

# TOUGH TIMES. TOUGHER RESOLVE.



Sutlej textiles and industries ltd | Annual report 2008-09

# Contents

02	Know our profile
04	Chairman's overview
08	Directors' report
17	Management Discussion and Analysis
25	Report on Corporate Governance
38	Financial section

## Forward looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to know our product portfolio, business logic and direction and comprehend our prospects. This report and other statements — written and oral — that we periodically make are based on our assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'plan', 'project' 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 that we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. If known or unknown risks or uncertainties materialise, or if underlying assumptions prove inaccurate, actual results can vary materially from those anticipated, estimated or projected. Readers may 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.

The year 2008-09 was one of the most challenging for textile manufacturers in decades.

Demand slowdown. Inventory pile-up. Declining realisations. Rising costs.

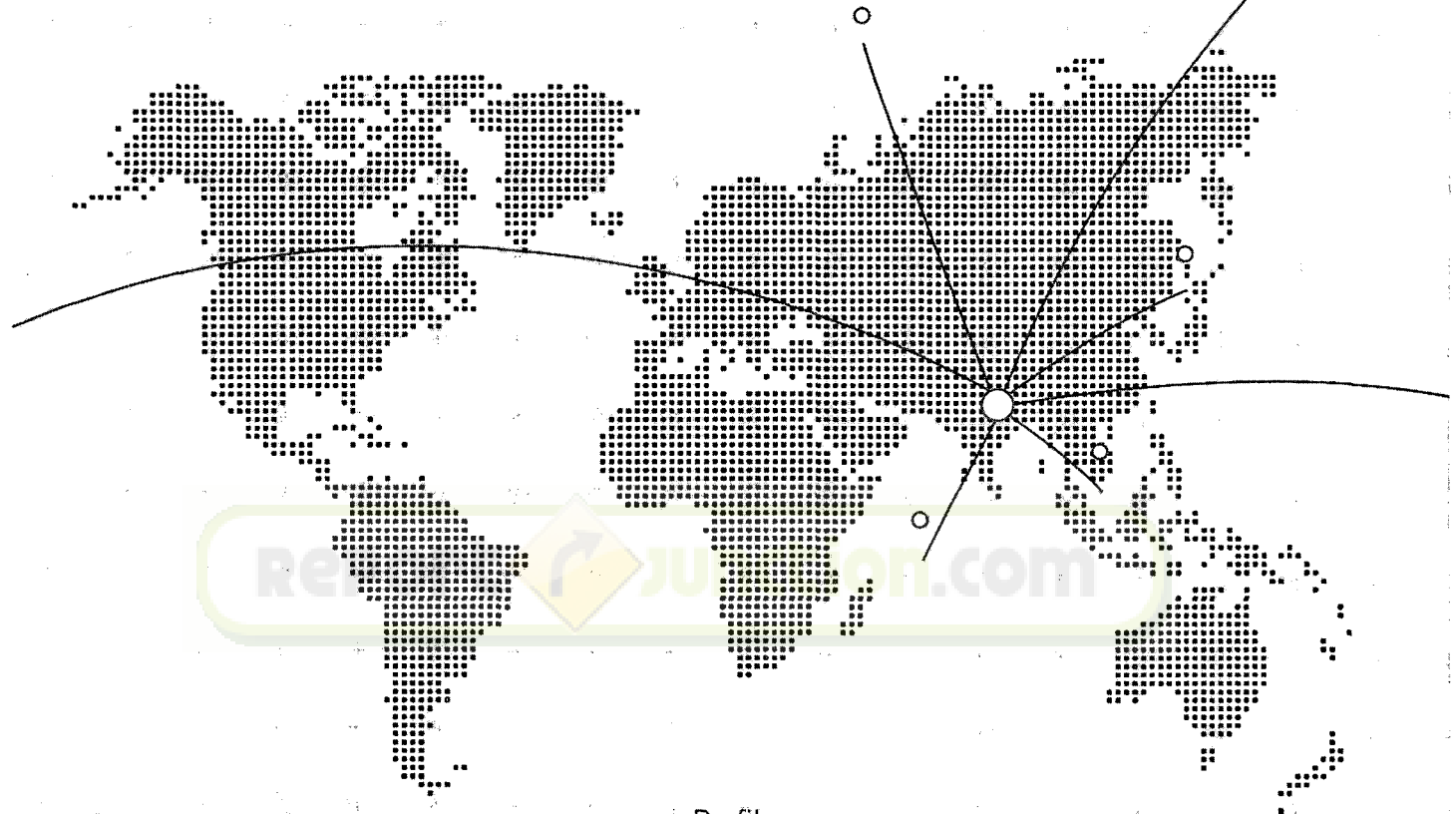
Tough times warrant a tougher resolve.

At Sutlej, we responded with a corresponding seriousness.

Financial discipline. Proactive marketing. Ongoing modernisation. Prudent diversification.

Leading to prospects  
of a better tomorrow.

## Know our profile



Sutlej textiles and industries Ltd is a focused textile company of the distinguished Dr. K. K. Birla Group in India. Modern. Global. Growing.

### Profile

We are a bellwether textile company of the distinguished Dr. K.K.Birla Group in India. The Group has established its presence in the domain of fertilisers, engineering, textiles, sugar, tea, coffee, food products, media, information technology, bio-technology and shipping.

### Inception

We were incorporated on June 22, 2005 through a corporate restructuring exercise which de-merged the textile divisions of Sutlej Industries Ltd and Damanganga Processors Ltd with effect from July 1, 2005.

### Business

- We are one of India's eminent textile producers providing yarns, fabric, garments and home textiles.
- We are one of India's largest exporters of value-added synthetic and blended yarns.

## Location

We have a strong foothold across northern and western India, reflected in strong delivery capabilities catering to growing demand.

Units	Locations	Products	Capacities (as on March 31, 2009)
Rajasthan Textile Mills	Bhawani Mandi, Rajasthan	Cotton yarn, Man-made fibres yarn	82,384 spindles 672 rotors
Chenab Textile Mills	Kathua, Jammu and Kashmir	Cotton yarn, Man-made fibres yarn	170,616 spindles*
Damanganga Fabrics	Daheli, Gujarat	Fabrics Processed fabrics	4.9 million metres annually (60 looms) 20 million metres annually
Damanganga Garments	Daheli, Gujarat	Garments	1.6 million trousers annually
Damanganga Home Textiles	Daheli, Gujarat	Home textiles furnishings	2 million metres annually (24 shuttleless looms)

\* Includes 31,104 spindles under trial run, which commenced commercial production from May 1, 2009

## Customers

We have successfully maintained and enhanced our customer portfolio base spread across more than 60 countries. Some of our reputed domestic and international customers comprise:

Domestic customers	ITC, Pantaloon, Westside, Siyaram's, Arvind, Grasim, Monte Carlo, Harry's Collection, Donear, Digjam and Raymond
International customers	Arrow (US), Penny (US), Marks & Spencer (UK), JC, Next (UK), B.H.S (UK), ASDA (UK) and Carrefour (France).

## Achievements

- ISO 9001:2000-certified
- Conferred the Golden Trading House status by the Government of India
- Presented with prestigious national awards for export performance across the last decade
- Received a citation from the President of India for our export performance

Listed on	Promoters' holding	Market capitalisation as on March 31, 2009 (Rs. Crore)	Number of employees
NSE, BSE	63.86%	31.84	11,118





## Chairman's overview

Mr C. S. Nopany, *Chairman*, presents the Company's review and the forward-looking strategy

In a gloomy textile sector, we enhanced our domestic market presence by 10% and achieved 5-7% higher realisations than in the global market - a double benefit.

### Q. How would you assess the Company's performance in 2008-09?

The year 2008-09 was the most challenging in the history of textile manufacture owing to a combination of various factors, such as global financial meltdown, volatile costing, erratic realisations and slackening demand. The effect was clearly visible in our financial performance. However, what was creditable was that our topline increased by 6.56% over the previous year and exports were maintained almost at the same level as the previous year despite the global slow down. It was only in the fourth quarter that the demand showed signs of revival, which helped us stagger the downward slide of the first three financial quarters.

### Q. What were the major challenges addressed by the Indian textile industry?

The Indian textile industry is largely export dependent as 45-50% of the production is exported. A number of macro-economic strategies inspired the Indian government to target exports of US\$ 50 billion by 2010. With a year to go, the industry is not even halfway there. In 2008-09, exports stood only at around US\$ 22 billion. In 2007, the rupee appreciated by almost 12%, the hangover of which lingered in 2008-09. In 2008-09, the rupee depreciated by around 27.44%. However, contrary to expectations, the depreciated rupee proved to be spoilsport for exporters with a majority of them hedging their receivables when the rupee was turning stronger. The buyers also pressurised exporters to pass on the benefits of a depreciating rupee to them, which made matters worse for exporters.

During the year, global recession in major textile importing economies like the US, European Union and Japan, adversely affected textile exports from India. Anti-dumping, safeguard

duty and other protectionist measures by various countries proved to be a stumbling block for export. Domestic demand was also affected on account of marked inflation and fall in GDP growth. The result was a testing time for Indian textile manufacturers like us.

Moreover, the Government of India did not step up the export subsidies, unlike in China, Vietnam and Bangladesh, wherein they were increased to 16%, 15% and 14% respectively, giving an edge to the exporters there. The Government of India also withdrew export incentives at the first signs of rupee depreciation, which were only partially restored later on.

With a continued increase in crude prices up to a peak of US\$ 147 per barrel, prices of all man-made fibres increased in the first half without corresponding increases in realisation rates. In the second half, with the fall in crude prices, fibre prices started going down, but the fall in realisation was steep and way below the fall in fibre prices. Due to such volatile movement of prices, yarn realisations dipped even below the variable production cost at one point.

With the export of almost 25% of the cotton crop in 2007-08 cotton season, cotton prices spurted in the first half of 2008-09 and also remained firm in the second half due to a 40% increase in Minimum Support Price. Cotton yarn realisations, however, could not keep pace.

### Q. Please elaborate on the various challenges faced by the Company during 2008-09?

TAs elaborated above, it was a challenging year for various reasons, besides following:

- There was inventory accumulation in our Fabric, Garment and Home Textile Divisions.
- Increasing labour demand from other industrial sectors as



well as absorption of labour in the National Rural Employment Guarantee Scheme (NREGS) resulted in paucity of quality labour.

### Q. In what ways did the Company strengthen its performance?

There were some heartening instances where we strengthened our performance:

- We achieved a capacity utilisation close to 90% in our yarn division.
- We added 44,896 spindles at the RTM and CTM units (includes 31,104 spindles under trial run, which commenced commercial production with effect from May 1, 2009).
- We got yarn manufactured on a job-work basis as well, from other spinning units, whereas other textile manufacturers had to shut down some of theirs.
- We initiated merchant export activities, enhancing our volumes.
- We increased yarn production by 6% over the previous year.
- We introduced value-added products, which are expected to enhance volumes and profits.
- We maintained our exports, despite the anti-dumping duty in Turkey and the demand slowdown from global majors.
- We added new geographies to our global footprint, including the Philippines and Mexico.
- We enhanced our Indian market presence by 10%.

### Q. How did you reduce inventory at a time of demand slowdown?

Although we maintained a lower yarn inventory owing to prime products that enjoyed buyers across the year, there was a pile-up of inventories in our fabric, garment and home textiles division at Bhilad that needed to be liquidated occasionally even below cost at times. The home textile and garments divisions resorted to jobwork while the inventory was progressively cleared. The result is that the fabric, garment and home textile divisions did not fare well, though a combination of an industry improvement and corporate initiatives did ensure that the worst for us was over.

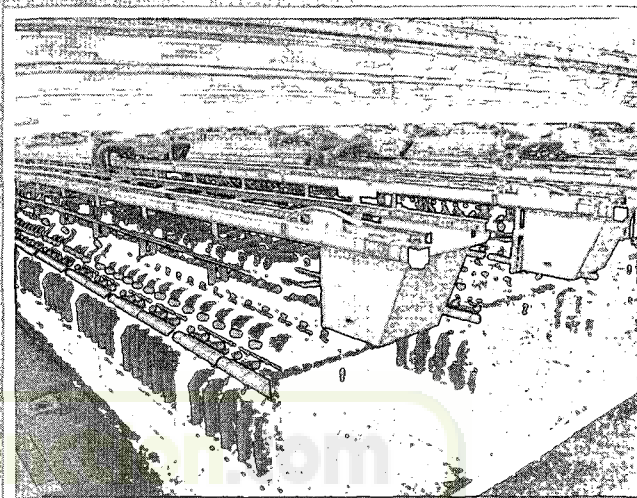
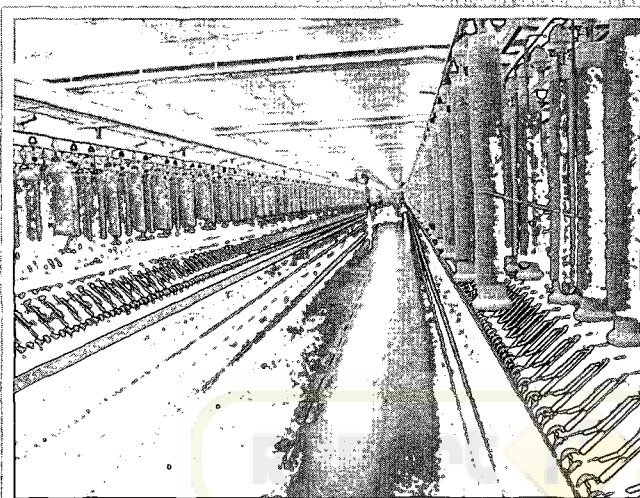
### Q How did the Company enhance its operational capabilities?

We analysed every operational detail that could be improved upon. We focussed on the efficient management of energy, labour, stores and other costs. We focussed on R & D, technology absorption, adaptation and innovation. We improved productivity and quality. We reduced yarn inventory, despite a demand recession.

### Q. How do you foresee the industry's performance?

Currently at about Rs. 275,000 crore, this sector is second only to agriculture and has grown at over 10% CAGR across the last five years. This implies an additional Rs. 30,000 crore market opportunity in 12 months. Of this, the domestic market alone is worth almost Rs. 1,75,000 crore, larger than the market size of automobiles, telecom, consumer electronics and durables and FMCG sectors. India's young, upwardly mobile





and lifestyle-conscious demographic profile and the growing mall culture are likely to enhance the domestic market opportunity. A low dependence on foreign demand is one reason why Indian economy could be stabilising earlier than more export-oriented economies. Export prospects also look encouraging because economists worldwide are now increasingly convinced that recovery is gathering pace and are therefore revisiting their GDP forecasts. Thus, there is no reason why Indian textile and clothing exports should not witness an upsurge from the second half of 2009-10 and sustain growth for years to come.

**Q. How is the Company gearing up towards a sustainable future?**

We could see light at the end of the tunnel through a revival in

the fourth quarter of 2008-09. Orders, which had dried up, began to come in. The benefits of various initiatives taken in the last few years aimed at improving efficiencies, increasing scale of operations, cost cutting and value-added product mix, among others, will be progressively visible in the coming years. We will drive sustainable growth through the following measures:

- Strengthen research and development towards various value-added yarns for niche markets.
- Penetrate the Indian market deeper.
- Create country-specific strategies based on volumes and realisations.
- Delocalise risk through the addition of more customers.
- Produce as per market demand to minimise inventory pile ups.

# Directors' Report

*Dear Shareholders,*

1. Your Directors are pleased to present their Fourth Annual Report on the business and operations of your Company for the year ended March 31, 2009.

## Financial results

Particulars	(Rs in lakhs)	
	Year ended March 31, 2009	Year ended March 31, 2008
Gross sales	84368.11	79275.75
Gross Profit	1245.63	5969.23
Less: Depreciation	5433.65	5330.61
Taxation:		
- Current	5.33	67.39
- Earlier years	-	(0.55)
- Deferred	(1221.50)	220.40
- Fringe Benefit tax	42.70	47.96
Net profit	(3014.55)	303.42
Add: Balance brought forward from the previous year	5550.76	5375.12
Total	2536.21	5678.54
Appropriations:		
Proposed dividend	109.22	109.22
Corporate dividend tax	18.56	18.56
Balance in profit and loss a/c. carried to balance sheet	2408.43	5550.76
TOTAL	2536.21	5678.54