Suryalakshmi Cotton Mills Limited

2013-14 Annual Report

Forward-looking statement

In this Annual Report, we have disclosed forward looking information to enable investors to comprehend our prospects and take 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 'anticipate', 'estimate', '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 achievements of results are subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should keep this in mind. We undertake no obligation to publicly update any forward looking statement, whether as a result of new information, future events or otherwise

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BOUNDLESS IMAGINATION

and sensible strategies pave the way for long-term growth at Suryalakshmi.

Our imagination encourages us to challenge limitations in quality and infuse greater dynamism in operations. The result is that our products are preferred by prominent global clients for whom quality is non-negotiable.

We are leveraging our synergies and capabilities to approach high-growth markets with more value-added products. The consequence of such a strategy is higher margins, greater visibility and stronger financial sustainability.

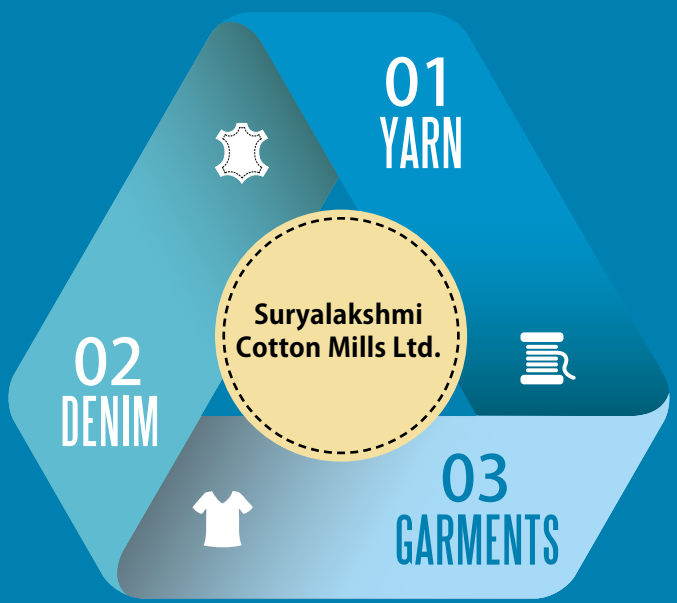
As global economies and business confidence are on the road to recovery, we are planning to achieve a revenue target of 1,000 crores in the coming three years.

Integration driving value

For a multi-line business operation like Suryalakshmi, integration works as a principal value driver. The more the integration, greater the value generated for customers, shareholders and the wider community of stakeholders.

Our integrated operations span yarn spinning, denim fabric and garment manufacture, catering to the aspirations of a wide cross-section of discerning customers globally.

Products that embellish life



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 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 we expand and develop a strong presence in the international market. Our products, operations and services, are globally benchmarked against the best.

Suryalakshmi captures the value-chain of textile industry from the manufacture of cotton yarn to denim fabric to garments. The Company has manufacturing facilities located in Hyderabad, Ramtek and Amanagullu comprising all three business divisions. Our product profile consists of a wide range of yarn, fabric and garments, with clientele comprising the best of brands in the country and globe.

YARN

61,008 spindles of installed capacity

95% capacity utilisation in 2013-14

42.5% share of total revenue in 2013-14

12,768 spindles of additional capacity installed in last 5 years

Polyster, Polyster Viscose, Polyster cotton yarns

DENIM

40Mn metres annual installed capacity

89% capacity utilisation in 2013-14

50.7% share of total revenue in 2013-14

15yrs. experience in denim manufacture

International and global clients: Levis, Wrangler, POLO RL, DKNY, JC Penney, Walmart, Jones, UFO, Perry Ellis, Next, Marks & Spencers, C&A, Zara, George, Burtons etc.

GARMENTS

4,000 garments operating capacity per day

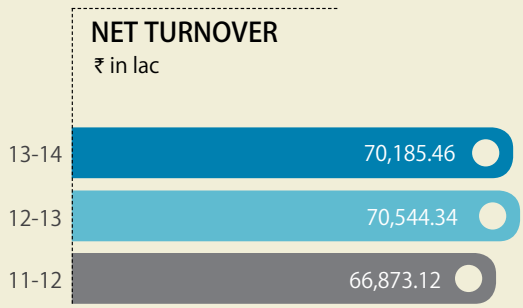
84% capacity utilisation in 2013-14

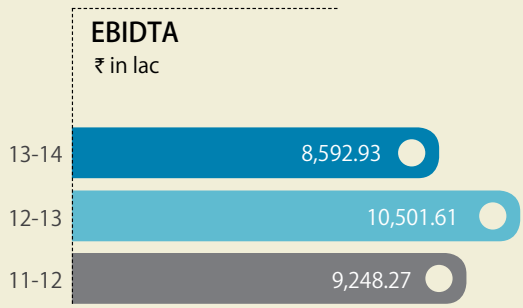
6.80% share of total revenue in 2013-14

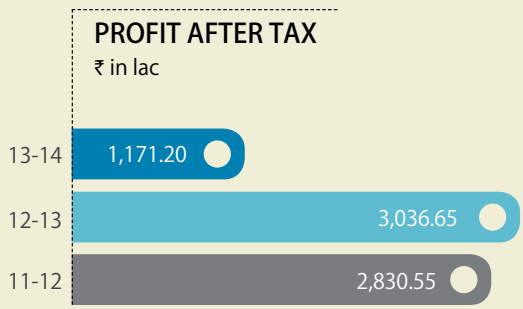
20.30% CAGR in revenues in last five years leading to 2013-14

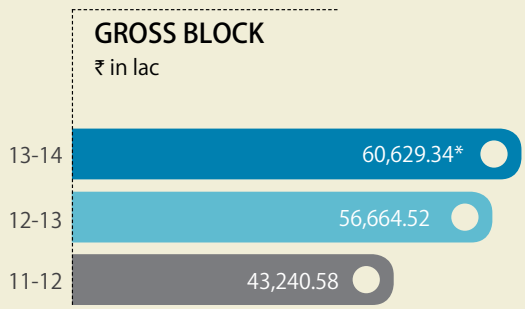
Some of the brands we work with: Levi Strauss, Otto, (Germany), Eagle (Germany), Landmark (UAE), Giovanni Galli (Portugal)

Driven by strategies and imagination

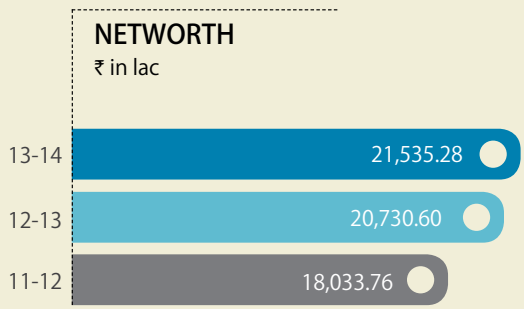


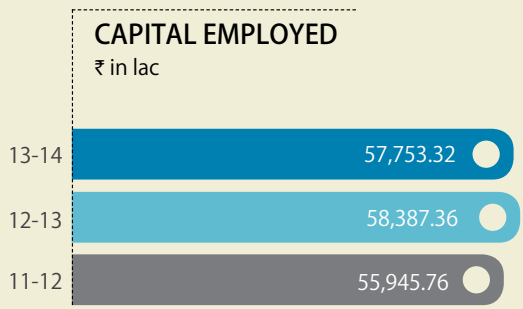


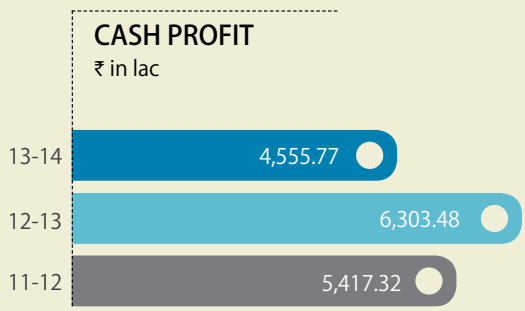


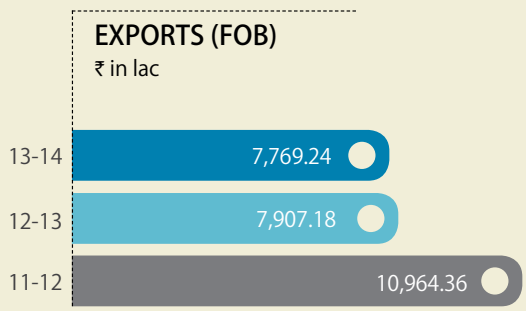


*Excluding increase due to Revaluation of fixed assets









Yarn

1 Bangladesh
2 Portugal
3 Brazil
4 Argentina
5 Turkey

Denim

6 USA
7 Canada
8 Peru
9 Guatemala
10 Venezuela
11 Columbia
12 Argentina
13 Chile
14 Mexico
15 UK
16 France
17 Spain
18 Portugal
19 Italy
20 Africa
21 Egypt
22 Bangladesh
23 Vietnam
24 Sri Lanka
25 Indonesia

Garments

26 Germany
27 Austria
28 UAE
29 Portugal

Message from the Chairman

The Company is setting up a spinning unit (26,000 spindles) at Amaravati, near Nagpur. The unit will manufacture value-added and fancy yarns, such as ring, lycra, slub and compact.

50.7%

Denim segment's contribution to total revenue

Dear Shareholders,

Global economies are now on the road to recovery. This recovery is spearheaded by advanced economies like the US, Germany and the UK. The growth of advanced economies will create adequate export demand for the emerging markets with the right skills and capacities to cater to that demand. While such a scenario augurs well for the emerging bloc including India, structural bottlenecks to growth need to be removed with speed.

Although the performance of the Indian economy was disappointing in FY 2013-14, it is now geared for a higher growth trajectory. I will not go into the details of what caused the slowdown, because that is all too well known. On the contrary, I must emphasize on the fact that the government's clear focus on across-the-board reforms have generated an environment of optimism and strengthened business and investor sentiment.

The textile industry reflects a global manufacturing ecosystem where developed countries outsource their requirements to emerging economies for cost-effective production.

Owing to its focus on quality standards and cost rationalization, Suryalakshmi is preferred by multiple global brands.

However, it must be admitted that economic volatility, high input costs and overcapacity in the market impacted our operations in FY 2013-14. We achieved ₹ 71,288.50 Lacs of income from operations with a PAT of ₹ 1,171.20 Lacs. But I must reassure investors that Suryalakshmi has the commitment and the calibre to grow, despite challenges. We have embarked on an ambitious mission to achieve topline growth in garments, spinning and fabric sales across domestic and exports markets. We are planning to achieve a revenue target of ₹ 1000 crores, in the coming three years.

EXPANSION

The Company is setting up a spinning unit (26,000 spindles) at Amaravati, near Nagpur. The unit will manufacture value-added and fancy yarns, such as ring, lycra, slub and compact. The facility will be supported by state-of-the-art machines, such as Amsler Slub attachment

from Switzerland, Lycra attachment from Germany, Eli Twist for compact from Germany and Elite Compact from Switzerland. This yarn will be consumed internally and further exported. The project will avail tax savings and TUF subsidies from the Maharashtra Government in addition to interest subsidy from the Central Government.

FABRIC DIVISION

The Company aims to increase sales of fabrics both in domestic markets and overseas through value additions and introduction of new products. It has employed a designer/marketing person from Europe for this purpose. Denim consumption in India is only 0.3 pairs per person and presents huge untapped opportunities that the Company aims to capitalise.

GARMENTS DIVISION

The Company's Garment Division is one of the best in the country complying with rigorous quality parameters. It is audited and approved by Levi Strauss (largest international denim brand), SMETA (Sedex Members Ethical Trade Audit) protocol and listed on the SEDEX platform, a basic requirement for global clients. It is also audited as per BSCI (Business Social Compliance Initiative) protocol for specific German customers.

Suryalakshmi's talented team of experienced designers and experts have the imagination to create and improve designs for domestic and external markets. The Company's garment export volume has increased with innovative product offerings. Improving exports, robust domestic off-take and excise duty cuts on branded garments indicate an encouraging year ahead.

AMALGAMATION

The Company has strengthened its integration by amalgamating Suryalakshmi Cotton Mills and its 100% subsidiary Suryakiran Mills. It aims to utilise denim fabric from Suryalakshmi plants to make denim garments at Suryakiran. Its objective is to improve overall margins by lowering marketing and logistical costs through forward integration. It also aims to deliver more value added denim offerings in India.

PERFORMANCE ACROSS DIVISIONS

Suryalakshmi's domestic garments business has done very well and sales increased to ₹ 4102 lacs in FY 2013-14 from ₹ 3011 Lacs in FY 2012-13. In India, Suryalakshmi caters to the Aditya Birla Group garment brands, such as Allen Solly, Peter England, Levis' India.

Currently, we have achieved robust export sales from our US market and we will continue to consolidate our position in these markets. We are also expanding into European markets. On the export front, fabric sales generated ₹ 5988.57 lacs, accounting for 8.53% of the Company's revenue. Denim contributes 50.7% to revenues and generated ₹ 35580 lacs in 2013-14.

LOOKING AHEAD

The road ahead shows optimism and there are credible reasons for that. Our unit sales volumes are projected to rise in FY2014-15 due to a larger proportion of high-margin denim offerings like stretch fabric and coated denim combined with greater manufacturing efficiencies and a stronger marketing set up. We also aim to enhance our overseas client base for fabric sales.

From manufacturing fabrics, to making denim to establishing stronger ties with clients, we are leveraging every opportunity to shorten the sales cycle and increase our offerings to clients. While we are strengthening relationships with Suryakiran clients for our fabric division to increase fabric exports, we have also built a network of associates for the US market. We are happy to report that we have opened a market consultancy for Europe. We have established a huge customer base across key markets.

Suryalakshmi is recognized worldwide for its relentless focus on product quality and its commitment to extraordinary customer service. It will continue to upgrade its spinning processes by applying leading-edge automation in every aspect of the business and optimise operational costs.

At Suryalakshmi, we have been successful in all these years owing to the dedicated efforts of our people. I thank each and every member of our team for their contribution. Finally, I would also like to express my gratitude to all shareholders and the fraternity of stakeholders for their unwavering support.

L.N. Agarwal
Chairman and Managing Director

A legacy of excellence

Experience

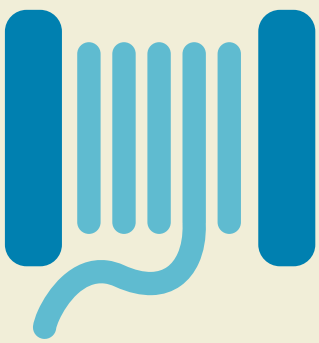
More than five decades of market prominence

Established in 1962, with the vision to be one of the integrated textile manufacturers in the country. Our rich experience of over five decades makes us one of the trusted textile denim manufacturers in the country.

Scale

Over ₹ 222.23 crores of capital investment

In the past five years, we have invested more than ₹ 222.23 crores in our capacities to address the demand from growing markets across the globe. What makes our expansion story interesting is the fact that we have not just limited ourselves to one segment, but grew in all three.



Presence

Global relevance

Apart from having a strong presence in the country, our products reach more than 20 countries globally. The international clients comprise largely niche MNCs, who repose their trust in the quality of our products.

Integration

Three businesses. One Company

One of the distinctive characteristics that strengthen our business sustainability and growth is integration. From yarn to fabric to garment, Suryalakshmi's prudent product selection adds to our competitiveness, providing significant cost savings and higher profitability.