

DIRECTORS' REPORT

Dear Members,

The Directors hereby present their Twenty-sixth Annual Report on the business and operations of the Company together with the audited Financial Accounts for the year ended March 31, 2014.

Financial Performance

| Particulars | Amount in Crores | |
|--|---------------------------|---------------------------|
| | Year ending 31.03.2014 | Year ending 31.03.2013 |
| Net Turnover | 830.66 | 894.19 |
| Profit before Depreciation | 26.91 | 42.14 |
| Profit / Loss(-) before Tax | 0.31 | 25.10 |
| Less Provision for Tax (including deferred and fringe benefit tax) | (0.84) | 9.05 |
| Profit / Loss(-) after Taxes | 1.15 | 16.05 |

Operations Detail

Production in both the spinning units was 239.85 lacs kgs. as compared to the figure of 334.05 lacs kgs. In the garment unit, 5.96 lacs pieces of garments & 678.96MT Fabric were produced as compared to the figure of previous year of 9.46 lacs pieces of garments and 749.95MT of fabric. Net Turnover during the year under review has shown decrease of 7.11%. There is net profit of Rs.1.15 Crores as compared to net profit of 16.05 Crores in the previous year. Cash profit during the current year ending on 31.03.2014 decreased to Rs.26.50 Crores from the figure of Rs. 41.39 Crores in the previous year ending on 31.03.2013.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry and Economic Scenario

The Indian economy further slowed down with GDP growth in FY 13-14 estimated to be less than 5%. Industrial growth rate continued to stay weak at 0.5%. The economic slowdown has impacted the performance of your Company as well. Though demand continued to grow globally, margins contracted given rising raw material prices coupled with subdued realisation in line with the global scenario due to the large surplus capacities in China. It is expected that the economy should grow in the coming years and the demand for and prices of textile products should improve which will enable the Company to regain steady or better performance.

Opportunities, Threats & Outlook

There is good scope for growth for the textile industry as India's share in the global trade in textiles is weak compared to other countries. The free trade environment is a great opportunity for the Indian textile industry to increase its share in the global market. Chinese exports are slowing down on account of various factors inclusive of increase in domestic demand and rising costs. This is a good opportunity of which our textile industry should make use but smaller countries like Bangladesh, Sri Lanka, Pakistan, Turkey and Vietnam etc. are becoming formidable challengers.

Lack of uninterrupted power, increased power costs, higher transaction costs, high cost of labour are hindering the progress. However, we are making all out efforts to cope with all these challenges by continuous efforts at cost reduction, process improvements, diversification of products and improving productivity by improving efficiencies.

Financial / Operational Performance

Supreme is manufacturer and exporter of cotton yarn, synthetic yarn, blended yarn, knitted fabric (both grey and processed) and knitted garments. During the year under review, the Company's exports (FOB value) were to the tune of Rs.229.87 crore and accounts for about 27.67% of company's revenues. The company has identified two segment yarn segment and garments segment. The yarn segment comprises production of various types of yarn (from cotton, manmade fibers and blend thereof) and yarn processing activities. Garment segment comprises of knitted garments.

Risk Management

Risk Management is an integral part of the Company's business strategy. The risk management process is governed by the Enterprise Wide Risk management framework. The Board reviews compliance with risk policies, monitors risk tolerance limits, reviews and analyzes risk exposure related to specific issues and provides oversight of risk across the organization. The Board nurtures a healthy and independent risk management function to inculcate a strong risk management culture in the Company.

Risk of rising pricing, fluctuation in foreign currency, change in Government policies and changing demand pattern are some of the examples of risks being faced by companies. Company is taking adequate steps to mitigate such risk by buying raw material in big quantities at lower prices, hedging its currency by forward booking, keep sharp track of Government policies and by expanding its suppliers range.

Internal Control Systems and their adequacy

The Company's internal control system is designed to ensure operational efficiency, protection and conservation of resources, accuracy and promptness in financial reporting and compliance with laws and regulations. The internal control system is supported by an internal audit process for reviewing the adequacy and efficacy of the Company's internal controls, including its systems and processes and compliance with regulations and procedures. The Audit Committee of the Board of Directors reviews the adequacy and effectiveness of internal control systems and suggests improvements for strengthening them from time to time.

Human Resources

The Company recognizes people as its most valuable asset and it has built an open, transparent and meritocratic culture to nurture this asset. Talent Management is a key people planning tool that provides an integrated means of identifying, selecting, developing and retaining top talent within our organization. STML has kept a sharp focus on Employee Engagement.

Corporate Social Responsibility

STML is fulfilling its Corporate Social Responsibility in true spirit. STML has a strong sense of Corporate Social Responsibility towards various stakeholders' viz. employees, shareholders, Government, customers, suppliers, competitors, society & environment

Cautionary Statement

Statement in this "Management Discussion and Analysis" describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand supply conditions, finished goods prices, feedstock availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries within which the Company conducts businesses