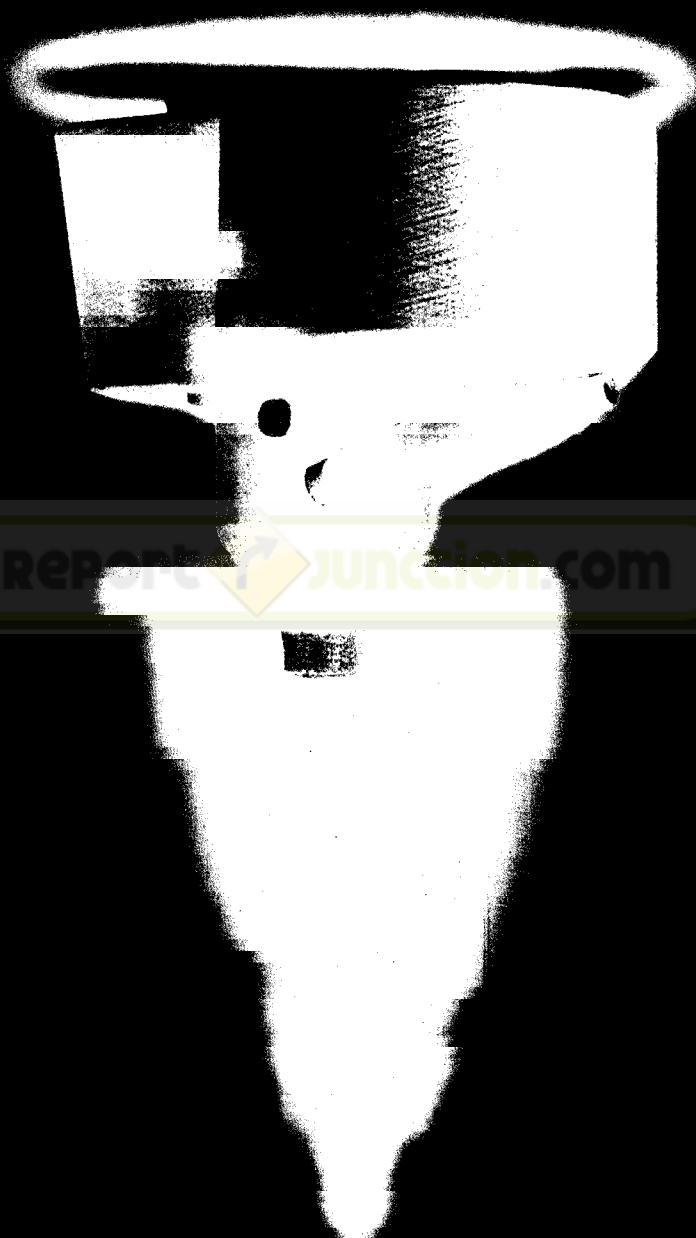


SURVALATA SPINNING MILLS LIMITED



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ANNUAL REPORT 2004-2005

BOARD OF DIRECTORS

Sri C. Narsi Reddy
Sri R. Surender Reddy
Sri K.S. Purohit
Sri K. Srinivasa Reddy
Sri K. Lakshmikanth Reddy
Sri R.S. Agarwal
Sri Vithaldas Agarwal
Sri Mahender Kumar Agarwal
Sri Veerender Kumar Agarwal

Chairman
Director
Director
Director
Director
Director
Managing Director
Joint Managing Director
Executive Director

GENERAL MANAGER (FINANCE)

Sri V.K. Chakravarthy

COMPANY SECRETARY

Sri B. Muralidhara Rao

AUDITORS

M/s. Brahmayya & Co.,
Flat No.403 & 404, Golden Green Apartments,
Irrammanzil Colony, Hyderabad - 500 082.

REGISTERED OFFICE

Surya Towers, 1st Floor,
105, Sardar Patel Road
Secunderabad - 500 003.

REGISTRAR & TRANSFER AGENTS

Sathguru Management Consultants
Private Limited,
Plot No.15, Hindi Nagar,
Punjagutta, Hyderabad - 500 034.

BANKERS

State Bank of India
Industrial Finance Branch,
Somajiguda,
Hyderabad.

UTI Bank Limited
Begumpet,
Hyderabad.

FACTORIES

Marchala Village,
Kalwakurthy Mandal,
Mahaboobnagar District,
Andhra Pradesh.

Mouza-Nayakund,
Near Ramtek,
Nagpur District,
Maharashtra.

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SURYALATA SPINNING MILLS LIMITED

NOTICE OF THE 22ND ANNUAL GENERAL MEETING

NOTICE Is hereby given that the Twenty Second Annual General Meeting of the Members of SURYALATA SPINNING MILLS LIMITED will be held on Thursday, the 29th September, 2005, at 11:00 A.M. at Padmashali Kalyana Mandapam, 2-12-66, Nehru Nagar, West Marredpally, Secunderabad - 500 026, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2005 and the Balance Sheet as on that date and the reports of the Directors and Auditors thereon.
2. To declare dividend on Equity Shares for the year ended 31st March, 2005.
3. To declare dividend on Cumulative Redeemable Preference Shares for the year ended 31st March, 2005.
4. To appoint a Director in place of Sri K S Purohit, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Sri K Srinivasa Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint M/s. Brahmayya & Co., Chartered Accountants, as 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 authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

7. To consider and if thought fit, to pass the following resolution with or without modification(s) as a **Special Resolution**:

"RESOLVED THAT pursuant to the provisions of Section 16 and other applicable provisions, if any, of the Companies Act, 1956, in Clause No. V of the Memorandum of Association of the Company for the words and figures 'The Authorised Share Capital of the Company is Rs.17,00,00,000/- (Rupees Seventeen Crores

only) divided into 70,00,000 Equity Shares of Rs.10/- each and 10,00,000 Redeemable Preference Shares of Rs.100/- each, the following shall be substituted:

'The authorised share capital of the Company is Rs.17,00,00,000/- (Rupees Seventeen Crores only) divided in to 1,00,00,000 Equity Shares of Rs.10/- each and 7,00,000 Preference Shares of Rs.100/- each, whether Cumulative Redeemable, Non-cumulative Redeemable, with the power to increase, reduce, subdivide, consolidate, convert in to equity shares in accordance with the provisions of the law from time to time.'

8. To consider and if thought fit, to pass the following resolution with or without modification(s) as a **Special Resolution**:

"RESOLVED THAT pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Articles 3(i) and 4 of the Articles of Association of the Company be altered in the following manner:

- (a) by substituting the following words and figures in the existing Article No.3(i) thereof:

3(i) 'The authorised share capital of the Company is Rs.17,00,00,000/- (Rupees Seventeen Crores only) divided in to 1,00,00,000 Equity Shares of Rs.10/- each and 7,00,000 Preference Shares of Rs.100/- each, whether Cumulative Redeemable, Non-cumulative Redeemable, with the power to increase, reduce, subdivide, consolidate, convert in to equity shares in accordance with the provisions of the law from time to time.'

- (b) by substituting the following new Article 4 in place of the existing Article 4:

4 'Subject to the provisions of Section 80 of the Companies Act, 1956 and these Articles, the Company shall have power to Issue preference shares carrying a right to redemption

SURYALATA SPINNING MILLS LIMITED

out of profits or out of the proceeds of a fresh issue of shares made for the purposes of such redemption or liable to be so redeemed at the option of the company or further to convert the same into equity shares with the prior consent of the shareholders under Section 106 of the Companies Act, 1956."

9. To consider and if thought fit, to pass the following resolution with or without modification(s) as a **Special Resolution**:

"RESOLVED THAT pursuant to recommendation of the Board of Directors and Article 126 of the Articles of Association of the company and subject to other statutory approvals, if any, and in accordance with the guidelines of the Securities and Exchange Board of India (SEBI) a sum of Rs.1,81,50,000/- (Rupees One Crore Eighty One Lakhs Fifty Thousand only) standing to the credit of the company's Securities Premium Account be capitalized and the aforesaid amount of Rs.1,81,50,000/- be applied in terms of article 126 of the Articles of Association of the company, for allotting fully paid at par 1815000 equity shares of Rs.10/- each in the capital of the company to be allotted and distributed as fully paid bonus shares to such members holding equity shares as per the register of equity shareholders as on a date determined by the Board of Directors of the company, who are the holders as on the aforesaid date of the existing 3630000 equity shares of the company fully paid up in proportion to one bonus share for two existing equity shares upon the footing that they become entitled to such new equity shares as capital and not as Income.

RESOLVED FURTHER THAT where the existing holding of any member is not in multiples of two thus resulting in any member becoming entitled to fraction of new equity shares to be allotted as bonus shares, the company shall not issue any certificate in respect of such fractional shares but the total number of new equity shares representing such fractions shall

be allotted by the Board of Directors of the company to a nominee to be selected by the Board of Directors who on behalf of the existing shareholders shall have the right to be allotted such fractional shares and the company shall issue in favour of such nominee, such equity share certificate or certificates after consolidating all the fractional certificates into a marketable lot and thereafter such equity shares shall be sold by such nominee at the prevailing market rate(s) and the net sale proceeds of such shares be distributed amongst such members who are entitled to such fractional certificates in proportion to their respective holdings and allotment of fractional certificates therefor.

RESOLVED FURTHER THAT the bonus shares to be issued as fully paid equity shares are subject to the Memorandum and the Articles of Association of the company and shall rank pari passu in all respects with the existing equity shares, including any dividend that may be declared for the financial year in which the bonus shares are allotted.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution and for removal of any doubts or difficulties, the Board be and is hereby authorized to do all such acts, deeds, matters and things and to give from time to time such directions as may be necessary, expedient, usual or proper and to settle any question or doubt that may arise in relation thereto, as the Board in its absolute discretion may think fit and its decision shall be final and binding on all members and other interested persons."

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

"RESOLVED THAT the Company do hereby approve in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, creating mortgage or charge by the Board of Directors of the Company (herein after referred as the Board) of all the immovable and movable properties

SURYALATA SPINNING MILLS LIMITED

of the Company, wheresoever situate, both present and future, of the whole of the undertaking of the Company together with power to takeover the management of the business and concern of the Company in certain events:

On First Charge basis to

- i) Industrial Development Bank of India Limited (IDBI Limited) to secure the term loan of Rs.680 Lakhs.
- ii) State Bank of India (SBI) to secure the term loan of Rs.860 Lakhs.

AND

On Second Charge basis

- i) State Bank of India for its enhanced working capital limits of Rs.577 Lakhs.
- ii) UTI Bank Limited of its term loan of Rs. 300 Lakhs.
- iii) UTI Bank Limited for its enhanced working capital limits of Rs.130 Lakhs.

together with the interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, premia on prepayment, costs, charges, expenses and other moneys payable by the Company to IDBI Limited, State Bank of India and UTI Bank Limited, in terms of the Loan agreement(s) entered/to be entered into by the Company in respect of the said financial assistance.

Provided however that the above mortgage/charge in favour of IDBI Limited (for its term loan of Rs.680 Lakhs) and State Bank of India (for its term loan of Rs.860 Lakhs) shall rank pari-passu on first charge basis with the mortgages and / or charges already created or to be created by the Company to secure the term loans sanctioned/to be sanctioned by Industrial Development Bank of India, State Bank of India and the UCO Bank and the mortgage/charge on second charge basis in favour of State Bank of India (for its additional working capital facilities of Rs.577 Lakhs) and UTI Bank Limited (for its term loan of Rs.300 Lakhs and additional working capital facilities

of Rs.130 Lakhs) shall rank second and subservient to the charges created/to be created by the Company in favour of IDBI Limited, SBI and UCO Bank (for its term loan of Rs.135 Lakhs) to secure the term loans sanctioned/to be sanctioned by them.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to finalise the documents for creating aforesaid mortgage and to do all such acts, deeds and things as may be necessary for giving effect to the above resolution."

By Order of the Board
for **Suryalata Spinning Mills Limited**

Place : Secunderabad

Date : 20.07.2005

B. Muralidhara Rao

Company Secretary

NOTES

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and on a poll to vote instead of himself and such proxy need not be a member. The instrument appointing a proxy should however be deposited at the Registered Office of the Company not less than 48 hours before the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 21st September, 2005 to 29th September, 2005 (both days inclusive) for payment of dividend, if approved.
3. The Company has already transferred all unclaimed dividends declared up to the financial year ended 31st March, 1997 to the General Revenue Account of the Central Government as required by the Companies Unpaid Dividend (Transfer to the General Revenue Account of the Central Government) Rules, 1978.
4. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, dividend for the financial year ended 31st March, 1998 and thereafter, which remain unclaimed for a period of 7 years will be transferred by the Company to the Investor

S SURYALATA SPINNING MILLS LIMITED

Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956.

Information in respect of such unclaimed dividend when due for transfer to the said fund is given below:

For the Financial year	Date of declaration	Due for transfer on
1997-1998	25.09.1998	13.11.2005
1999-2000	29.05.2000	05.07.2007
2000-2001	20.07.2001	26.08.2008
2003-2004	31.08.2004	07.10.2011

Members who have not encashed the dividend warrant(s) so far for the financial year ended 31st March, 1998 or any subsequent financial years are requested to make their claim to the Company at its

Registered Office. It may also be noted that once the unclaimed dividend is transferred to the Investor Education and Protection Fund (IEPF) no claim shall lie in respect thereof.

- The Company's Equity shares are listed at The Hyderabad Stock Exchange Limited, 6-3-654, Somajiguda, Hyderabad and The Stock Exchange, Mumbai, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001 and the company has paid the Listing Fees to the said Stock Exchanges.
- An explanatory statement pursuant to section 173(2) of the Companies Act, 1956 in respect of the business set out under item Nos. 7 to 10 is annexed.
- Members are requested to bring their copy of the Annual Report to the meeting.

EXPLANATORY STATEMENT

Pursuant to Section 173(2) of the Companies Act, 1956

ITEM NO. 7 & 8

At present the Authorised Share Capital of the Company is Rs.17,00,00,000/- (Rupees Seventeen Crores only) divided into 70,00,000 Equity Shares of Rs.10/- each and 10,00,000 Redeemable Preference Shares of Rs.100/- each. To facilitate the capitalisation of Securities Premium Account to the extent of Bonus Shares and keeping in view the future expansion plans of the Company, It is proposed to alter the Memorandum and Articles of Association to re-classify the composition of Equity and Preference Share Capital. It is also proposed to alter the Memorandum and Articles of Association to enable the company to convert the preference shares in to equity shares, if required. For this purpose Clause V of the Memorandum of Association should be altered as proposed in the resolution set out at item no.7 of the accompanying notice.

In order to enable the company to avail the option of conversion of redeemable preference shares in to equity shares, if required in the future, it is proposed to amend Clause 3(i) and 4 of the Articles of Association of the company as set out at item no.8 of the Notice.

Your Directors recommend the resolution for your approval.

A copy of the Memorandum and Articles of Association of the Company is available for inspection by shareholders at the Registered Office of the Company between 11:00 A.M. to 1:00 P.M. on all working days.

ITEM NO. 9

Considering the strong reserves position and the impressive performance of the company, your Directors recommended an issue of Bonus Shares in the ratio of one share for every two existing shares held, by capitalising a part of the Securities Premium Account to the extent of Rs.181.50 Lakhs. The bonus issue has been recommended to increase the size of the equity share capital, to improve the liquidity of shares in the capital

SURYALATA SPINNING MILLS LIMITED

market and to reward the shareholders of the company.

In case where the existing holding of any member is not in multiples of two thus resulting fractional shares to be allotted, the company will not issue any certificate for the fractional shares instead those will be allotted to a nominee selected by the Board and the shares shall be sold and the net sale proceeds would be distributed to the respective shareholders.

Yours Directors recommend the resolution for your approval.

The Directors of the company may be deemed to be interested in the resolution to the extent of their respective holding in the equity shares of the company.

ITEM NO. 10

The Company has been sanctioned a rupee Term Loan of Rs.680 Lakhs by Industrial Development Bank of India Limited (IDBI Limited) under the Technology Upgradation Fund Scheme (TUFS) for the modernisation programme undertaken by the company at Kalwakurthy Plant. The Company has also been sanctioned a rupee Term Loan of Rs.860 Lakhs by State Bank of India (SBI) under TUF Scheme for the expansion programme undertaken at Ramtek Plant to increase 7200 Spindles. As per the terms and conditions of the Term Loan Agreement(s) the said loans shall be secured by creation of first charge on all the fixed assets of the company ranking pari passu with the existing Term Loans.

During the year, State Bank of India and UTI Bank Limited have enhanced the working capital limits

availing by the company from the existing Rs.2035 Lakhs to Rs.2750 Lakhs. The enhanced working capital limits shall be secured by second charge on the fixed assets of the company. The company has also obtained a Term Loan of Rs.300 Lakhs from UTI Bank Limited for improving the net working capital and current ratio of the company. The said loan shall also be secured by second charge on the fixed assets of the company.

Section 293(1)(a) of the Companies Act, 1956 provides inter-alia that the Board of Directors of a public company shall not, without the consent of the Company in General Meeting, sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company. Since, the creation of Mortgage by the Company on its immovable properties as aforesaid in favour of Financial Institutions/Banks may be regarded as disposal of the Company's properties/undertaking in certain events, it is necessary for the members to pass a resolution under Section 293(1)(a) of the Companies Act, 1956.

The Board recommends the resolution for your approval.

None of the Directors is in any way concerned or interested in the above resolution.

By Order of the Board
for **Suryalata Spinning Mills Limited**

Place : Secunderabad
Date : 20.07.2005

B. Muralidhara Rao
Company Secretary

S SURYALATA SPINNING MILLS LIMITED

DIRECTORS' REPORT

To
The Members,

Your Directors have pleasure in presenting the 22nd Annual Report together with the Audited Accounts for the financial year ended 31st March, 2005.

FINANCIAL RESULTS

The performance during the year has been as under:

(Rs. in Lakhs)

	2004-2005	2003-2004
Gross Sales	16294	13447
Net Sales	15196	12067
Profit before tax	435	314
Less: Provision for		
Tax for the year	34	24
Provision for Tax for earlier years	2	2
Deferred Tax Liability	118	79
Profit after Tax	281	209
Add: Profit brought forward from last year	109	88
Amount available for appropriation	390	297
Appropriations:		
1. Provisions for Dividend		
(a) Equity Dividend	65	51
(b) Preference Dividend	35	27
(c) Corporate Dividend Tax	14	10
2. Transfer to		
(a) General Reserve	100	50
(b) Preference Share Redemption Reserve	75	50
Balance Carried forward to Balance sheet	101	109
	390	297

OPERATIONS

During the year under review, the gross turnover was Rs.16294 Lakhs compared to Rs.13447 Lakhs in the previous year, indicating a growth of 21%. The production during the year was 158 Lakh kgs of yarn as against 135 Lakh kgs in the previous year, an increase of 17%. The increase in the production is on account of increase in the spindle utilization, replacement of old machinery with ultra modern machinery with high productivity and change in the count pattern.

The Company earned a Profit before tax of Rs.435 Lakhs as against Rs.314 Lakhs in the previous year, registering a growth of 38%. The Company earned a profit after tax of Rs.281 Lakhs as against Rs.209 Lakhs in the previous year, an increase of 34%. The increase in the profit is mainly because of increase in production and better price realization. The significant reduction in the cost of power & fuel, Interest cost and other cost cutting measures undertaken by the company also contributed to the increase in the profit.

DIVIDEND

Your Directors are pleased to recommend a dividend of Rs.1.80 per share (previous year Rs.1.50 per share) on the equity capital of the Company for the financial year ended 31st March, 2005. The dividend will absorb a sum of Rs.74.50 Lakhs (previous year Rs.57.20 Lakhs) inclusive of tax on dividend.

Your Directors have recommended payment of Dividend on Cumulative Redeemable Preference Shares as per the terms and conditions of the issue. The dividend will absorb a sum of Rs.39.16 Lakhs inclusive of tax on dividend.

ISSUE OF BONUS SHARES

Considering the strong reserves position and with a view to reward the shareholders for their faith reposed on the company, your directors recommended an issue of Bonus Shares in the

SURYALATA SPINNING MILLS LIMITED

ratio of one share for every two existing shares held by the members as on a date to be fixed by the Board, by capitalising a part of the Securities Premium Account to the extent of Rs.181.50 Lakhs. The bonus shares shall rank pari passu in all respects with the existing equity shares of the company, including any dividend that may be declared for the financial year in which the bonus shares are allotted. A resolution has been placed for your approval in the ensuing Annual General Meeting.

INCREASE OF SHARE CAPITAL

EQUITY SHARES

During the year under review, the Company has allotted 2,50,000 Equity Shares of Rs.10/- each at a price of Rs.88/- (including a premium of Rs.78/-) to strategic investors on preferential basis and raised an amount of Rs.220 Lakhs. The amount has been raised for meeting capital expenditure and general corporate requirements of the company. The entire amount of Rs.220 Lakhs has been utilized during the year 2004-2005. The company has obtained listing approval for trading of the new securities from The Stock Exchange, Mumbai and The Hyderabad Stock Exchange Limited, Hyderabad.

PREFERENCE SHARES

During the year under review, the Company has issued 57,000 8% Cumulative Redeemable Preference Shares of Rs.100/- each, for funding the modernization programme undertaken by the company at Kalwakurthy Plant.

AMENDMENT TO MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY

In order to facilitate the capitalisation of Securities Premium Account to the extent of Bonus Shares and considering the future expansion plans of the company, the authorised share capital of the company will be re-classified by increasing the Equity Share Capital from Rs.7 Crores to Rs.10 Crores divided in to 1,00,00,000

shares of Rs.10/- each and decreasing the Preference Share capital from Rs.10 Crores to Rs.7 Crores divided in to 7,00,000 Preference shares of Rs.100/- each. It is also proposed to alter the Memorandum and Articles of Association to enable the company to convert the preference shares in to equity shares. The Special Resolution has been placed for your approval in the ensuing Annual General Meeting.

MODERNISATION AND EXPANSION

During the year, the Company has undertaken a modernisation programme at Kalwakurthy plant at a cost of Rs.860 Lakhs. The modernisation programme aimed at replacement of old machinery with new machinery to produce Export Quality Yarn, Specialised Yarn and multi Products of yarn, which will give competitive edge to the company in the Export Market. The modernization programme is expected to be completed by August, 2005.

During the year under review, the company has undertaken an expansion programme at Ramtek Unit at a cost of Rs.1100 Lakhs, to increase the capacity by 7200 Spindles. The expansion programme is expected to be completed by December, 2005.

The installed capacity of the company will be increased from 57168 Spindles to 64368 Spindles, after completion of the ongoing expansion programmes.

CAPITAL EXPENDITURE

During the year under review, the Company has incurred Rs.420 Lakhs towards capital expenditure (including Capital work-in-progress).

EXPORTS

The Export turnover of the Company during the year 2004-2005 was Rs.3345 Lakhs (including Merchant Exports). The Export turnover grew

SURYALATA SPINNING MILLS LIMITED

87% from Rs.1793 Lakhs in the previous year to Rs.3345 Lakhs in the current year. The Company has been exporting yarn to various countries like Turkey, Italy, Taiwan, Iran and Srilanka. The Company continues to explore new markets to improve the performance.

FUTURE OUTLOOK

The elimination of the quota restrictions under the multifibre Agreement has provided unlimited opportunities for the textile units from 01.01.2005. Officially, India is aiming to achieve the target of textile and apparel exports from the present level of US \$ 11 billion to US \$ 50 billion by 2010. China's recent move to raise export tariffs on textiles to US and EU regions will act as an advantage to Indian textile exports to these regions. It has increased export tariffs on few textile products and moreover US had imposed quota to limit growth of imports from China to 7.5 per cent a year. This would definitely offer an opportunity to Indian textile manufacturers and gives a competitive edge.

Accordingly, the Company is gearing itself to meet the post 2004 situation by constantly modernising the machinery. Constant efforts are being made to meet the stringent quality requirements in all the markets. The old ring frames have been replaced with new ones with a view to increase the production of value added yarns.

To utilize the opportunities available in the free trade regime, your company is planning to expand the installed capacity by setting up two new units, one in Andhra Pradesh and the other in Maharashtra, with a capacity of 25,000 Spindles each and with an investment of approximately Rs.80 Crores. The company plans to fund this expansion through a mix of Issue of fresh Equity, Term Loans from Financial Institutions/Banks and Internal Accruals.

For this purpose the company has acquired land at Urkondapet Village, Kalwakurthy, Mahaboobnagar District, Andhra Pradesh, admeasuring 60 Acres. The new plant will be

eligible for various incentives and exemptions allowed by the Government of Andhra Pradesh as per the State Industrial Investment Promotion Policy 2005-2010. Sufficient number of skilled labour is available and infrastructure facilities are adequate. The company is in the process of identifying a suitable land Near Ramtek in Maharashtra.

The New Units, which the company is setting up, will be having a total capacity of 50,000 Spindles. After setting up of the new units, the installed capacity of the company will increase to 1,10,000 Spindles.

After completion of the expansion programmes the turnover of the company is likely to be Rs.350 Crores by 2007-08.

DEPOSITS

There are no overdue deposits as on 31st March, 2005.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and in terms of Articles of Association of the Company Sri K.S. Purohit and Sri K. Srinivasa Reddy, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the requirements under section 217(2AA) of the Companies Act, 1956, with respect to the Directors' Responsibility Statement, the Board of Directors of the Company hereby confirms:

- i) That in the preparation of the Annual Accounts for the financial year ended 31st March, 2005 the applicable accounting standards have been followed along with proper explanations relating to material departures;
- ii) That the Directors have selected such accounting policies and applied them