

Redefining **benchmarks!**

Sutlej Textiles and Industries Limited | Annual Report 2010-11



sutlej
textiles and industries limited

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.



Late Dr. K.K. Birla
(1918-2008)

Our source of inspiration

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From a single product to
multiple categories.

From commodities to
value-added yarns
and textile products.

From India to
over 50 countries.

From standalone manufacture to
complete integration.

From market-driven to
market-driving.

From volatility
towards sustainability.

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



Sutlej Textiles and Industries Limited is one of India's foremost textiles companies. It is also one of the largest exporters of value-added synthetic and blended spun yarn with a presence in more than 50 countries.

Total employee strength of

11531

as on March 31, 2011.

Heritage

Flagship textiles 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, ASDA, Grasim, Donear, Siyaram's, Arrow, Sears, Kohls, Arvind and John Miller, among others.

Globalised

Argentina, Bangladesh, Belarus, Belgium, Brazil, Cyprus, Canada, Chile, China, Columbia, Egypt, England, France, Germany, Greece, Hong Kong, Indonesia, Italy, Iran, Israel, Japan, Jordon, Korea, Kuwait, Malaysia, Mauritius, Mexico, Morocco, Pakistan, Panama, the Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Spain, Singapore, Syria, Sri Lanka, Switzerland, South Africa, South Korea, Taiwan, Tanzania, Tunisia, Turkey, Thailand, the United States of America, the United Arab Emirates (UAE) and Vietnam, among others.

Certifications

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

People

Total employee strength of 11531 as on March 31, 2011.

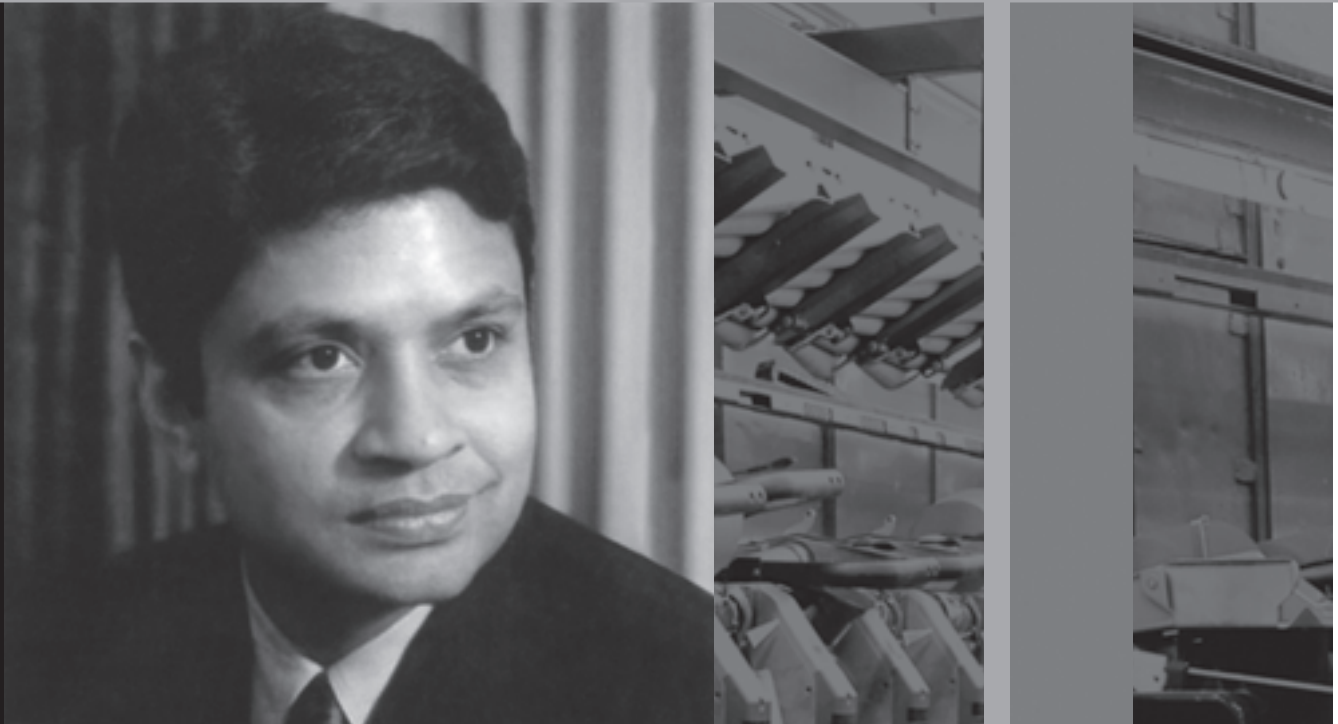
Market capitalisation

Growth of 107.17 percent from Rs. 121.23 crore (as on March 31, 2010) to Rs. 251.15 crore (as on 31 March 2011).

Assets

Units	Location	Products	Capacities
Rajasthan Textile Mills	Bhawanimandi, Rajasthan	Cotton yarn and manmade fibre yarn	82384 spindles 336 rotors
Chenab Textile Mills	Kathua, Jammu and Kashmir	Cotton yarn and manmade fibre yarn	170616 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)

Interaction with the Chairman



“We ended 2010-11 with the highest revenues and profit after tax, which is a reflection of our ability to capitalise effectively on the rebound in the textiles sector.”

Mr. C.S. Nopany, Chairman, Sutlej Textiles and Industries Limited, appraises the performance of the Company in 2010-11 and explains why Sutlej will continue to remain on a sustainable growth trajectory

The long overdue correction in the textile industry had arrived which resulted in our revenues increasing by 37% and record profits for Sutlej in 2010-11 as we are able to maximize the upturn in a cyclical business.

Q. How would you describe the Company's performance in 2010-11?

A. At Sutlej, we have created an excellence-driven culture reflected in disciplined financial and operational processes to help us manage risk through industry cycles. During 2010-11, these disciplines served us well: we achieved record revenues and earnings capitalising on our sector's rebound.

The year 2010-11 was exceptionally good for the textile industry, especially the spinning sector. There was a strong bullish trend in both prices of yarn as well as fibre coupled with unprecedented demand. The long overdue correction in the textile industry had arrived which resulted in our revenues increasing by 37% and record profits for Sutlej in 2010-11 as we are able to maximize the upturn in a cyclical business.

Q. What events resulted in this record performance?

A. By virtue of a rich eight-decade presence, we have acquired a deep understanding of the textiles sector and created a flexible business model that adapts to the changing external business environments. By the virtue of

being integrated with our customers, we converted market signals into business opportunities faster than the rest. Despite sluggish conditions over the past few years we continued to invest in technology upgradation, capacity expansion and product mix enrichment. As a result, we achieved strong volume-driven growth in our yarn and fabric segments. We were successful in achieving a complete pass-through of raw material costs when cotton and other fibre prices shot up in 2010-11. We tightened our working capital management: interest costs as a percentage of sales declined from 4.61 percent in 2009-10 to 3.62 percent in 2010-11 and the working capital cycle was maintained at minimum levels.

Q. What were some of the significant highlights of 2010-11?

A. It is a pleasure for me to note that Rajasthan Textile Mills (Bhawanimandi) received certification of SA 8000, a globally-recognised International workplace quality standard based on the concept of social accountability. It is based on the principles of core International Labour Organisation (ILO) conventions, UN conventions and the

Universal Declaration of Human Rights.

Also, with the opening of the global trade, we have embarked upon steps to increase our exports markets across geographies by increasing activity of merchant export of yarns. The success of this initiative is reflected in the fact that our gross turnover increased from Rs. 1175.01 crore in 2009-10 to Rs. 1623.66 crore in 2010-11, showing an increase of 38.18 percent.

Q. What was the Company's average capacity utilisation in 2010-11?

A. Sutlej reported the highest-ever capacity utilisation at 95 percent in its yarn segment in 2010-11. However weaving and garmenting capacity utilisations were lower on account of a slower-than-anticipated realisations pick-up in fabric and garments. The sluggish realisations growth was on account of the typical lag between yarn and end-product prices. However, for the home textiles segment, our in-house made-up unit was established, resulting in our ability to cater to customers requiring final products adhering to the highest quality standards.

With nearly 12.29 percent of our

Utilisations were higher at

95%

in its yarn segment in 2010-11

253,000 spindles capacity being added in 2009-10, we were largely in consolidation mode during the year under review with a strong focus on maximising productivity (especially in our new capacity), streamlining overheads and marketing products to geographies that fetched us the highest realisations.

Q. What new markets did the Company enter?

A. In the yarns segment, we commenced exports to Panama, Romania and Taiwan in 2010-11. In the home textiles segment, we started exports to Thailand, Mexico, Greece, Malaysia, Singapore and Kuwait. In the garments division, we launched a premium trousers brand called Club Milano. We received an encouraging response from customers in the U.K. from brands like Next, Burton etc. We are now looking to access the markets of Italy, France and Germany as well.

Q. What was the proportion of value-added products in 2010-11? How does the Company plan to increase its proportion of value-added products?

A. At Sutlej, all our business units are equipped with captive research teams that enable the development of value-added products that strengthen our

customer's competitiveness. Strong focus on research and development, coupled with state-of-the-art machinery, allows us to focus on innovative value-added products. Today, we have emerged as one of the largest manufacturers of value-added dyed yarns in India. We are the largest among five privileged Indian licensed producers of the yarn varieties through the consumption of Modal, a special fibre from Lenzing, Austria. We are also prominent manufacturers of cotton and cotton-blended dyed yarns and other specialty products like Melange yarn. With growing end-product requirements, we will continue to focus on the manufacture of specialty yarns that fetch us the highest realisations.

Q. Did the Company face any challenge in raw material procurement?

A. At Sutlej, our manufacturing facilities are strategically located within Indian regions for easy accessibility and uninterrupted as well as the cost-effective supply of raw material resources. We are in close proximity to our markets as well. The Company produces yarns customized to the needs of its clients.

The principal raw materials used by

Sutlej in the manufacture of products comprise cotton and man-made fibres including polyester staple fibre (PSF), viscose staple fibre (VSF), acrylic staple fibre (ASF) and other specialty fibres. While cotton is procured indigenously from Punjab, Haryana, Rajasthan, Gujarat, Madhya Pradesh and Maharashtra, viscose staple fibre is sourced from Grasim Industries, polyester staple fibre mainly from Reliance Industries, and acrylic staple fibre is secured from Indian Acrylics and Pashupati Polytex. Modal/Lyocell staple fibre is imported from Lenzing, Austria. For the fabric division, the main raw materials required for manufacture of blended fabrics are polyester viscose blended yarn, which are largely manufactured in-house. Wool yarns are also outsourced.

Our excellent relationship and most preferred customer status amongst our suppliers have paid us dividends in years of short supply. Prices are normally controlled by the prevailing demand-supply position and the cost of intermediates. Our prudent raw material management practices are reflected in the fact that material cost as a proportion of sales declined from 59.60% in 2008-09 to 57.11% in 2010-11.

The result was that we reported record profitability of

Rs. **114.34** cr

in 2010-11

Q. What are the emerging industry trends in the yarn segment? How well is the Company prepared to meet these challenges?

A. 2010-11 saw extreme volatility in the prices of fibre as well as yarn with yarn prices soaring to new heights.

Unfortunately, fabric manufacturers were unable to absorb the high costs. The Government of India on the other hand banned exports from 1st December 2010 till 31st March 2011 in an effort to control the increase in cotton yarn prices. Again, the year witnessed sharp increase in prices of synthetic fibre and yarn. The year 2011-12 is expected to see a downward correction and we are quite hopeful that Sutlej being a large, integrated and composite company, will be able to withstand these challenges. Sutlej has also been able to widen its market reach by penetrating new markets like Brazil, Egypt, South Africa, Canada and Japan to overcome its dependence on exports to the European Union and the United States.

Q. What developments does the Company foresee in 2011-12? What are the short and long-term goals?

A. Raw material and yarn prices which reached all time high in 2010-11 have witnessed a correction and we hope that they will stabilize at sustainable

levels. India is expected to increase its share in the world trade of textiles. It is interesting to note that in the international markets, China is becoming uncompetitive due to increases in labour and other costs. On the other hand, India's share in the global synthetic, blended and cotton yarn markets is expected to increase.

Q. How does the Company ensure the quality of its work strength? What HR initiatives are undertaken by the Company to further enhance the skills of its people?

A. The textiles sector is one of the more labour intensive sectors in manufacturing. Sutlej recognizes that its human resources are its true assets and represent its future growth and accordingly maximum focus is given to developing the best available talents. Sutlej continuously invests in several training programmes and fosters better relationships and job satisfaction amongst its employees. The total manpower strength of Sutlej as on 31st March 2011 was slightly above 11,500 with excellent relationships with the management. I wish to express my sincere appreciation to the commitment, competence and dedication showed by the employees at all levels.

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directors' report

Dear members

1. Your Directors are pleased to present their Sixth Annual Report on the business and operations of your Company for the year ended 31st March, 2011.

Financial results

(Rs. in lakhs)

Particulars	Year ended March 31, 2011	Year ended March 31, 2010
Gross sales	158546.19	114816.21
Gross Profit	21566.64	10123.05
Less: Depreciation	6786.20	6690.94
Taxation:		
– Current	2951.10	580.00
– MAT Credit entitlement	(2625.65)	–
– Earlier years (net)	(2.33)	2.07
– Deferred (net)	3023.11	218.62
Net Profit	11434.21	2631.42
Add: Balance brought forward from the previous year	4421.45	2408.43
Profit available for appropriation	15855.66	5039.85
Appropriations:		
Proposed dividend	819.14	273.05
Corporate dividend tax	132.89	45.35
Transfer to the general reserve	1200.00	300.00
Balance in profit and loss a/c carried to balance sheet	13703.63	4421.45
Total	15855.66	5039.85