SARA CONNECT

SARA GROUP
Indian roots. Global reach.

Volume XXVI
Quarter ended December 2012

Happy New Year! 2013

From the MD

Dear Members of the Sara family,

As we complete the calendar year 2012, we can look back with meager satisfaction for having managed to pass through the turbulent times. In this year, the entire business of iron ore exports disappeared due to the policies of the government. It looks unlikely that exports of iron ore will resume soon. But having the requisite manpower and infrastructure, we have tightened our belts and are ready to re-start whenever the policies of the government become pragmatic.

As you would have already noticed, we are now focusing on core areas and are not focused on unrelated diversification, which was the fashion in 2010-11.

The business of mining has shown early signs of success as we have opened our first Chrome Mine in Europe. We are looking at expanding this facet of the business as it looks like becoming our Core Business for 2013-14.

As I informed you in the earlier editions of 'Sara Connect', Sara Textiles Limited has now become 'Airborne' and we are looking at major new investments making it a multi-location organization.

It was great to spend time with you and your family at our Annual Diwali party. I am sure the festivities will travel to the New Year.

Wishing you all a great 2013!!!

Warm regards,

D. P. Singh

Mr. D. P Singh, MD, Sara Group, at the inaugural Speech during Annual Function' 12

It is wise to direct your anger towards problems - not people; to focus your energies on answers - not excuses.

- William Arthur Ward

In this issue

Sara International Limited

Ores and Minerals

Iron ore

The global iron ore industry has remained volatile and under pressure. On the demand side, China's demand for finished steel still remains questionable and this is reflected in the iron ore pricing. On the supply end, countries such as South Africa, Venezuela, West Africa etc. have emerged as regular suppliers of iron ore while India has now become a fringe player in the business.

Towards the end of the quarter, we saw increasing positive news from China and this was reflected in the bull run on iron ore prices. We, at Sara, view this increase as more a result of aggressive position taking than a massive improvement in fundamentals.

Mechanical loading of Iron ore at Haldia Port

In November China has imported a record level of iron ore at 68.97 million metric tons. India's fringe player position was re-emphasized by it contributing less than 7% of the Chinese imports.

Further, due to uncertainty in supply of Indian iron ore, the acceptability of Indian iron ore has declined and reached a point where Chinese buyers are asking for discounts in prices for supply from India.

The Indian Government is still maintaining its ground against iron ore exports with duty and rail policy both skewed towards making this trade impossible. The domestic mining situation with regards to illegal mining and mine closures has resulted in deficient supply of iron ore even for domestic steel plants. This has led to a situation where Indian steel plants are importing ever increasing amounts of iron ore, both as lumps and pellets.

Contrary to what we thought earlier in the year, one could potentially look at Indian iron ore imports exceeding exports over the next 2-3 years. This will further result in a net outflow of foreign currency on account of the iron ore trade.... perplexing !!!!

For our business, we are working towards liquidating our existing stocks from Haldia and Vizag ports. The market volatility does present small windows of opportunities where we can aim to break even. This was the case in late November when we contracted a new shipment from Haldia.

Chrome ore

With the onset of rains and winters in our mining regions, volumes have been under pressure through middle of November to date. However, an increase in ferro chrome buying prices in China has given some tail wind to the chrome ore market where we have seen almost a 7% increase in prices this quarter. Our marketing team in China has done a great job in terms of tailoring our customer base towards end users and long term MOU's. This is reflected with the fact that over 75% of our supply is today to ferro alloy manufacturers in China.

Chrome ore storage yard at our load port

Our first mine has produced its initial cargo lot that shall sail at the time this newsletters goes into printing. Our second mine is undergoing production planning and we hope to commence production in quarter two of the calender year 2013.

Another high was that this quarter we executed our first trial shipment of lumps to India, and expect volumes to grow in the coming quarters.

Steel & Metals

This quarter has seen an increase in global prices of steel products due to a rise in coking coal and iron ore prices. In fact the benchmark price for hot rolled coils has itself gone up by USD 20-50 per ton across various regions. An interesting research has shown that the per capita steel consumption in India has risen from 38 kg in 2005-06 to 57 kg in 2011-12. Steel production in India was 72 million metric tons in 2011, making it the 4th largest steel producer in the world. On the back of favorable government policies and the country's economic growth, this is now expected to cross 80 million tons in 2012. However, the ongoing challenge is the availability of iron ore which has fallen due to curb on illegal mining. New avenues have opened up for the import of iron ore pellets and lumps from regions like Australia, Ukraine and Bahrain.

During this quarter, we executed two shipments of high carbon steel hexagonal bars to our long term customer in Mexico. We are pleased to have received from them a certification as an 'A' class supplier for last three quarters. Our imports of cold rolled steel coils to South India has come to a halt in this quarter due to higher import prices.

The volatile USD / INR exchange rate is making imports of hot rolled coils difficult with landed prices not reflecting competitively as compared to domestic prices. Secondly, most end users are preferring to not take long positions. Having said that, what we have seen in the past quarter is a very competitive scenario for import of long products into India. The volumes have been limited owing to the monsoon season and a slowdown in the construction activity.

Coal and Energy

This quarter has witnessed a lot of media attention on the Coal scams in India. However, the commodity continues to be in demand and imports of coking coal & thermal coal have already touched 245 million tons in the last three years. The underlying demand in India for thermal coal remains strong but weak international prices mean that buyers continue to move in and out of the market at opportune times. Tenders and orders take three times as much time as before to close and this has made the situation tough for traders.

On the coking coal side, demand is truly weak. This is because on a price parity basis steel plants and pig iron producers in India see much more value in importing metallurgical coke vis-a-vis coking coal. Coupled with the recently announced removal of the 40% export duty on coke exports from China, we see a further threat to seaborn coking coal demand in India.

Indonesian thermal coal prices did somewhat stop their slide this quarter helped by Indian buying enquiries. On the other hand, prices of South African coal saw a roller coaster ride in the quarter, with prices dropping to as low as US$ 79 FOB and going up to as high as US$ 90 FOB levels. This volatile market situation has made it difficult for us to plan for new orders and take long term positions.

MV Typhoon discharging coal at Kandla Port

The good news is that our second vessel MV Typhoon carrying 50,000 tons of South African coal arrived at Kandla in end October. This has re-emphasized our presence into the stock-and-sale business on the West Coast of India, and furthered our efforts to develop business with cement, steel, and sponge iron plants situated in western/northern regions of India.

In the thermal coal market, we continue to see a weakness through 2013. With the upcoming Chinese new year, we see prices to be under pressure. While Indonesian prices have continued to have some floor due to Indian buying interests, South African and Australian calorific value coals have been subject to high volatility and speculation. A physical over supply scenario will continue to exist and we hope to leverage our strong customer relationships to be able to sell in this bear market.

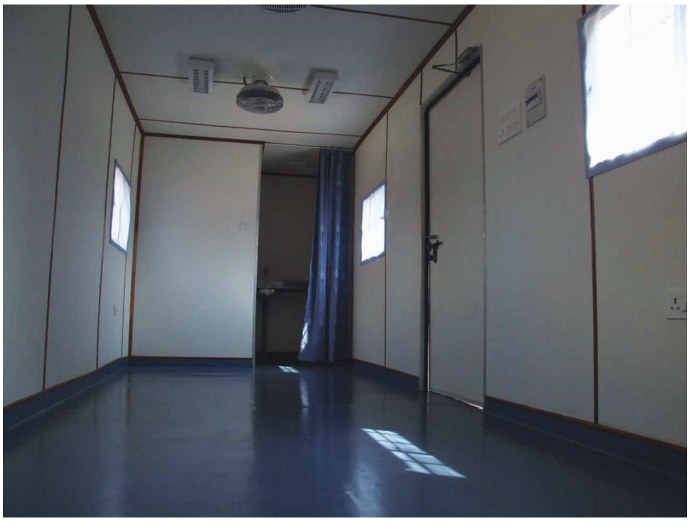
Rake Loading at Kandla Port

Engineered Products

We have successfully executed the supply of bunk houses and containers for a major project company executing the Delhi Metro phase III project. And due to the quality of containers supplied by us, we are being approached by other project companies executing the Metro project. This increase in volume of orders has led us to identify newer suppliers with whom we can target a long term relationship.

Further, our past deliveries of sound attenuated containers for a major genset manufacturing company in India has resulted in further orders from them. There are discussions for Sara being the exclusive provider of specialized containers for their gensets. We have been successful in matching the clients quality control processes and the containers supplied to them have been showcased in their presentations and appreciated by all. The quality supplied by us has also been appreciated by the client's top management and highlighted in their annual conference and newsletter because this project was being done for the first time by them, which was a major boost to our morale.

The rail sector in India, which has been reeling from a slowdown during last two years has started reviving and the private rail companies have started discussing their requirement of containers. This opens up a world of opportunities for us to supply containers from China, an area we have already established our credentials.



Inside View of office container

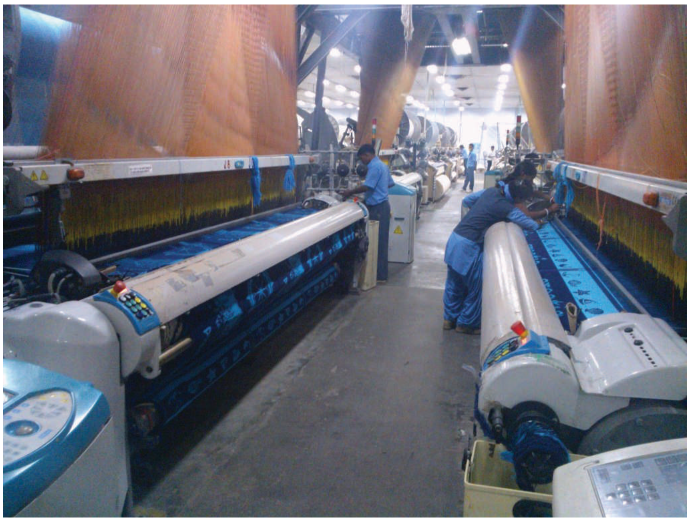
Sara Textiles Limited

The overall export market has been under tremendous pressure as slow growth continues across the globe. The slowdown seems to have now affected all the countries with growth forecasts being lowered. Europe is still grappling with the Greek crisis and alarm bells ringing loud in Spain and Portugal have left the markets cautious. All the major markets like UK, France, Germany and the US, along with Australia are eagerly awaiting for the results on the Christmas sales, which will dictate how orders pan out over the first quarter of next year.

UK sales reports upto December first week show discount sellers like Aldi and Lidl growing at approximately 26% year on year while TESCO growing at around 13%. However, the major component of this growth has been groceries. The trends have suggested that customers are opening up their purses only for essential items while non-essentials are been lapped up based on their value propositions. The glaring examples are premium grocery retailers like WAITROSE where sales figure dropped around 2-3% year on year.

The same scenario has had a trickle down effect on the movement of towels with customers looking for lower GSM and better value products. With the dollar going back to above 54 levels against the Indian Rupee and cotton prices having been stable, we have been saved from the price fluctuation during this period of the year.

Nonetheless, across retailers we see the doom and gloom scenario lifting and are hoping that this will reflect in better movement of our towels in the next quarter.



Speciality Jacquard Towels being woven on looms

Sara Textiles is preparing for its premium show - “Heimtextil 2013” and will be utilizing this opportunity to showcase to the customers value products based on the current market demand. The current strategy is to ensure consolidation of production lines across our customers and retaining the current buyer base. Heimtextil will be the perfect arena to showcase our proposals to our customers.

The company can also boast of having a much leaner and comfortable capital structure with a large percentage of debt having been paid back to banks in time. This has allowed SIL to commence discussions with banks on raising funds for new projects at multiple locations. The banks response, even in this economic climate has been excellent.

Magnum Resources Pvt. Ltd.

The garment and textile sector continues to suffer mainly due to the economic condition in Europe. Nonetheless, the company continues to move against the winds and outperform.

MRPL successfully sold its first project of LOIVA, NISSIN and MARTIN machines to a customer based in Mumbai. MRPL also sold Miller Weldmaster automatic filter lines to a customer making filters in Delhi.

Mr. Akshay Sharma, CEO - MRPL and Mr. Virender Verma (Manager – Home Textile) visited the India ITME exhibitors and tied up with the below companies for representation in India:

- Ontec GmBH, Germany: Online and Offline Coating Systems for specialty fabrics used for geo textiles and technical textiles.
- China Texmatech Co Ltd., China: Complete line for all types of non woven fabric production.
- Hsiang Chuhan Machinery HC, Taiwan: Braiding machines for shoe laces and ropes.

Magnum's principals NVA De Koninck also participated in the show with a booth of their parent company Van De Weile in Hall 5, Q12. The high speed picotting machine Cornely 10-3 was displayed in the show which received a good response from the visitors.

ITME India, 2012

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Sara Annual Function 2012

Sara Group celebrated its Annual Function on 10th November 2012 at the Indian Habitat Centre, New Delhi. The ceremony commenced with the lightening of the lamps by Mrs. D. P Singh, Mrs. Sapna Dwivedi and Mrs. Ekaterina Singh, followed by a welcome address by Mr. D.P Singh, Managing Director, Sara Group.

A presentation about the group's performance over last year and the impact of global slowdown was made by Mr. Deepit Singh. The audience was able to connect with the employees based at our European office through web conferencing.

A cultural programme ensued, with group employees & their family members showcasing their talent, adding to the fervor of the evening. Amazing participating and zeal from the crowd gave the performers a real lift.

The programme moved to its last part wherein dignitaries appreciated the stage performers and recognized the employees for their contribution towards the growth of the company over the last year. This included announcing the ***Employee of the Year*** and Awards for ***Leadership Excellence, Budding Leader, Long service and Extraordinary contribution.***

The programme was signed off with a vote of thanks by the Master of Ceremonies.

Employee of the Year - Mr. N. K. Jha (Commercial Manager - STL) with Mr. & Mrs. D. P. Singh

New Joinees

Sara Textiles Ltd.

Himanshu Sharma
Senior Merchandiser

Ram Baran Maurya
Documentation Executive

Sadhu Ram
Commercial Executive

Seasons Greetings
and a
Happy New Year
from all of us
at Sara

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