CHARGED TO GROW HIGHER

sutlej
textiles and industries limited

SUTLEJ TEXTILES AND INDUSTRIES LIMITED | ANNUAL REPORT, 2015-16

Forward-looking statement

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions of the future may be 'forward-looking statements' within the meaning of the applicable securities laws and regulations. The Company cautions that such statements involve risks and uncertainty and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include raw materials' cost or availability, cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business, and other factors relating to the Company's operations, such as litigation, labour negotiations and fiscal regimes.

CONTENTS

Weak sectoral environment. Slow offtake.

The year 2015-16 was a defining year for Sutlej Textiles and Industries Limited.

Sluggish demand. Price erosion. Liquidity mismatch.

The Company weathered one of the most challenging sectoral realities.

Most companies would have staggered business investments.

Sutlej undertook organic and inorganic growth measures.

Most companies would have selected to wait and watch.

Sutlej rallied behind the message 'Charged to grow higher.'

In this despondent reality, Sutlej reported profitable growth.

20% growth in revenues. 24% increase in profit after tax.

CHARGED TO **GROW HIGHER**

Sutlej Textiles has two robust businesses.

One, the manufacture of specialised value-added dyed yarns.

Two, the manufacture of home textiles.

The combination of these high-margin businesses is expected to accelerate revenues, enhance margins and reinforce sustainability across business cycles.

PARENTAGE

- A flagship company of the multi-business conglomerate promoted by the late Dr. K.K. Birla.
- Corporate office is situated in Mumbai with four manufacturing units in Jammu and Kashmir, Himachal Pradesh, Rajasthan and Gujarat.
- Possesses IS/ISO-9001:2008 certification; bestowed with 'Usterised' license by Uster Technologies, Switzerland, for its Kathua Unit
- Conferred the OCS-IN (Organic Content Standard), GOTS-IN (Global Organic Textiles Standard) and Oeko-Tex Standard 100 certifications

VISION

We have set our sights on emerging as a front-runner in the realm of global textiles by providing end-to-end solutions– from yarns to home textiles. We aim to create maximum value for our customers so as to emerge as their partners-of-choice.

MISSION

We believe in challenging our limits and overcoming them. We also believe that as time changes, one must evolve one's thinking.

Sutlej Textiles. **At a glance....**

Our results

2,302.30
Total revenue (₹ crore)

310.80
EBIDTA (₹ crore)

143.36
PAT (₹ crore)

Our capacities

377,688
Total capacity (spindles)

6 million metres
Total capacity (home textiles)

55
countries (global footprint)

Our foresight

1,274
Cumulative investment in gross block (₹ crore) (FY2005-16)

222,232
Spindle addition (FY2005-16)

54
Proportion of spindleage (in %) less than a decade old

Our Balance Sheet strength

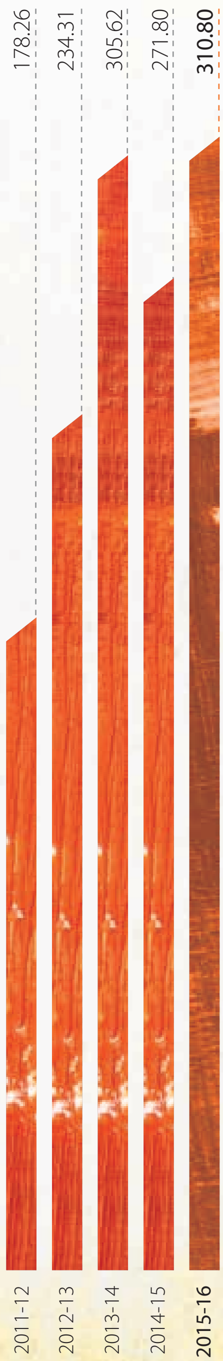
7.46
Average cost of borrowings on term loans, net of TUFS benefits (in %)

21
Return on equity (in %)

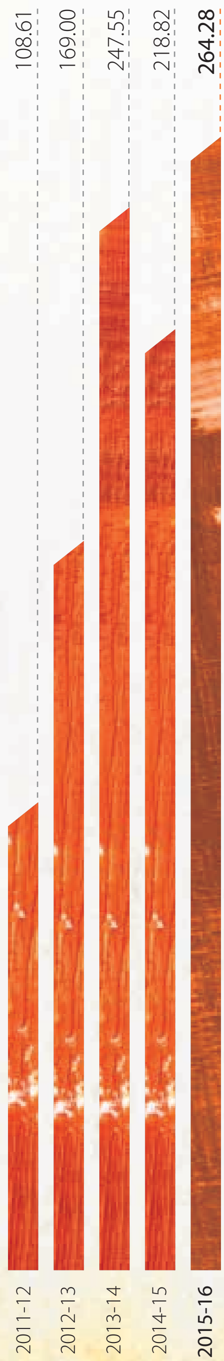
21
Return on capital employed (in %)

Performance **highlights, 2015-16**

Net revenue from operations (₹ crore)



EBIDTA (₹ crore)



Cash profit/PBDT and exceptional items (₹ crore)

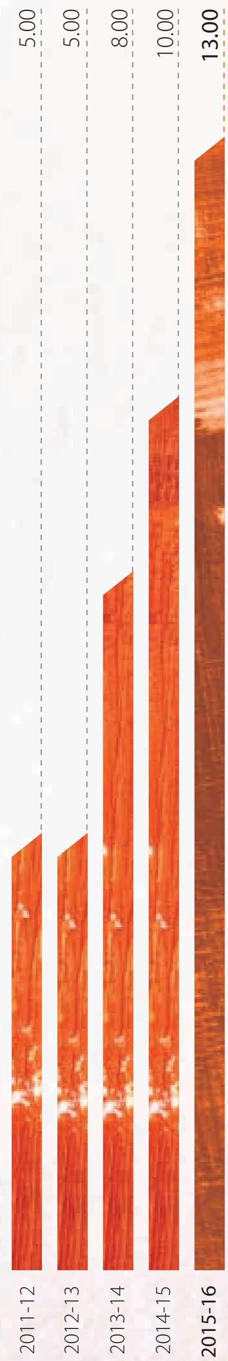
Profit after tax (₹ crore)

Gross block (₹ crore)

Total debt-equity ratio including working capital

Long-term debt-equity ratio

Earnings per share* (₹)



Dividend per share (₹)

Average yarn realisations (₹ per kilogram)

Adjusted figures post incorporating the 1:2 bonus issue in 2013-14

EXECUTIVE CHAIRMAN'S OVERVIEW

We are charged to **grow higher!**

Dear Shareholders

I am pleased to present our performance for 2015-16 wherein the Company's revenues increased 20% while profit after tax strengthened 24%. I must assure shareholders that given the diverse challenges that the sectoral and company encountered, this profitable growth represents a validation of our strategic direction.

CS Nopany, *Executive Chairman*

Strategic direction

Over the last few years, Sutlej resolved to escape the cyclical trap of its business. The Company began to focus on a long-term strategy whereby any decline in sectoral fortunes would have at worst a minimal impact on its revenue and profits where as a sectoral rebound would immediately translate into an improved topline and bottomline.

The core of this counter-cyclical strategy was that we would:

- Maximise the production of value-added yarn varieties
- Accelerate capacity creation at the lowest cost in the shortest time
- Strengthen cost leadership, and
- Enhance capacity of fast-growing synergistic businesses (Home Textiles)

This strategic direction has already been validated. During the year under review, Sutlej reported increased revenues and profits even while it was engaged in aggressive reinvestment with the objective to enhance capacity and sustain profit growth. I have no doubt that as the import of this strategy unfolds, revenues, profits and margins will strengthen, graduating the Company to the next orbit of scale, growth and sustainability.

In 2015-16, the Company's revenues increased

20

% while profit after tax rose 24%.

Our counter-cyclical strategy

- Maximise the production of value-added yarn varieties
- Accelerate capacity creation at the lowest cost in the shortest time
- Strengthen cost leadership, and
- Enhance capacity of fast-growing synergistic businesses (Home Textiles)

Challenges

The global economy continued to be sluggish with World Bank moderating 2015 growth forecasts from an initial 3.3% to 3.1% compared to 3.3% growth achieved in 2014.

The global textile industry continued to suffer from an extended slowdown, marked by sluggish off-take on the one hand and price erosion on the other. The result was that most textile manufacturers reported a decline in revenues and profits, affecting their overall sustainability.

India's rural economy continues to reel under the impact of a second successive weak monsoon, which affected rural incomes and consumption engines. In turn, this translated into a slower off-take of fabric, which in turn affected yarn realisations.

The growth of India's infrastructure sector was affected by weak policy implementation and correspondingly weak government investment. This weakness affected rural employment and incomes, translating into weaker prospects for the country's textile sector.

China reported its weakest annual growth in about a quarter of a century. The result was that China moderated the consumption of a number of products, textiles included. The result was that realisations of textile products declined the world over, affecting the viability of related manufacturers.

Sutlej counter-response

At Sutlej, we had proactively prepared for this sectoral slowdown through an overarching focus: stronger customer orientation.

The Company studied emerging customer needs, worked closer with customers, developed new products and empowered customers to win in their respective markets through timely investments in business diversification, capacity increase and evolving product mix.

Our revenue increase with enhancement in profit should be seen as positive achievements in this scenario.

At Sutlej, we had visualised that the most effective strategy to counter a business slowdown would lie in capacity addition and revenue growth. In view of this, the Company acquired the Birla Textile Mills (BTM) spindleage capacity of 83,376 spindles in financial year 2015-16 and is set about enhancing the Company's overall capacity by 35,280 spindles in financial year 2016-17. The larger volumes helped the Company effectively amortise fixed costs. The result was that the Company reported an increase in profits, validating its acquisition and expansion priorities.

At Sutlej, we had recognised that capacity increase would not alone be enough; what we would require was a churn in our yarn manufacturing capacity towards value-added yarn varieties. In line with this priority, the Company increased the proportion of spindles dedicated to cotton blended and cotton mélange dyed yarns from 23% in 2011-12 to 29% in 2015-16. Besides, the proportion of revenues derived from these premium yarns also increased.

At Sutlej, we had anticipated that it would not be adequate to play the game in a better way; it would be necessary to change the game itself. The result was that some years ago, we invested in the manufacture of home textile products. We are pleased to state that during the year under review, this nascent division turned around, providing us with the incentive to substantially scale its capacity across the foreseeable future.

The result of these initiatives was that overall capacity utilisation of Sutlej stands above 95% in 2015-16, and virtually marketed all that it manufactured. This reality indicates that Sutlej does not make to stock but makes to order; that Sutlej enjoys robust and enduring customer relationships that represent a steady order pipeline across market cycles; that Sutlej has strengthened its credentials as a sustainable textiles organisation.

Sectoral optimism

There are a number of reasons why I am optimistic of our prospects.

The downtrend in the global textiles sector could end over the foreseeable future as soon as global demand revives.

The Indian government's push to the rural sector through its recent Union Budget and Make in India policy is expected to strengthen rural consumption.

The infrastructure-building emphasis is expected to kick start the Indian economy.

Corporate trickle-down

At Sutlej, we are attractively placed to capitalise on national and sector revival for some good reasons.

One, there is a distinctive organisational clarity about what we are and what we desire to do. The result is an overarching respect for return on invested resources; the Company will select to invest in only those businesses and their related niches that generate optimal returns and enhance (not merely maintain) overall profitability.

Two, we possess a robust Balance Sheet that is only likely to get stronger. For one, we are already invested (and financially closed) for nearly

Despite a sweeping sectoral slowdown...

- Sutlej increased revenues in four of the last five years
- Sutlej increased PAT in four of the last five years
- Sutlej invested in capacity building in four of the last five years

Despite declining realisations across the board...

- Sutlej increased the proportion of premium yarn sales in its product mix
- Sutlej improved average yarn realisations in three of the last five years