in 2008-09. The industrial and service sectors grew 8.2% and 8.7% in 2009-10 (Source: CSO). India's (1.16 billion people) GDP at purchasing power parity was around US\$ 3,548 billion in 2009, making it the world's fourth largest economy after the United States of America, China and Japan in purchasing power parity (Source: CIA World Fact Book).

Indian textile industry

The US\$ 52-bn Indian textile industry, the second largest domestic employment provider after agriculture, contributes 14% to industrial production, 4% to GDP and 16.63% to export earnings. Moreover, total textile exports increased to US\$ 18.6 billion during April 2009-January 2010, from US\$ 17.7 billion during the corresponding period of the previous year, registering an increase of 4.95% in rupee terms. The share of textile exports in India's total exports increased to 12.36% during April 2009-January 2010, according to the Ministry of Textiles.

As per the Index of Industrial Production (IIP) data released by the Central Statistical Organisation (CSO), cotton textiles registered a growth of 5.5% during 2009-10, wool, silk and man-made fibre textiles registered a growth of 8.2%, while textile products (including wearing apparel) registered a growth of 8.5% (Source: IBEF).

Growth drivers

- The Technology Upgradation Fund Scheme (TUFS) is referred to as the 'flagship' scheme of the Ministry of Textiles. The scheme, launched on 1 April 1999, provides funds to India's textile industry for upgrading technology and setting up new units. In the Eleventh Plan period (2007-12), Rs. 1,50,600 crore was earmarked for the scheme. According to the Ministry of Textiles, investment under the Technology Upgradation Fund Schemes (TUFS) increased steadily. During 2009-10, 1896 applications were sanctioned at a project cost of US\$ 5.23 billion.
- In May 2010, the Ministry of Textiles informed a parliamentary panel that it proposes to allocate US\$ 785.2 million

for the modernisation of the textile industry.

- The Scheme for Integrated Textile Parks (SITP) was approved in July 2005 to facilitate the setting up of textiles parks with world-class infrastructure. Some 40 textile park projects were sanctioned under the SITP. According to the Minister of State for Textiles, under the SITP a cumulative

expenditure of US\$ 204.3 million was incurred against the allocation of US\$ 220.7 million in the last three years.

- In the Union Budget 2010-11, the following proposals benefited the textile industry:
 - The central plan outlay for the industry was enhanced to US\$ 1.03 billion. Of this, US\$ 521.4 million was

on account of TUFS, US\$ 76 million for SITP, US\$ 80.2 million for handlooms, US\$ 69.3 million for handicrafts and US\$ 98.4 million for sericulture.

- Allocation for the textile and jute industry is US\$ 713.4 million.
- Launched a five-year extensive skill development programme for the textile industry where around 3 million people will be trained.

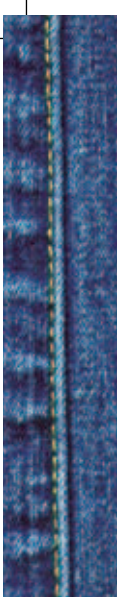
Production projections under the Eleventh Plan

Particulars	2006-07 achieved level	Assumed growth rate	Eleventh Plan projections	
			2007-08	2011-12
Cotton cloth (mn sq mtr)	26,238	14	28,810	49,629
Cotton spun yarn production (mn kg)	2,824	14	3,187	5,364
Raw cotton production (mn kg)	4,760	8	4,823	6,630

(Source: Report of the Working Group on Textiles & Jute Industry for Eleventh Plan)

Outlook

The industry targets US\$ 6 billion foreign direct investment (FDI) by 2015 to be invested in greenfield units in textiles machinery, fabric and garment manufacturing, as well as technical textiles. The industry is expected to create 12 million new jobs by 2012. As per FICCI's suggested textile policy, the Indian textile industry targets a 15% annual growth for the domestic industry and 20% annual growth for the export market, reaching US\$ 106 billion and US\$ 66 billion respectively by 2015.



Divisional analysis

Yarn division



Overview

Suryalakshmi Cotton went into business with a spinning unit of 6000 spindles. The Company now has two units with a capacity of 48,240 spindles to manufacture cotton, polyester and blended yarns. These products – carded and combed varieties with counts of 6s Ne to 40s Ne Single and Double

(two for one) – are used in the hosiery, knitting and weaving segments. Over the years, the Company invested in cutting-edge equipment comprising Trutzschler blow-room lines and cards, Laxmi high-speed combers, auto-leveller draw frames and speed and ring frames. The Company imported Schlafhorst and Murata autoconers as

well as an Elgi Welker yarn conditioning unit. This complement translated into yarn of the highest quality. The Company grew its domestic revenue 9.8% in 2009-10, marketing 12,680 MT within the country in 2008-09, 13,279 MT in 2009-10 and a targeted 18,800 MT in 2010-11.

Highlights, 2009-10

- Spindles reported capacity utilisation of 97% (95% in 2008-09)
- Switched the product mix from cotton yarn (8%) to polyester yarn (100%), owing to higher realisations and offtake for the latter.

- Increased yarn exports by 36% owing to improved prices and a buoyant market
- Adhered to stringent quality standards to enhance customer satisfaction
- Improved capacity utilisation by 200 bps over the previous year.

Outlook

The commissioning of 12,624 spindles in August 2010 is expected to increase revenues and product range.

Over the years, the Company invested in cutting-edge equipment that has translated into yarn of the highest quality

The commissioning of 12,624 spindles in August 2010 is expected to increase revenues and product range.

36%

Contribution to the total revenue

11%

Growth over previous year

12.8%

EBIDTA margin

1,906.44

EBIDTA (Rs. in lacs)

48,240

Manufacturing capacity (spindles)

97%

Capacity utilisation