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Years of Excellence



Quarterly Report | for the period ended September 30, 2013



SURAJ COTTON MILLS LIMITED



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Company Information

Board of Directors

- Mr. Khalid Bashir
(Chairman)
- Mr. Nadeem Maqbool
(Chief Executive)
- Mr. Ahsan Bashir
- Mr. Amjad Mahmood
- Mr. Asif Bashir
- Mr. Humayun Maqbool
- Mr. Mohammad Iqbal

Chief Financial Officer

Farooq Ahmad

Companay Secretary

Muhammad Saleem Hussain

Audit Committee

- Mr. Humayun Maqbool
(Chairman)
- Mr. Khalid Bashir
(Member)
- Mr. Asif Bashir
(Member)
- Mr. Khaleeqe Ahmad
(Secretary)

HR & R Committee

- Mr. Ahsan Bashir
(Chairman)
- Mr. Asif Bashir
(Member)
- Mr. Humayun Maqbool
(Member)

Share Registrar

Crescent Group (Pvt) Ltd.
306, 3rd Floor, Siddiq Trade
Centre, 72 Main Boulevard,
Gulberg, Lahore.

Auditors

Ernst & Young Ford Rhodes
Sidat Hyder
Chartered Accountants

Bankers

Allied Bank Limited
Habib Bank Limited
MCB Bank Limited
Standard Chartered Bank
(Pakistan) Limited
United Bank Limited
Dubai Islamic Bank Limited

Registered Office

7-B-III, Aziz Avenue, Gulberg-V,
Lahore.
Ph: +92-423-576 0379, 576
0382
Fax: +92-423-576 0376
Email: infor@suraj.com
Web: www.suraj.com

Project Locations

Nooriabad, District Dadu, Sindh.
Kotla Kahloon, District Nankana
Sahib, Punjab, Bhaikot, Raiwind,
District Lahore, Punjab



Directors' Report

On behalf of the Board of Directors, I am pleased to present the financial statements for the first quarter ended 30 September 2013. During this period the company performed well with higher sales revenue and profitability. The company's performance resulted in a net profit of Rs. 240.528 million yielding earnings per share of Rs. 12.15.

Sales for the period were 15% higher than the corresponding period with export sales increasing by approximately 40%. Administrative and other operating expenses were higher due to normal inflationary pressures and higher sales. Financial charges for the period saw a reduction of 10%. Although this is normal for this period due to lower raw material inventories, it also points towards the better financial position of the company.

Future Prospects

The current financial year has started off on a positive note with the first quarter giving us better results than the corresponding period. However, we need to sound a note of caution for the rest of the year. Expenses are increasing on account of higher inflation and an abnormal increase in the price of electricity. Gas prices have also increased by 18% and it is expected that there will be further increases by the end of this calendar year. On the demand side there has been a marked decline in yarn and fabric prices in export as well as domestic markets. The lower prices and higher costs will definitely erode our operating margins in the coming months.

Pakistan's cotton output is expected to be in the same range as last year but prices are higher than last year. The country will need to import cotton to meet the shortfall, which will increase our raw material costs due to a declining rupee. However, the international markets for cotton show a weaker trend and we hope that there will be an opportunity to meet our requirements at competitive prices.

We expect that the industry will not be able to maintain the results of the previous year but should manage to perform with reasonable margins. The key element remains expensive and scarce energy. We expect that the prevailing shortages will compound as the winter months set in. Even now the availability of gas and electricity is extremely poor and we do not expect any improvement in the coming period. These shortages can affect the operating margins but the severity is yet to be assessed. We are not optimistic on this in the short term and this will affect our viability.

The management is working towards improvement in efficiencies and productivity as well as enhanced cost controls. We are also examining various options to diversify into new business and will apprise our shareholders of this in future reports.

Acknowledgements

We would like to thank the Board of Directors for their guidance at all times and to our employees for their dedication. We would also like to thank our shareholders and all our business partners for their cooperation.

Nadeem Maqbool
Chief Executive

October 31, 2013
Lahore

Condensed Interim Balance Sheet

As At September 30, 2013

		Un-Audited	Audited
		September 30, 2013	June 30, 2013
	Note	(Rupees in thousand)	
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized share capital			
50,000,000 (30 june 2013: 50,000,000) ordinary shares of Rupees 10/- each		500,000	500,000
Issued, subscribed and paid up share capital			
		198,000	198,000
Capital reserves		33,025	33,984
Revenue reserves		3,417,540	3,177,012
		3,648,565	3,408,996
Non-current liabilities			
Long term financing	4	314,670	336,807
Liabilities against assets subject to finance lease		849	854
Deferred taxation		212,186	212,186
		527,705	549,847
Current liabilities			
Trade and other payables		732,249	770,582
Accrued interest on financing		19,394	21,132
Short term borrowings		175,463	224,216
Current portion of long term liabilities		91,421	84,060
		1,018,527	1,099,990
		1,546,232	1,649,837
TOTAL EQUITY AND LIABILITIES		5,194,797	5,058,833

CONTINGENCIES AND COMMITMENTS

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The annexed notes from 1 to 18 form an integral part of this interim financial information.

(CHIEF EXECUTIVE OFFICER)



		Un-Audited	Audited
		September 30, 2013	June 30, 2013
	Note	(Rupees in thousand)	
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,941,721	1,990,050
Available for sale investments	7	37,375	34,467
Long term deposits		18,974	18,974
		1,998,070	2,043,491
Current assets			
Stores, spare parts and loose tools		98,242	125,850
Stock-in-trade		1,425,229	1,716,673
Trade debts		453,101	406,138
Loans and advances	8	65,291	39,070
Trade deposits and short term prepayments		4,476	4,844
Balances with statutory authorities		72,855	66,044
Taxation-net		5,846	11,786
Other receivables		259	912
Short term investments	9	962,509	548,515
Cash and bank balances		108,919	95,510
		3,196,727	3,015,342
TOTAL ASSETS			
		5,194,797	5,058,833

(DIRECTOR)

Condensed Interim Profit And Loss Account (Un-Audited)

For the period ended September 30, 2013

		September 30, 2013	September 30, 2012
	Note	(Rupees in thousand)	
Sales	10	2,626,277	2,282,687
Cost of sales	11	2,249,189	1,989,764
Gross profit		377,088	292,923
Distribution cost		73,031	46,516
Administrative expenses		25,929	21,813
Other operating expenses	12	21,925	15,441
		120,885	83,770
		256,203	209,153
Other operating income		31,790	14,133
		287,993	223,286
Finance cost		19,502	21,781
Profit before taxation		268,491	201,505
Taxation	13	27,963	48,486
Profit after taxation		240,528	153,019
Earnings per share - basic and diluted (Rupees)		12.15	7.73

The annexed notes from 1 to 18 form an integral part of this interim financial information.

(CHIEF EXECUTIVE OFFICER)

(DIRECTOR)



Condensed Interim Statement Of Comprehensive Income (Un-Audited)

For the period ended September 30, 2013

	September 30, 2013	September 30, 2012
	(Rupees in thousand)	
Profit for the period	240,528	153,019
Other comprehensive income / (loss):		
Net unrealized gain / (loss) on available for sale investment	(959)	1,888
Total comprehensive income for the year	239,569	154,907

The annexed notes from 1 to 18 form an integral part of this interim financial information.

(CHIEF EXECUTIVE OFFICER)

(DIRECTOR)

Condensed Interim Cash Flow Statement (Un-Audited)

For the period ended September 30, 2013

	September 30, 2013	September 30, 2012
	(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	268,491	201,505
Adjustment for non-cash and other items:		
Depreciation	48,470	45,504
Gain on disposal of property, plant and equipment	(3,028)	-
Unrealized (gain) on revaluation of held for trading investments	(6,023)	(7,022)
Dividend income	(611)	(75)
Finance cost	19,502	21,781
Cash flows from operating activities before working capital changes	326,801	261,693
Effect on cash flow due to working capital changes		
(Increase) / decrease in current assets:		
Stores, spares and loose tools	27,608	(7,799)
Stock in trade	291,444	124,366
Trade debts	(46,963)	23,143
Loans and advances	(26,221)	(5,997)
Trade deposits and short term prepayments	368	424
Balances with statutory authorities	(6,811)	(8,369)
Other receivables	653	(2,261)
Increase in current liabilities:		
Trade and other payables	(38,333)	62,953
Net cash from /(used in) working capital	201,745	186,460
Cash generated from /(used in) operations	528,546	448,153
Finance cost paid	(21,240)	(24,825)
Income tax paid	(22,023)	(19,371)
Net cash from /(used in) operating activities	485,283	403,957
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure incurred	(913)	(12,726)
Proceeds from disposal of property, plant and equipment	3,740	-
Investments made - net	(411,778)	(332,022)
Dividend received	611	75
Net cash used in investing activities	(408,340)	(344,673)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term financing - net	(14,781)	(31,499)
Repayment of finance lease liabilities	-	(129)
(Decrease)/ increase in short term borrowings - net	(48,753)	(20,240)
Net cash from / (used in) financing activities	(63,534)	(51,868)
Net increase / (decrease) in cash and cash equivalents	13,409	7,416
Cash and cash equivalents at the beginning of the period	95,510	5,754
Cash and cash equivalents at the end of the period	108,919	13,170

The annexed notes from 1 to 18 form an integral part of this interim financial information.

(CHIEF EXECUTIVE OFFICER)

(DIRECTOR)



Condensed Interim Statement of Changes in Equity (Un-Audited)

For the period ended September 30, 2013

	Share capital	Capital Reserves			Revenue Reserves			Total
		Premium on issue of shares	Unrealized gain / (loss) on available-for-sale investments	Sub total	General	Unappropriated profit	Sub total	
----- (Rupees in thousand) -----								
Balance as at 01 July 2012	198,000	29,000	(86)	28,914	1,964,000	388,867	2,352,867	2,579,781
Net profit for the period from 01 July 2012 to 30 September 2012	-	-	-	-	-	153,019	153,019	153,019
Other comprehensive income	-	-	1,888	1,888	-	-	-	1,888
Total comprehensive income for the period	-	-	1,888	1,888	-	153,019	153,019	154,907
Balance as on 30 September 2012	198,000	29,000	1,802	30,802	1,964,000	541,886	2,505,886	2,734,688
Balance as on 01 July 2013	198,000	29,000	4,984	33,984	2,214,000	963,012	3,177,012	3,408,996
Net profit for the period from 01 July 2013 to 30 September 2013	-	-	-	-	-	240,528	240,528	240,528
Other comprehensive income	-	-	(959)	(959)	-	-	-	(959)
Total comprehensive income for the period	-	-	(959)	(959)	-	240,528	240,528	239,569
Balance as on 30 September 2013	198,000	29,000	4,025	33,025	2,214,000	1,203,540	3,417,540	3,648,565

The annexed notes from 1 to 18 form an integral part of this interim financial information.

(CHIEF EXECUTIVE OFFICER)

(DIRECTOR)

Selected Notes To The Interim Financial Information (Un-Audited)

For the period ended September 30, 2013

1. THE COMPANY AND ITS ACTIVITIES

Suraj Cotton Mills Limited (the Company) is a public limited company incorporated in Pakistan under the Companies Act, 1913 (Now Companies Ordinance, 1984). The registered office of the Company is located at 7-B-III, Aziz Avenue, Gulberg-V, Lahore. Its shares are quoted on Karachi and Lahore Stock Exchanges in Pakistan. The Company is engaged in the manufacturing, sale and trading of yarn, cloth and processing of cloth.

2. BASIS OF PREPARATION

- 2.1 This interim condensed financial information is unaudited and is being submitted to shareholders, as required by section 245 of Companies Ordinance, 1984.
- 2.2 This interim financial information of the Company for the period ended 30 September 2013 has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34, "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.
- 2.3 The accounting policies and the methods of computation adopted in preparation of this condensed interim financial information are the same as those applied in the preparation of the financial statements of the Company for the year ended 30 June 2013 except as follows:

The Company has adopted the following amendments to IFRSs which became effective for the current period:

IAS 1 – Presentation of Financial Statements – Presentation of items of other comprehensive income (Amendment)

IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)

The adoption of the above amendments did not have any effect on the interim financial information.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Judgments and estimates made by the management in the preparation of this interim financial information are the same as those applied in the preparation of the preceding annual published financial statements of the Company for the year ended 30 June 2013.

	Un-Audited	Audited
	September	June 30,
	30, 2013	2013
Note	(Rupees in thousand)	
4. LONG TERM FINANCING - secured		
Opening balance	420,676	304,461
Acquired/(repaid) during the period / year	(14,781)	116,215
	405,895	420,676
Less: Current portion	91,225	83,869
	314,670	336,807

5. CONTINGENCIES AND COMMITMENTS

Contingencies

- There is no significant change in the contingencies since the date of the preceding published annual financial statements.

Commitments

- Commitments in respect of letters of credit for capital expenditure amounted to Rupees 135,850 thousand (30 June 2013: Rupees Nil).
- Commitments in respect of capital work in progress as at balance sheet date amounted to Rupees Nil (30 June 2013: Rupees Nil).



Selected Notes To The Interim Financial Information (Un-Audited)

For the period ended September 30, 2013

		Un-Audited	Audited
		September 30, 2013	June 30, 2013
		(Rupees in thousand)	
	Note		
6. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets - tangible	(6.1)	1,895,912	1,944,391
Assets subject to finance lease	(6.2)	1,377	1,450
Capital work-in-progress		44,432	44,209
		1,941,721	1,990,050
6.1 Operating fixed assets - tangible			
Opening book value		1,944,391	1,825,317
Add: Additions during the period / year -cost	(6.1.1)	690	328,415
		1,945,081	2,153,732
Less: Deletions during the period / year - vehicles		772	18,242
		1,944,309	2,135,490
Less: Depreciation during the period / year		48,397	191,099
Book value at the end of the period / year		1,895,912	1,944,391
6.1.1 Additions during the period / year - cost			
Building		-	3,710
Plant and machinery		690	307,583
Vehicles		-	17,122
		690	328,415
6.2 Assets subject to finance lease			
Opening book value		1,450	980
Add: Additions during the period / year		-	693
		1,450	1,673
Less: Depreciation during the period / year		73	223
Book value at the end of the period / year		1,377	1,450
7. LONG TERM INVESTMENTS - available for sale			
Related party - unquoted		2,200	2,200
Related party - quoted		8,146	8,146
Others - quoted		51,713	47,846
		62,059	58,192
Impairment loss		(28,709)	(28,709)
Unrealized gain / loss on revaluation of investments-net		4,025	4,984
		37,375	34,467

Selected Notes To The Interim Financial Information (Un-Audited)

For the period ended September 30, 2013

		Un-Audited	Audited
		September 30, 2013	June 30, 2013
		(Rupees in thousand)	
	Note		
8. LOANS AND ADVANCES			
Considered good:			
Loans to employees		3,465	3,327
Advances to suppliers		60,078	35,106
Advance against letter of credit		1,748	637
		65,291	39,070
9. SHORT TERM INVESTMENTS			
Held for trading	(9.1)	962,509	548,515
		962,509	548,515
9.1 Held for trading			
Others-quoted		944,845	526,346
Unrealized gain on revaluation of investments		17,664	22,169
		962,509	548,515
		Un-Audited	
		September 30, 2013	September 30, 2012
		(Rupees in thousand)	
10. SALES			
Export		1,098,019	776,533
Local		1,486,872	1,477,121
Waste		41,386	29,033
		2,626,277	2,282,687
11. COST OF SALES			
Raw material consumed		1,739,226	1,553,575
Sizing expenses		17,114	15,506
Stores, spares and loose tools consumed		34,789	30,059
Packing materials		24,775	21,759
Salaries, wages and other benefits		120,423	109,880
Fuel and power		245,327	213,352
Repairs and maintenance		7,232	12,445
Insurance		5,837	5,654
Depreciation		45,763	42,929
Other factory overheads		3,922	3,932
		2,244,408	2,009,091



Selected Notes To The Interim Financial Information (Un-Audited)

For the period ended September 30, 2013

	Un-Audited	Audited
	September 30, 2013	September 30, 2012
	(Rupees in thousand)	
Work-in-process:		
Opening stock	98,952	98,485
Closing stock	(120,576)	(107,513)
	(21,624)	(9,028)
Cost of goods manufactured	2,222,784	2,000,063
Finished goods:		
Opening stock	551,623	361,730
Closing stock	(524,858)	(371,808)
	26,765	(10,078)
	2,249,549	1,989,985
Less: Export rebate	360	221
	2,249,189	1,989,764
12. OTHER OPERATING EXPENSES		
Workers profit participation fund	14,916	10,606
Workers welfare fund	5,904	4,329
Others	1,105	506
	21,925	15,441
13. TAXATION		
Charge for the period:		
Current	27,963	48,486
	27,963	48,486

14. OPERATING SEGMENT INFORMATION

The textile sector comprise of spinning, combing, weaving, dyeing, bleaching, printing, stitching, buying, selling and dealing in yarn, cloth and other goods and fabrics made from raw cotton and synthetic fiber(s). This sector also includes power generation facilities which provide electricity for internal consumption purposes.

Selected Notes To The Interim Financial Information (Un-Audited)

For the period ended September 30, 2013

14.1 Business segments

For management purposes, the Suraj Cotton Mills is organized into business units based on their products and services and has two reportable operating segments as follows:

Spinning: Production of different quality of yarn using natural and artificial fibers.

Weaving: Production of different quality of greige fabric using yarn.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on arm's length basis in a manner similar to transactions with third parties.

	Spinning		Weaving		Elimination of Inter-segment transactions		Consolidated	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	----- Un-Audited ----- (Rupees in thousand)							
Sales								
External	1,500,208	1,205,756	1,126,069	1,076,931	-	-	2,626,277	2,282,687
Inter-segment	270,372	231,776	-	-	270,372	231,776	-	-
	1,770,580	1,437,532	1,126,069	1,076,931	270,372	231,776	2,626,277	2,282,687
Cost of sales								
External	1,495,484	1,220,465	753,705	769,299	-	-	2,249,189	1,989,764
Inter-segment	-	-	270,372	231,776	270,372	231,776	-	-
	1,495,484	1,220,465	1,024,077	1,001,075	270,372	231,776	2,249,189	1,989,764
Gross profit	275,096	217,067	101,992	75,856	-	-	377,088	292,923
Distribution cost	27,681	24,603	45,350	21,913	-	-	73,031	46,516
Administrative expenses	21,542	17,869	4,387	3,944	-	-	25,929	21,813
	49,223	42,472	49,737	25,857	-	-	98,960	68,329
Profit / (Loss) before taxation and unallocated income and expenses	225,873	174,595	52,255	49,999	-	-	278,128	224,594



Selected Notes To The Interim Financial Information (Un-Audited)

For the period ended September 30, 2013

	Spinning		Weaving		Elimination of Inter-segment transactions		Consolidated	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	----- Un-Audited ----- (Rupees in thousand)							
Unallocated income and expenses:								
Other operating expenses							(21,925)	(15,441)
Other operating income							31,790	14,133
Finance cost							(19,502)	(21,781)
							(9,637)	(23,089)
Profit before taxation							288,491	201,505
Taxation							27,963	48,486
Profit for the year							240,528	153,019
Inter segment sales and purchases have been eliminated on consolidation.								
Other disclosures								
Capital expenditure	690	12,726	223	-	-	-	913	12,726
----- (Rupees in thousand) -----								
	Un-audited September 30, 2013	Audited June 30, 2013	Un-audited September 30, 2013	Audited June 30, 2013	Un-audited September 30, 2013	Audited June 30, 2013	Un-audited September 30, 2013	Audited June 30, 2013
Operating assets	2,897,834	3,362,032	1,173,946	691,780	-	-	4,071,780	4,353,812

14.2 Geographical segments

Secondary information is reported geographically.

The Company operates in only one geographical segment i.e. Pakistan, as the Company has no distinguishable component other than Pakistan that is engaged in providing products within a particular economic environment.

Selected Notes To The Interim Financial Information (Un-Audited)

For the period ended September 30, 2013

15. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated companies, companies in which directors are interested, staff retirement funds, directors and key management personnel. Significant transactions with related parties and associated undertakings are as under:

Relationship with the Company	Nature of transactions	Un-Audited	
		September 30, 2013	September 30, 2012
(Rupees in thousand)			
Associated companies	Sale of goods and services	26,014	73,547
	Purchase of goods and services	402,321	146,794
	Sale of fixed assets	3,000	-
Employees Provident Fund Trust	Amount contributed	2,778	2,499
Director and Chief Executive	Remuneration	4,924	3,895

Transactions entered into with the key management personnel as per their terms of employment are excluded from related party transactions.

16. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors have proposed dividend for the period ended 30 September 2013 of Rupees Nil (30 June 2013: Rupees 6.0) per share amounting to Rupees Nil (30 June 2013: Rupees 118,800 thousand) at their meeting held on October 31, 2013.

17. DATE OF AUTHORIZATION

This interim financial information was authorized for issue by the Board of Directors of the Company on October 31, 2013.

18. GENERAL

18.1 Figures have been rounded off to the nearest thousand rupees.

(CHIEF EXECUTIVE OFFICER)

(DIRECTOR)







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