SURYALAKSHMI COTTON MILLS LTD

(AN IS/ISO 9001 : 2008 & ISO 14001 : 2004 CERTIFIED COMPANY)

April 28, 2016.

To

National Stock Exchange of India Limited
"Exchange Plaza"
Bandra-Kurla Complex
Bandra (East)
MUMBAI – 400 051

Dear Sir,

Scrip Code : SURYALAXMI
Reg.: Magazine article.

Please find enclosed a scanned copy of the corporate report appearing in the April 25, 2016 - May 8, 2016 issue of Business India about the Company for your information.

Thanking you,

Yours faithfully,
for **SURYALAKSHMI COTTON MILLS LIIMITED**

E.V.S.V.SARMA
COMPANY SECRETARY

Weaving a growth pattern

Suryalakshmi Cotton Mills repositions itself in the denim market

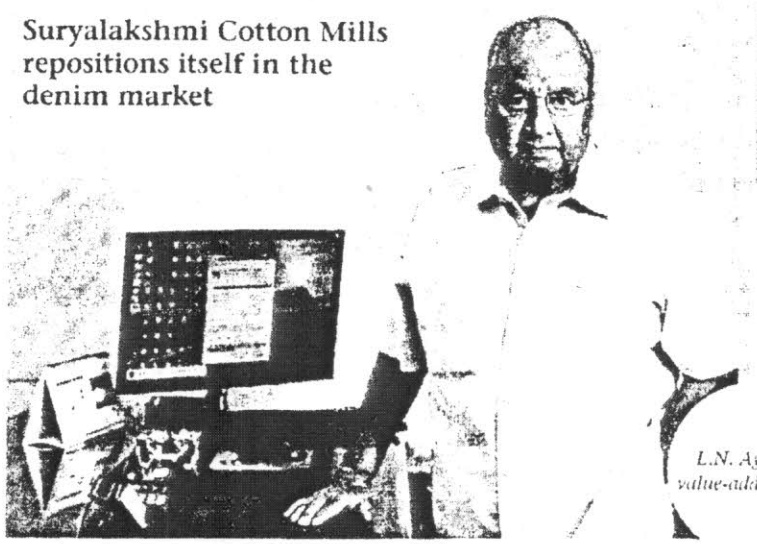


PHOTO: SANJAY BORADE

L.N. Agrawal: value-added player

The Hyderabad-based Suryalakshmi Cotton Mills Ltd (SCML – market cap: ₹211 crore) has come a long way since it commenced its journey way back in 1962 as a 6,000-spindle cotton spinning unit. Having undergone a major transformation in the last couple of decades, the ₹700-crore company has emerged as a vertically-integrated denim player, which not only makes cotton yarn (capacity 26,000 spindles) and denim fabrics (capacity: 40 million metres per annum) but also denim garments (capacity 5,000 pieces per day). It also produces an array of valued-added and fancy polyester and blended yarns (capacity: 61,000 spindles). Backed by 4,600 employees, the company has three manufacturing facilities in Andhra Pradesh and two facilities in Maharashtra – all certified with ISO 14001:2004, ISO 9001:2008, Oeko-Tex and Sedex (Supplier Ethical Data Exchange) for quality, environment, health & safety and ethical practices.

SCML has emerged as an original denim manufacturer (ODM) to leading global and domestic brands, with a dominant market share in the mid-market segment. It is a preferred supplier of denim fabrics to global brands and retailers such as Levis, Wrangler, Polo RL, DKNY, JC Penny, Walmart, Jones, UFO, Lee, Next, Marks & Spencers and Zara. Besides, the company makes garments for major brands like Levi Strauss, Bestseller (Only), Eagle, Germany, Splash (Landmark Group of the UAE), Giovanni Galli, Portugal, etc. Known for its product innovations (launched over 250 products in the last five years) and ability to produce a wide variant of high-value denim fabrics, the company is serving more than 20 global brands across 27 countries. It also supplies to Indian retail labels like Allen Solly and Peter England of the Aditya Birla group.

"One of the key reasons for our long-standing relationship with Suryalakshmi has been its quality, which is crucial for a global brand like ours," says H.S. Vishwanath, senior sourcing director, South Asia, Levi Strauss India. "We are more than satisfied with the way SCML has extended its support in the last six years," adds Narahari N. director, central sourcing, Madura Fashion & Lifestyle. "Our brand derives immense value in terms of innovation support in fabric, garments and new wash finishes. This has greatly helped Peter England to grow the denim category substantially in the last few years".

"As a company, Suryalakshmi has been quite successful in bringing for us elevated products through vertical integration," compliments Rajesh Lalla, head, sourcing, Lifestyle International (Landmark group). "The products developed are updated in fashion, which continue to delight our customers".

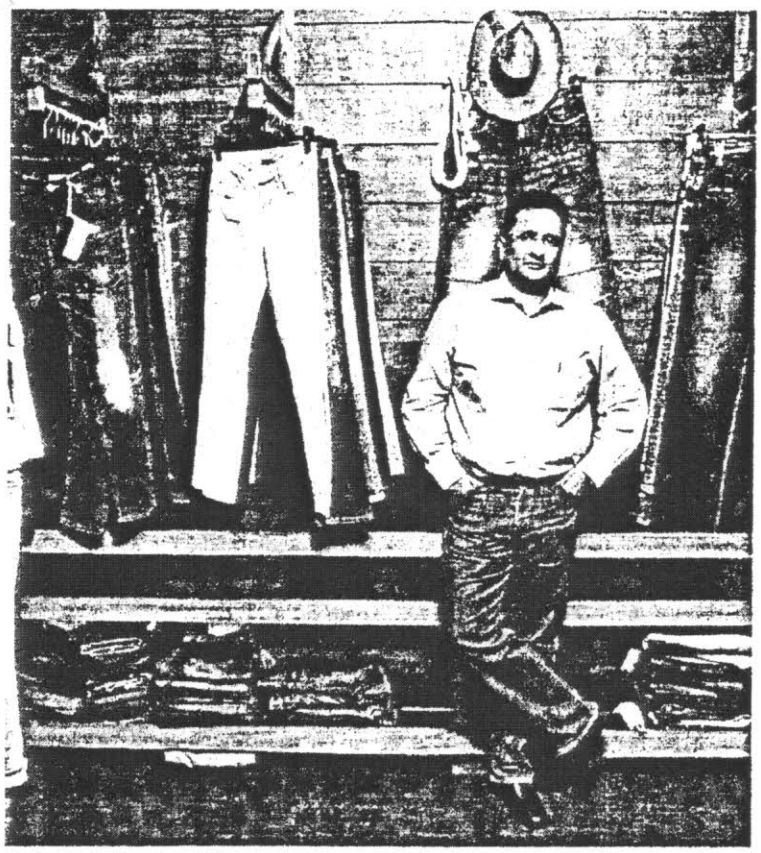
"Offering more to our customers has been our focal point," says Lakshmi Narayan Agrawal, 80, chairman, SCML. "This intent has helped us emerge as an integrated value-added player in the business of denim, which has evolved significantly as a product. While doing so, our strategy is aimed at becoming the lowest cost producer by leveraging integration and manufacturing efficiency". Agrawal's family was initially in cotton trading in Andhra Pradesh, after migrating from Rajasthan. His father Dulichand Agrawal had come to Hyderabad about 100 years ago from Jhunjhunu in the Shekhawati region of Rajasthan. He was a cotton trader. After his passing away at an early age, Lakshmi Narayan got into the cotton business to support his family. He was only 18 that time.

In 1961, he was persuaded by D. Sanjivayya, the then chief minister of Andhra Pradesh (who, as

Financials (₹ Crore)

	FY2015	FY2014	FY2013	FY2012	FY2011
Net sales	705	702	705	669	601
Net profit	12.17	11.71	30.37	28.31	34.81
EBITDA	83.78	85.93	105.02	94.48	97.07
OPM	74.57	69.74	96.51	82.78	85.29

also P.V. Narasimha Rao, the former prime minister, were close friends of Agrawal) to start a textile mill. The Central government had allotted 18 cotton mill licences to Andhra Pradesh. Though there were 300 applicants in the state, Sanjivayya allotted him two licences. Agrawal commissioned his cotton mill Suryalakshmi in 1964 in Mahbubnagar district. The name was an amalgamation of his name with the name of his Chennai-based friend Suryanarayana, who already owned three cotton mills. Suryanarayana helped him in setting up the project and later in the management of the cotton mill. In gratitude, he transferred one of the two licences allotted to him to his friend.



Paritosh: looking at a niche segment

Desired momentum

By 1970, the business achieved the desired momentum. Agrawal had been joined by his three brothers by then, with only his eldest brother keeping away from the family business. He founded three more cotton mills – Suryavanshi Spinning Mills in 1972, Suryalata Spinning Mills in 1983 and Suryajyoti Spinning Mills in 1992. Two years after the establishment of Suryajyoti, Agrawal and his three brothers divided the business, each taking over one company into his fold. All these companies, based out of Hyderabad (Suryavanshi: 100,000 spindles and garmenting capacity; Suryalata: 100,000 spindles and Suryajyoti: 90,000 spindles & 20 million metres of fabric), are listed entities and doing well.

"All together we would have been a large textile entity," says Agrawal. "But, more often than not, in order to maintain a cordial atmosphere within the family, one has to make compromises and look forward to a better future. It was an amicable move and we all are happy today pursuing our own interests".

Even as the business was getting split among the brothers, Agrawal's only son Paritosh joined the company as a trainee. An engineering graduate, Paritosh, 45, is the managing director today, having become a director of the company in 1994 and elevated to his current post in 2006-07. He has played a major role in the company's diversification into the manufacture of denim and, thereafter, into garmenting. It was he who also decided to move out of Andhra Pradesh and zeroed in on Maharashtra, which was wooing investments through attractive industrial policies. Moreover, the state had abundance of cotton, while Andhra Pradesh was faced with power and water issues.

In 1997, the company set up a denim capacity of 10 million metres (subsequently expanded to 40 million metres) at Ramtek near Nagpur in Maharashtra. It was a composite unit, where the company invested about ₹115 crore, even as its turnover was some ₹120 crore. "It was a big move on our part," says Paritosh. "Not only was the investment big, but we were also venturing into a new vertical – that too, away from our home state. Since then, we were desperately looking for some kind of trigger that could take our business to the next level of growth and decided to take that plunge. Today, we have emerged as a transformed entity and are happy with the decision".

Shareholding pattern (%)

Promoters	55.94
Others	43.64
Institutions	0.42

The last decade or so has been quite eventful for the company, as it looks for a greater degree of integration, both backward and forward, in an attempt to come up with a production chain, which can produce

Across the sector in FY15

	Share price (Rs)	M cap	Total income (Rs crore)	PAT	EPS (Rs)
Surya Lakshmi Cotton Mills	124	207	714	12.17	7.35
KG Denim	86	221	592	0.21	0.08
Aarvee Denims Exports	55	130	746	0.19	0.08
Nandan Denim	137	623	1097	51	11.28
Arvind Ltd	266	3856	5224	377	14.62

Source: BSE

high-value products in a cost-effective manner, with efficient control over processes and supply chain. Integrating forward, the company put up a garmenting facility (capacity: 5,000 pieces per day of denim wear; primarily, bottom wear, for men and women) in 2007 at Thummaluru (Maheshwaram Mandal) near Hyderabad. In a short span of time, the company has been able to create a robust customer-base of global brands and retailers.

"Our garmenting facility is world class and in compliance with global standards," says Padmini Agrawal, director, SCML. "Working in close collaboration with customers' design teams, we are in a position to cater to fast fashion requirements, with quick turnaround times. We will look at expanding our capacity going forward". Wife of Paritosh, Padmini has been looking after the garmenting division of the company since inception.

In the last four-five years, the company has undertaken a capex programme of more than ₹250 crore, where it set up a 25 MW captive thermal power project at Ramtek, Nagpur. The ₹115-crore power plant was commissioned in 2012. The company has also put up a modern cotton spinning unit in Amravati near Nagpur, the project going on stream in October 2015. The ₹131-crore project has been funded by a long-term loan of ₹95 crore under the TUF scheme, as also incentives provided by the new state textile policy, along with equity and internal accruals. The new project will also enable the company to produce specialised and fancy yarns (lycra, ring, slub and compact) for its new range of denim fabrics. Apart from meeting the captive need, the facility will also meet the requirements of other global and local fabric manufacturers.

The company also has a spinning capacity of 61,000 spindles in Amanagallu near Hyderabad. Over the years, this capacity (the oldest among all the facilities) has undergone a major modernisation phase and produces specialised high-performance polyester and bended yarns for varied applications, catering to exports and domestic customers.

In the last few years, the company has been putting more emphasis on product development and has established its own design-cum-R&D team. It has also collaborated with denim fashion designers from Europe (Indian market primarily follows European trend and forecasts) for the better comprehension of the fast-moving design and latest industry trends for a much improved customer experience. SCML is now in a position to develop as many as 100 variants of denim fabrics every season (in terms of textures, designs, washes, fibre mix, etc).

Denim dreams

The company has recently introduced an array of unique shades and performance-oriented new denim fabrics (Cool Max, Bual Core, Bamboo, Tencel Rayon Viscose and others). All these products have been well accepted in the market. In addition, company's new dobby design has been a great success with its global customers. It has increased its exposure to key clients like JC Penny, UFO, Wrangler and Lee in the markets of the US and Canada. It has also ventured into newer markets like Korea, South Africa, South America (Peru, Columbia and Chile) as also Turkey.

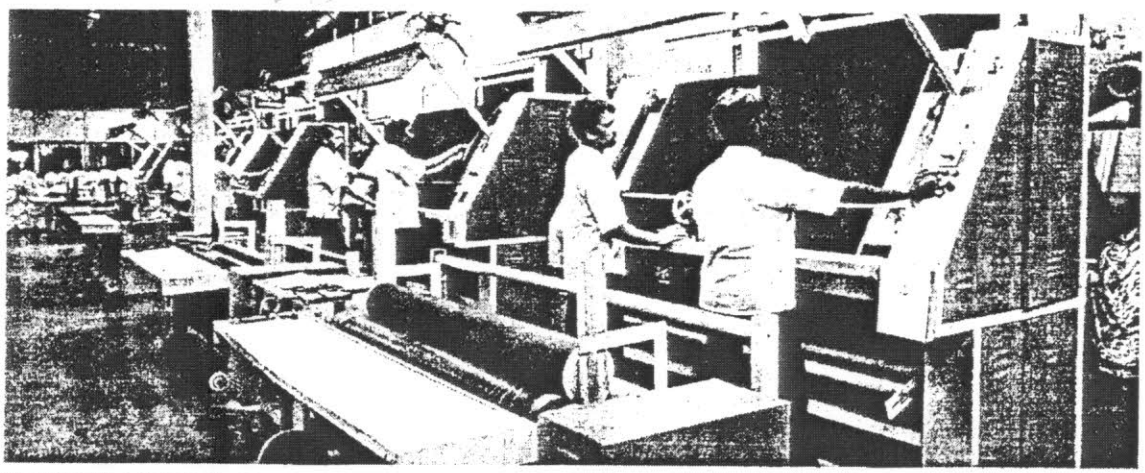
"Over the last few years, we have significantly strengthened our product development capability and that is paying rich dividends in terms of expanding our customer base and getting into the newer markets. Today, as a company we are well positioned to fast-changing market requirements with quality products at competitive pricing," says Sameer Kulkarni, manager, business development, SCML.

With all these measures in place, the company is all geared up to explore the opportunities that are emerging in the booming domestic denim market where it competes with players like Arvind, Raymonds, KG Denim, Aarvee, Nandan Denim and others (*see box*). In the last five years, the domestic market for denim has grown at a CAGR of over 15 per cent. In fact, the last couple of years have been quite remarkable for the industry as demand has seen real upsurge both on the domestic and exports market. The domestic market in particular is showing great signs of traction in the wake of favourable demographics and increasing income levels.

The boom in organised retail has also added to the momentum. In the last couple of years, more than 200 million metres of capacity has been added, while the next two-three years will see addition of at least 600-700 million metres of denim capacity in the country. The current domestic capacity is pegged at around 1.20 billion metres, of which around 60 per cent is consumed domestically, while the rest is exported.

"The domestic denim market is doing exceptionally well for the last couple of years and the same is expected to continue for the next five-six years in the wake of fundamentals. Keeping in mind the abysmally low penetration level, the domestic consumption will continue to grow at a robust pace," says Govind Sharda, president, Nandan Denim, which is adding 39 million metres of capacity, taking its total capacity to 110 million metres, surpassing Arvind's 108 milion.

"Denim as a product has come a long way ever since it came into being as a tough fabric. Over the decades, it has evolved as a product and now



Diversification and robustness –

with multiple variants, it has emerged as a fashion fabric from a mere performance fabric. The domestic market for denim is currently booming and moreover with China reducing its exposure to cotton textiles, the Indian industry with abundance of cotton will drive the export markets as well. Things will continue to be favourable for Indian players in coming years," says P.R. Roy, renowned textile consultant and former advisor to Arvind Ltd.

Keeping all this in mind, SCML is also gearing up adequately. Having grown at a CAGR of 10 per cent for the last five years, the company is now planning to double its turnover in the next five years. It is looking for a capex of ₹250-300 crore to expand its denim (by 10-20 million m) and garmenting capacity (5,000-6,000 pieces per day) in the next two-three years.

"All this will depend upon how the market condition pans out," says Paritosh. "Going forward, our focus will be to increase the share of our value-added products across our verticals that can add to our realisation. Denim and garments will be our focus areas and there also we would like to be in the niche segment. We will also try to increase the share of our exports in future".

Currently, the company exports about 20 per cent of its total production. In denim, the share of exports is higher at about 30 per cent. Currently, the denim division accounts for about 53 per cent of its total revenue, followed by yarn (about 39 per cent) and garments, (about 8 per cent). For the nine months ended 31 March 2015, the company clocked a turnover of ₹543 crore, against ₹540 crore during the corresponding period in the previous year.

High value fabrics

For 2014-15, the company has reported a revenue of about ₹705 crore (2013-14: ₹702), with a PAT of about ₹12 crore (₹11 crore). The company is expecting a turnover of some ₹765 crore for 2015-16. For the last two fiscal years, the company has been repaying a total loan of about ₹104 crore. Its total loan outstanding is ₹180 crore (debt: equity ratio 1:0.9).

"Our bottomline has been looking subdued for the last couple of years, as we have repaid some portion of our loans. In terms of topline, in 2014-15, our denim plant had to face some labour-related issues, but they have been sorted out and we are now ready to see improved financials going forward," says Siva Subramanyam P, vice-president, finance, SCML, who believes that the commissioning of new cotton spinning mills in Amravati will add ₹50-60 crore to the topline during the full year of operations in 2016-17.

With all these developments in place, SCML is now well-poised to begin its next phase of growth. During the last decade or so, the company has changed into a specialised denim player from a yarn manufacturer. In denim, the company has consciously moved into the production of high-value fabrics, where the realisation is much better. Integrating forward, the company has also added garmenting into its portfolio. This, along with its spinning vertical, has not only provided its portfolio more robustness but also diversification in terms of offering. In yarn also, it has completely moved out of basic products and is focussing on fancy and specialised categories.

All in all, the move is to elevate itself in the value chain and thereby enhance this realisation. The booming denim market will provide it with much needed traction, something it has desperately been looking for, for years. It has already developed a solid base of customers winning their trust; now, the time has come to leverage the same. On the market front also, there is a good mix of exports and domestic demand, which will only add to its inherent hedging mechanism. No doubt, the company has now repositioned itself in the market, with a more vibrant offering and is well geared up. However, it remains to be seen how it executes its plans in this highly competitive market place.

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