Post Quota Update

Trends reflect an inescapable reality: U.S. consumers aren't willing to pay even a little extra for a "Made in America" label.

- H. Lee Scott Jr.
Chief Executive , Wal-Mart

The elimination of trade quotas in 2005 gives us the opportunity to consolidate our sourcing base. Without quota restrictions, we can choose our vendors, and build strategic relationships with those who have the best capabilities and share our values.

- Paul S. Pressler
President and Chief Executive Officer GAP Inc.

Imports of Chinese textile and apparel products into the United States soared in the first quarter, offering fresh evidence that the world's clothing trade is being drastically reshaped by the abolition of global quotas in January

- New York Times

We sell more pairs of jeans than any other company in the world. Fashion trends come and go, but the jeans market continues to prove remarkably stable and resilient. Growth comes to those brands that define their consumers' lifestyles, offering the right combination of authenticity, innovation and value.

- Mackey J McDonald
Chairman VF Corporation

- The total apparel sale in the United States of America (USA) grew by 4.7% in the first two months of 2005 whereas the denim apparel sale in the same period has grown by 13.6% as against a negative growth of 1.6% in the same period last year

- The total textile import into USA which had grown by 13% in the first two months of the post quota era seems to have accelerated to 16.50% in first three months according to the preliminary data available

- According to preliminary data available the growth rate for import of textiles into USA from India which was at 18.55% in the first two months has moved to 27% in first three months

- The apparel import into USA from India has grown at a rate of 25.51% while the non apparel items import grew by 14.98% in the first two months of 2005

- Import from India into USA in the category of Knit shirt and knit blouse have grown by 117% and 147% respectively. Woven shirts and blouses have grown by 38% and 11% respectively , cotton trousers and jeans by 52%

- Chinese exports of textiles to USA have grown by 53.77% in the first two months , within this, the growth in non apparel category was only 36% and the growth in apparel category was to the tune of 106%

- The true picture of Chinese region export performance is better visible when the import from China, Hong Kong , Korea and Taiwan are combined . The growth in textiles exports from the region in the first two months is comparatively lower at 35.48% and growth in apparel exports to the USA is comparatively is at 51.55%

- As expected the growth is come at the expense of countries who were neither in any of the low cost production location nor with a preferential duty agreement. The losing countries include Fiji, Macedonia, Morocco, Tajikistan, Slovenia Guyana, Saudi Arabia countries who remained in the trade only due to availability of quotas. Also as expected the trade within NAFTA is also has shown negative growth in first two months. Honduras one the lowest cost producer in the American region is the only country to have shown substantial growth

- Some of the countries in the middle east like, Jordan, Bahrain, UAE who have had preferential treatment by way of QIZ have also done well during the period.

- Many of these units source fabric from countries like India and China.

China Update

Monday, April 4, 2005

The Committee for the Implementation of Textile Agreements (CITA) announced today its decision to initiate safeguard proceedings to determine whether imports of certain Chinese origin textile and apparel products are contributing to the disruption of the U.S. market.

The products subject to review will be cotton knit shirts and blouses (Category 338/339), cotton trousers (Category 347/348), and cotton and man-made fiber underwear (Category 352/652). The decision was made to initiate this review based on substantial increases in imports of these products from China over the first quarter of this year, following the removal of textile quotas under the World Trade Organization as of January 1. Preliminary data for the first quarter of 2005 show imports from China in these categories growing by approximately 1,250 percent, 1,500 percent, and 300 percent, respectively, relative to the same quarter of last year.

Wednesday, April 6, 2005

The European Commission agreed today to publish guidelines that will clarify under what circumstances it would consider safeguard action against textile and clothing imports from China. The guidelines relate to the textiles-specific safeguard clause written into China's Protocol of Accession to the WTO in 2001, which was incorporated into EU law in 2003. The guidelines establish procedures and criteria for the objective and transparent use of safeguard proceedings. By establishing when, and on what basis, action could be taken, the guidelines provide clarity and predictability for both China and European textile producers.

The guidelines published by the European Commission on 6 April 2005 set out clearly and transparently how and on the basis of what criteria the EU will interpret and, potentially, implement the TSSC (Textiles-Specific Safeguard Clause). The publication of guidelines implies no automatic use of safeguards, but it equips the EU to take effective and appropriate action should the need arise.

SNAPSHOT

Quarterly

- Revenues at Rs.445 Crores as against Rs.348 Crores in corresponding quarter previous financial year, a growth of 28%
- Operating profit Rs.112 Crores as against Rs.87 Crores in corresponding quarter previous financial year , a growth of 28%
- Cash accrual at Rs.85 Crores as against Rs.68 Crores in corresponding quarter previous financial year , a growth of 25%
- **Profit after tax at Rs.53 Crores as against Rs.25 Crores in corresponding quarter previous financial year , a growth of 109%**
- Denim volumes in current quarter was 25.67 Million meters at an average realization of Rs.102.56 compared to 18.05 million meters at an average realization of Rs.99.96 during the corresponding quarter previous year and as against 24.49 Million meters at an average realization of Rs.104.74
- The Mauritius plant of the company which was relocated to Ahmedabad has begun operations from first week of March 2005 , hence the rated denim capacity of the company on current product mix is 110 Million meters

SNAPSHOT

Yearly

- Revenues at Rs.1679 Crores as against Rs.1435 Crores in the previous financial year. Revenues grew by 17% on the back of higher denim and garment sales driven by growth in both volumes and realizations.

- Operating profit Rs.389 Crores as against Rs.353 Crores in the previous financial year, growing by 10%. Operating margins declined from .. % to ..% primarily due to high cotton costs during the first three quarters of the current financial year.

- Cash accrual at Rs.278 Crores as against Rs.252 Crores in the previous financial year , a growth of 11%

- Profit before tax at Rs.129 Crores as against Rs.101 Crores in the previous financial year , a growth of 27%

- **Profit after tax at Rs.127 Crores as against Rs.97 Crores in the previous financial year , a growth of 31%**

- Denim volumes in current financial year was 96.24 Million meters with an average realization of Rs.103.09 per metre compared to 78.80 Million meters at an average realization of Rs. 102.38 per metre during previous financial year

- Denim volumes which had suffered a significant slump in the second half of previous financial year have returned to normal levels in the current year and has contributed significantly to both top line and bottom line of the company

BUSINESS UPDATE

- The company is acquiring 53.4% equity of Arvind Brands Limited, an associate company engaged in the business of marketing and manufacturing of branded apparel in India, to make it 100% subsidiary. The acquisition will cost the company Rs.106 Crores

- The company is expanding its denim operations and putting up a new denim dyeing and processing plant for manufacturing 10 Million meters per annum of fabric. With this addition the total denim capacity would be augmented to 120 Million meters per annum.

- The company has established Santej Textile Park during the year to create dedicated ancillary units for the company. In phase one, a total of 102 looms with a capacity of 18.5 Million meters of grey fabric per annum are to be installed by various external parties at an investment of Rs.80 Crores. The project is likely to be completed by July 2005 These units would operate as dedicated job work units for Arvind Mills, with the company entering into long term supply contract with them.

- The garment operations of the company currently operating at single shift would be converted into two shift operations during 2005-06. This will increase its installed capacity from about 13 Million pieces per annum to 20 Million pieces per annum

- The company is also exploring to expand the shirts garment facility by another 1.5 Million pieces per annum and this facility is likely to be operated as dedicated facility for one strategic customer who has shown keen interest in underwriting the entire capacity

- To fund general corporate purposes the company proposes to issues Global Depository Receipts (GDR) of upto 14 mn shares of the company amounting to USD 30-40 Million. The process is expected to be completed by July 2005 subject to shareholders and regulatory clearances. The issue will constitute upto 6% of the company's expanded equity .

FINANCIAL STATEMENT

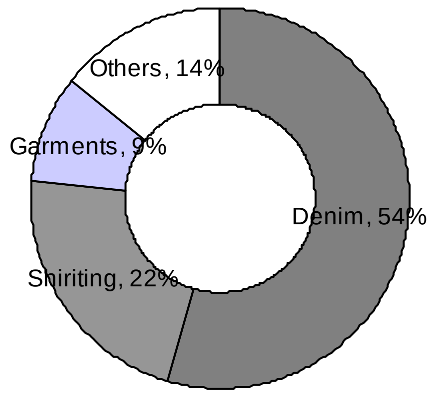
Particulars	Q I 2003-04	Q II 2003-04	Q III 2003-04	Q IV 2003-04	Year 2003-04	Q I 2004-05	Q II 2004-05	Q III 2004-05	Q IV 2004-05	Year 2004-05
Sales & Operating Income	**370**	**368**	**349**	**348**	**1,435**	**396**	**424**	**414**	**445**	**1,679**
Raw Materials	172	122	139	144	577	171	176	153	182	683
Direct Materials	32	29	28	29	118	33	35	36	41	145
Power, water, fuel	41	37	38	42	158	50	45	50	34	179
Salaries & wages	26	27	28	30	111	30	30	30	34	123
Decrease / (Increase) in stock	-29	26	-6	-22	-30	-4	7	4	-21	-13
Other overheads	33	37	40	38	148	26	39	44	64	173
Total cost of sales	**275**	**279**	**268**	**261**	**1,082**	**307**	**333**	**317**	**333**	**1,290**
Operating Profit/(Loss)	**95**	**89**	**82**	**87**	**353**	**89**	**91**	**97**	**112**	**389**
Other Income	2	3	5	3	13	0	2	1	5	8
Net Interest & Finance Cost	32	31	29	22	114	34	35	18	32	118
Cash Accrual	**65**	**61**	**57**	**68**	**252**	**56**	**58**	**80**	**85**	**278**
Depreciation	37	37	38	38	150	37	37	37	38	149
Profit before tax	**28**	**24**	**19**	**30**	**101**	**19**	**21**	**43**	**47**	**129**
Deferred tax	0	0	0	5	5	1	1		-2	0
Minimum Alternative Tax(MAT)					0			6	-4	2
					0					0
Profit after Tax	**28**	**24**	**19**	**25**	**97**	**18**	**20**	**36**	**53**	**127**

1. Sales and operating income of Q IV 2004-05 contains an income of Rs.12 Crores on account of additional export incentive under a Government of India scheme and may not be of recurring in nature

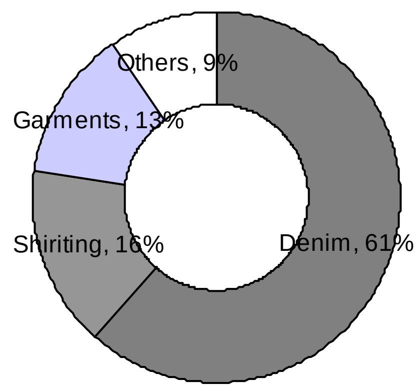
2. The Other overheads of Q IV 2004-05 contains a charge of Rs.13 Crores on account of diminution in value of investments in subsidiaries and is non recurring in nature

Revenue Composition

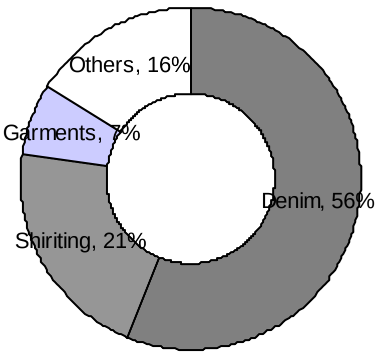
Jan-Mar 2004



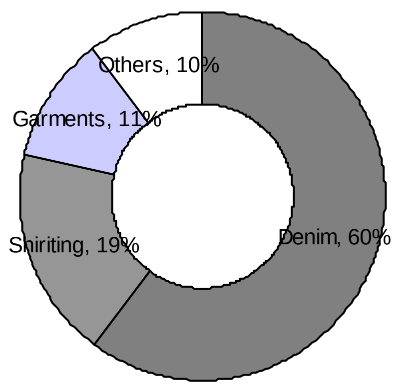
Jan-Mar 2005



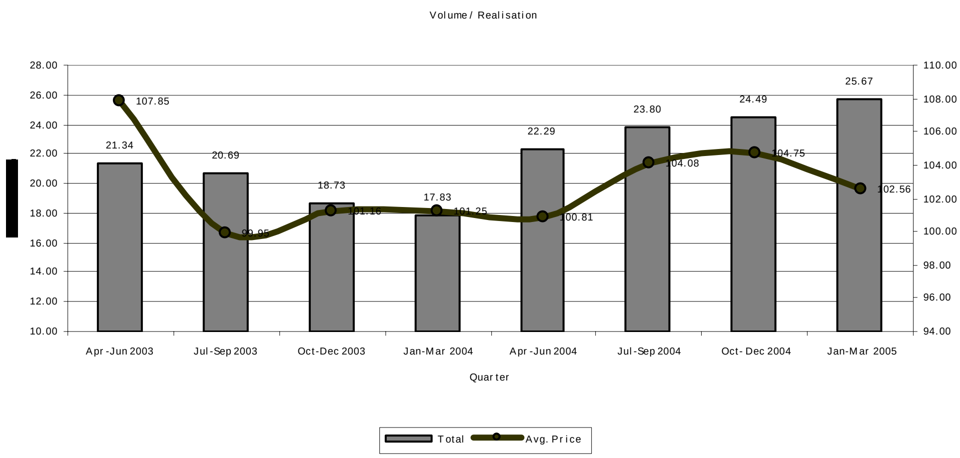
2003-2004



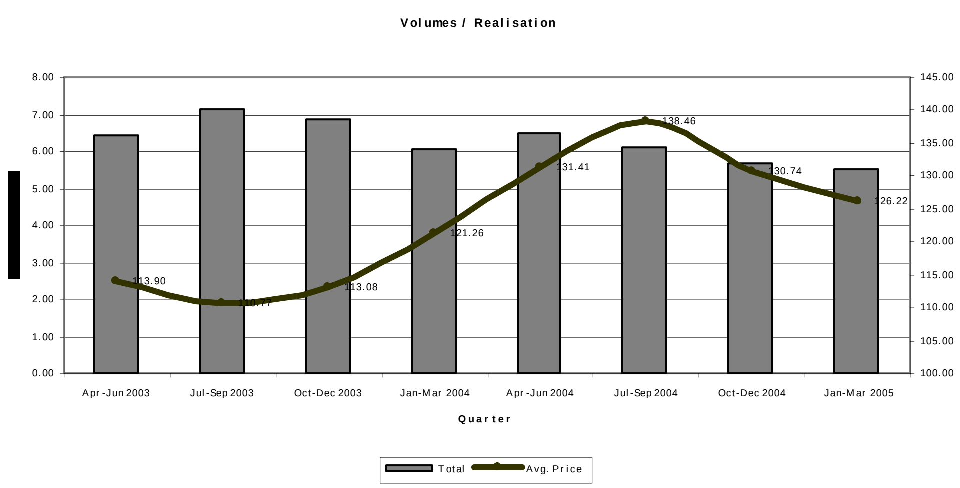
2004-05



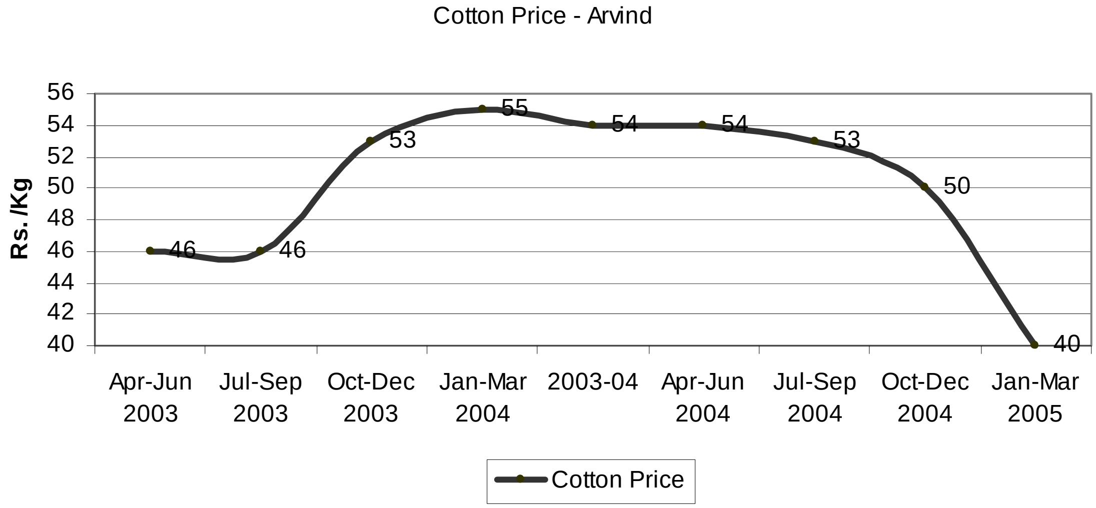
Denim Volume & Realization



Shirting Volume & Realization



Key Input Cost



PRODUCT GROUP PERFORMANCE

Denim

Efficiency , competitiveness and product differentiation are three factors that allows us to triumph in the denim trade. A rise in local demand and imminent improved access to European and US export markets havespurred the denim business during the current quarter. The company is operating all its manufacturing to full capacity and the realization are also stable. (The marginal drop seen in the realization in the current quarter as compared to immediately preceding quarter is on account of lower DEPB rates).

The demand for denim globally is going up as indicated by data available from US retail figures and indications from the market. The threat to the business could come from large capacities coming up in the region. These capacities are being built more to substitute the capacities that are closing in the Americas and mainland Europe , rather than to absorb the additional demand. Currently the additional capacities coming up in the region are being absorbed by rapidly growing garmenting capacities. The company is poised to meet the challenges and is uniquely positioned to avert competition and gain from this strategic shift as it has a robust supply chain and has established relationships with key customers.

The company expects the price position to remain stable at least for another quarter. The order book continues to be robust and company expects a stable order book in the near future.

On cost front, rapidly rising dyes and chemicals cost due to spiraling crude oil cost are cause for concern.

The company had closed its Mauritius denim fabric and garment operations carried through subsidiaries Arvind Overseas Mauritius Limited(AOML) and Arvind Spinning Limited(ASL) in August 2004 . The fabric plant has been relocated to Ahmedabad and commenced production in March 2005. With this capacity addition and de bottlenecking exercise carried out by the company, the total installed capacity of denim currently stands at 110 Million meters per annum.

The company has been consistently moving up the product chain and experiencing greater demand from its customers including major brands based out of USA and Europe. To service the product requirement of such customers, the company is in the process of establishing a denim dyeing and processing plant in its Santej industrial complex. The weaving for this new facility would be based out of newly established loom park, near the Santej industrial complex. The plant will commence commercial production in August 2005. The total investment including in the loom park for this project by the third party is to the tune of Rs.40 Crores. The yarn for this expansion will be met from the existing production units of the company.

Shirting

Shirting volumes continue to be sluggish for the second quarter in a row. The shift of preference by a key customer for piece dyed products instead of value added yarn dyed fabrics supplied by Arvind during the just concluded season and overhang of embargo crisis in the previous quarter have had an impact on the sales of the shirting . The order book position is currently stable and the coming quarter is expected to be better than the previous two. The outlook on shirting is positive.

Garments

Knits garmenting continued to increase its customer and product mix during the current quarter. It achieved a 37% growth in volume over the corresponding quarter in the previous financial year. The realization has risen from Rs.169 per piece in the corresponding quarter of the previous year to Rs.256 in the current quarter. The knits business has grown by 30% in volume terms and 65% in value terms during the current financial year.

Shirts garmenting volumes grew by 75% during the current quarter as compared to the corresponding quarter in the previous financial year and by 123% during the current financial year over the previous year. This reflects the additional capacity of 2.4 million pieces garment per annum established in October 2003.

The 4 Million pieces per annum jeans garment facility has been installed and is currently undergoing sample orders and trial runs and is expected to reach full commercial production in the second quarter of Fy 2005-06 after it receives regulatory clearances and compliance certification from key customers. .

With the legislation permitting female workers to operate in night shifts, all the garment operations of the company would be shifting to double shift during the current year hence doubling the output on the existing investments. However, detailed guidelines from the government are still awaited.

OTHER SIGNIFICANT ITEMS

Cotton

New cotton season opened in the month of October 2004. The prices in international market as well as Indian markets have been lower by 20-30% as compared to the prices prevailing during the previous year. The company had benefited partially from lower cotton prices during the third quarter and fully during the final quarter of current financial year.

The company believes the current cotton price levels are very attractive. As the current season prices were at minimum support prices (MSP) prescribed by government, the possibility of next season prices being lower than the current year appears to be low. Hence as a conscious strategy, the company has purchased cotton to meet its requirements for the entire period of next financial year, extending in to the next cotton season. Since the purchase is of physical cotton and not of options (as the same is not available for domestic cotton), the company would have a higher investment in working capital which will gradually draw down as cotton stock purchased is consumed. The company is likely to benefit from no price volatility in its cotton costs for the next financial year.

Energy Cost

The company has shifted to natural gas as feed stock instead of Naphtha for its Captive Power Plants (CPP). The change has resulted in the company saving Rs 16 Cr on its fuel and power cost for the current quarter as compared to immediately preceding quarter in the current financial year and Rs.8 Crores as compared to corresponding quarter previous financial year.

Net Interest & Finance Cost

The net interest and finance cost for the current financial year is Rs.118 Crores as against Rs.114 Crores during the previous financial year. This includes a gain of Rs.21 Crores during previous financial year on account of exchange fluctuation on its foreign currency loan whilst the current year figure contains loss of Rs.1 Crore. The interest burden in the last quarter of the year has gone up on account of a higher working capital deployment due to cotton purchase.

Foreign Exchange Cover

More than 50% of the revenue of the company is generated from export sales , hence the company has consistently been following the policy of hedging its revenues against foreign exchange fluctuation. Based on annual projections the company sells the net dollar (After providing for outflow) forward for the entire financial year. The process has been followed for the next financial year too, hence the earnings in dollar on revenue account is frozen at one rate. The company does not hedge the dollar position on long term debt..

Dividend

The company has last paid dividend for the financial year 1997-1998. Subsequently, the company went through difficult times and incurred losses. The accumulated losses have now been wiped off. Considering the current financial position of the company and interest of the shareholders in mind , the company has decided to announce dividend of 10% for the current year. The total cash outflow including taxes would be Rs.22 Crores and reflects a payout of 17% of the post tax profits.

ACQUISITION OF EQUITY IN ARVIND BRANDS LIMITED

Arvind Brands Limited (ABL) was established as wholly owned subsidiary of The Arvind Mills Limited (AML). ABL currently owns brands like Newport , Excalibur , Flying Machine and Ruf & Tuf. It is also a licensee for India through subsidiaries Arvind Fashions Limited (AFL) , Arvind Clothing Limited (ACL) of Arrow, Lee and Wrangler which it markets in India. The company also has a joint venture company called Arvind Murjani Brands Private Limited (AMBPL) , through which it holds licence for and sells Tommy Hilfiger brand apparel and accessories in India.

During the financial year 2003-2004, ABL had completed its debt restructuring exercise . ICICI Bank the prime lender had an option to covert a part of debt into equity and had exercised that option through ICICI Venture Fund (I Venture) and had acquired 53.4% of equity as part of settlement. Pursuant to this, ABL ceased to be a subsidiary of AML. AML had then retained the option of purchasing additional equity to raise its stake to 51% anytime during the period of eight years beginning 2003.

Arvind Mills believes that domestic apparel retailing is going to be very potent growth engine and it made sense for Arvind to control the entire chain from fabric to end retailing. With fabric capability residing with AML, ABL is was the ideal vehicle for the branding and retailing part of the value chain.

AML has now reached into an agreement with I Venture to buy out their entire stake in ABL at an outlay of Rs 106 Cr, making it a wholly owned subsidiary.

Global Depository Receipts (GDR)

The board of the company has approved for raising fresh capital to fund general corporate requirements by way of issuing GDRs against an issuance of upto 14 mn shares constituting upto 7% of the expanded capital of the company aggregating about USD 30-40 Million.

Subject to the approval of shareholders and other regulatory authorities, the entire process is expected to completed by July 2005. The company plans to call an extra ordinary general meeting to seek the approval of shareholders for the proposed issue.

OUTLOOK

The company continues to maintain a positive outlook on future revenues and earnings. The demand for denim continues to be very robust and is likely to remain so for some time in future. Expected increased production capacity will provide further growth in revenue and earnings. The volumes in other non-denim product groups will be returning to normal operational levels in succeeding quarters and is likely to contribute positively to revenues and earnings.

The benefit of lower cotton cost would be fully available during the all quarters in the next financial year and are expected to contribute to the earnings significantly.

NOTE ON FORWARD LOOKING STATEMENTS

Statements made in this note which describe the company's or management's objectives, projections, estimates, expectations or predictions of the future may be "forward-looking statements" , which can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "estimates," "anticipates" or the negative thereof or other variations thereon. The company cautions that, by their nature, forward-looking statements involve risk and uncertainty and that the company's actual actions or results could differ materially from those expressed or implied in such forward-looking statements or could affect the extent to which a particular projection is realized. Important factors which could cause such differences include global supply and demand conditions, changes in the relative value of various currencies, cyclical demand and pricing within the principal markets for the company's products, regulatory approvals and other factors changes in government regulations, particularly those affecting environmental, health or safety compliance, economic developments, relationships with and financial and operating conditions of customers and suppliers, ability to attain expected benefits and other factors within the countries in which the company operates or sells its products and other factors relating to the company's ongoing operations including, but not limited to, litigation, labor negotiations and fiscal regimes.

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