



INSIDE OUT!

Sutlej textiles and industries limited | Annual report, 2009-10



Late Dr. K.K. Birla
(1918-2008)
Our source of inspiration



Contents

Corporate profile 02 Q&A with our Chairman 04 Directors' report 08 Management Discussion and Analysis 17
Report on Corporate Governance 27 Financial section 39

WHEN YOU NEED TO APPRAISE A GARMENT,
YOU TURN IT INSIDE OUT. CHECK THE DESIGN.
YARN STRENGTH. FALL. FIT.

THE SAME IS TRUE OF THE COMPANY THAT
MAKES THESE PRODUCTS.

SUTLEJ, FOR INSTANCE. LOOKS WITHIN TO
NOTICE THE VARIED 'THREADS OF
EXCELLENCE'.

BECAUSE LOOKING FROM THE OUTSIDE INTO
THE INSIDE IS REALLY SEEING HOW THINGS ON
THE INSIDE INFLUENCE THE OUTSIDE.

SUTLEJ TEXTILES AND
INDUSTRIES LIMITED

MAKES VALUE-ADDED YARNS AND
TEXTILE PRODUCTS IN INDIA.

BUT SERVICES CUSTOMER NEEDS
ACROSS 60 COUNTRIES.



Legacy

Flagship textile company of the illustrious K.K. Birla Group

Identity

One of India's leading textile producers with a value-chain extending from yarns to fabrics to garments to home textiles.

Clientele

Raymonds, Harry's Collection, Digjam, Marks & Spencer, JC Penney, Next, B.H.S., ASDA, Carrefour, Grasim, Donear, Siyaram, Arrow, Sears, Kohls, Arvind and John Miller, to name a few

International presence

Australia, Argentina, Bangladesh, Belgium, Brazil, Cyprus, Canada, Chile, Columbia, Egypt, England, Ecuador, France,

Finland, Germany, Ghana, Greece, Holland, Italy, Iran, Israel, Ireland, Japan, Jordan, Kenya, Korea, Lebanon, Mauritius, the Philippines, Nepal, New Zealand, Russia, Spain, Singapore, Syria, Sri Lanka, Switzerland, South Africa, Slovenia, Sweden, Tunisia, Turkey, the United States of America, the United Arab Emirates (UAE), Uruguay, Yugoslavia and Yemen, among others

Certifications

Status of trading house certificate (conferred by the Government of India) with ISO-9001 quality certification

People

Total employee strength of 11,852 as on March 31, 2010

Market capitalisation

Grew 280.75 percent from Rs 31.84 cr (as on March 31, 2009) to Rs 121.23 cr (as on March 31, 2010)

Assets

Units	Location	Products	Capacities
Rajasthan Textile Mills	Bhawanimandi (Rajasthan)	Cotton yarn and manmade fibre yarn	82,384 spindles 672 rotors
Chenab Textile Mills	Kathua, Jammu and Kashmir	Cotton yarn and manmade fibre yarn	170,616 spindles
Damanganga Fabrics	Daheli, Gujarat	Fabrics	4.9 million metres per annum (60 looms)
		Processed fabrics	20 million metres per annum
Damanganga Garments	Daheli, Gujarat	Garments	1.6 million trousers per annum
Damanganga Home Textiles	Daheli, Gujarat	Home textiles furnishing	2 million metres per annum (24 shuttleless looms)



"TIMELY SPINDLE EXPANSION AND
RECORD YARN REALISATIONS
TRANSLATED INTO ONE OF OUR BEST-
EVER PERFORMANCES IN 2009-10."

Sutlej textiles and industries limited reported a record performance in 2009-10. Revenues rose 35 percent to a record Rs 1,176.74 cr and earnings per share increased 187 percent to Rs 24.09. Chairman Mr C. S. Nopany provides the overview

Q. What was the reason behind the Company's superior performance in 2009-10?

A. Our spindleage expansion in 2009-10 coincided with superior yarn realisations. Two things transpired as a result: revenues crossed Rs 1,000 cr and what was a Rs 30.15 cr net loss in 2008-09 transformed to a Rs 26.31 cr net profit during the period under report. Two other developments catalysed our record performance: one, there was an immediate cost pass-through from cotton to yarn; two, the combination of record yarn prices, additional 43,776 spindles and value-addition (dedicated to mélange and other value-added yarns during a full year's working) had a near direct bottomline implication. Besides, a lag in price movement, from yarns to fabrics and apparels is generally witnessed over a three-to-four month cycle, and I am optimistic that even with yarn prices continuing to remain strong, our fabric, garment and home textile divisions should be able to report better results in 2010-11, reinforcing our overall profitability.

Q. What was the principal development witnessed during the period under report?

A. We commercialised our 12-MW thermal power plant at our Bhawanimandi unit. This investment will ensure a steady supply of quality power

in an energy-intensive industry. Although energy costs from this unit might be relatively higher than our purchased electricity, our thermal power plant investment must be appraised in the light of the opportunity lost in maximising plant utilisation when power supply from the state electricity board is erratic or the cost of resuming production high.

Q. What were some of the other highlights of 2009-10?

A: Our Company reported the following developments:

- Reported the highest ever yarn capacity utilisation
- Enhanced capacity utilisations across all downstream product divisions
- Enhanced the proportion of value-added premium products
- Invested Rs 343.06 cr in our gross block over the last three years
- Initiated yarn trading to broaden our product basket
- Appointed marketing consultants to help us tap emerging markets like Turkey
- Reduced our product inventory cycle to an average 25 days (32 days in 2008-09), reducing working capital needs
- Strengthened labour welfare to enhance motivation
- Complied with sectoral safety, health and environment standards

Q. What were some of the challenges that the Company faced?

A. An appreciating Rupee, whose value increased 11.40 percent against the Dollar in 2009-10. However, hedging policies adopted by a dedicated forex management team ensured that our bottomline was largely protected. With Rs 562.66 cr debt (as on 31 March 2010), our gearing was 3.37. However, increase in cash flow and timely repayment of debt are expected to impact the gearing positively.

Q. What is the importance of the textiles sector in India's economy?

A. The Indian textile industry enjoys a significant presence in the country's economic life. Apart from providing one of the basic necessities of life, the industry also makes a pivotal contribution to industrial output, employment generation and export. Currently, the domestic textiles industry (estimated size USD 57 billion) contributes about 14 percent to industrial production, four percent to gross domestic product (GDP) and 12 percent to the country's exports.

Interestingly, the textile sector remains the second largest employer after agriculture, directly employing over 35 million people, including a substantial number of backward classes and women. The cotton/man-made fibre textile industry is the largest Indian organised industry in terms of

The hospitality industry is expected to strengthen the home furnishings market by 25 percent. In a space hitherto dominated by indigenous players, international players are now entering.

employment (nearly a million workers) and number of units. Besides, multiple ancillary industries depend on this sector, including manufacturing machinery, stores, dyes and chemicals. The integrated development of this industry strengthens our national economy.

India's textile and clothing industry is also one of the largest contributing sectors of exports (nearly 12 percent share). In value terms, India's textile and apparel exports surged from USD 13.5 billion in 2003-04 to over USD 20.94 billion in 2008-09 and around USD 27 billion in 2009-10. India's exports could have grown faster in line with the growth rates of Bangladesh and Vietnam but for infrastructure constraints, high power and transaction costs, incidence of state level cess and duties and a lack of warehousing, research and development.

Q. The large-scale growth and adoption of BT cotton can be a game changer for India's textile sector.

A. Absolutely. Cotton is one of India's principal crops and a key raw material resource for the textile sector. It engages around six million farmers, while another 40 to 50 million people depend on activities relating to cotton cultivation, trade and processing.

Interestingly, India has brought about a qualitative and quantitative transformation in the production of cotton, ranking first in the world's cotton growing areas (around 9.37 million hectares, representing 25 percent of the total global land area under cotton). It also enjoys the distinction of being the world's second largest cotton producer (after China) and the only one to grow all four cotton types.

India's cotton acreage increased continuously across the last four years. However, in productivity terms, India's cotton production (567 kg per hectare) is far behind USA's 912 kg per hectare, China's 1,251 kg per hectare or even the world average of 766 kg per hectare. This is because a high 65 percent of Indian's cotton growing area is dependent on rains and the penetration of Bt Cotton is lower than in other countries. However, this is now changing: acreage under Bt cotton increased from 67 percent of the total acreage of 9.44 million hectare in 2007-08 to around 73 percent in 2008-09. With a higher use of Bt/hybrid seeds, the Country's cotton yield per hectare is expected to increase to 700 kg by the end of the Eleventh Five Year Plan (2007-2012) while cotton production is estimated to increase from around 295 lakh bales in 2009-10 to 390 lakh bales within the same period.

Q. What are some of the visible and significant trends transpiring across the textile industry in general and the downstream textile sector in particular?

A: These are some of the visible trends:

- The Indian textile sector attracted FDI of mere USD 200 million, a meagre 0.6 percent of the overall FDI of USD 33 billion in 2008. With a USD 6 billion FDI target for the domestic textiles industry by 2015, the idea is to tap foreign capital towards establishing greenfield units in textile machinery, fabric, garment and technical textiles.
- The government's interest subsidy under TUF will modernise the industry, counter market challenges and enable it to stay competitive in quality and price.
- The Indian home furnishing industry is influenced by traditional designs, fused with some international styling (use of lace, minimalism, etc). Such designs appeal to customers attracted by fused concepts.
- Natural fibres gained popularity following an interest in eco-friendliness. The home textile market witnessed an increase in the use of organic fabrics, textures and weaves that focus on natural fibres.
- After a brief lull in 2009, the home