

Report



Junction

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Le Pashmina®

www.alpsindustries.com

Alps Industries Limited

Annual Report 2006-07

www.reportjunction.com

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Alps Industries Ltd (Alps) is one of India's leading eco-friendly textile products manufacturer & a principal interiors infrastructure player.

The Company's enviable winning product portfolio includes an eclectic range of home furnishings, sophisticated fashion accessories & high quality yarn plus a complete line of architectural products that strives to bring lasting style, beauty & the perfect finishing touch to any structure whether commercial or residential.

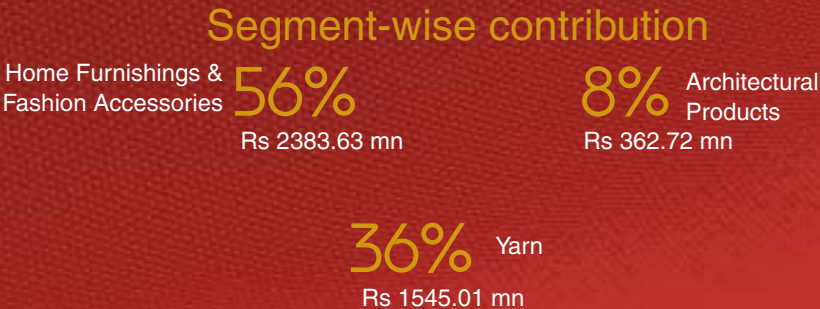
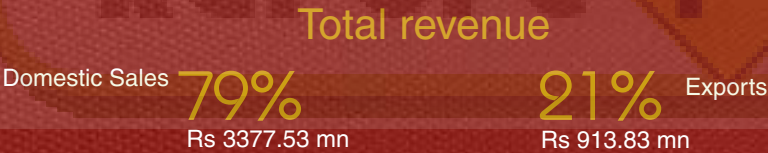
Our architectural brands have a top-of-the mind recall & wide acceptability in India, while our textile products, with their unique eco-friendly appeal, are welcomed by reputed international retailers, high-end brands & specialty stores across the globe.



The Big Picture of 2006-07

EBIDTA up **55.2%** Rs 692.55 mn

Net Sales up **65.1%** Rs 4291.36 mn



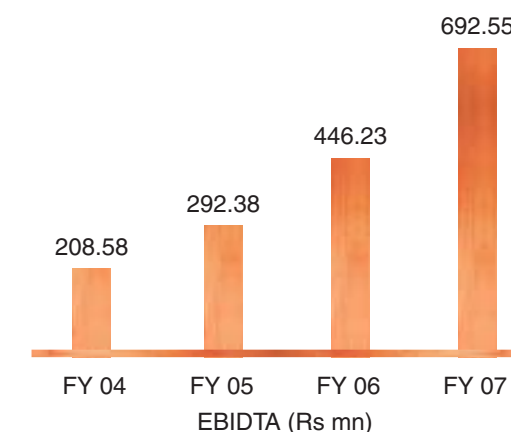
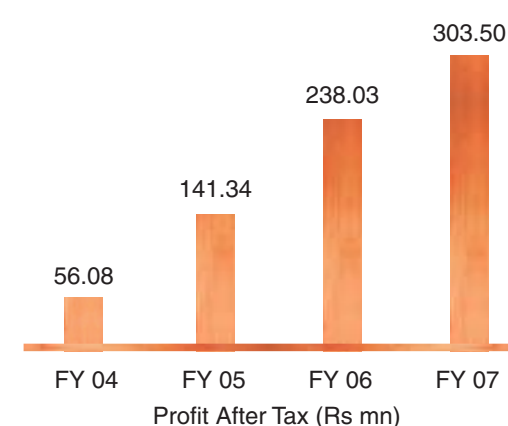
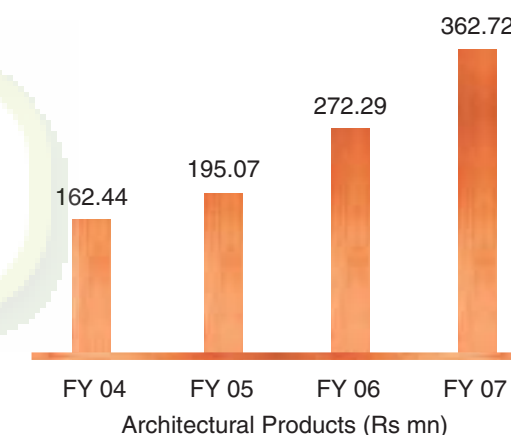
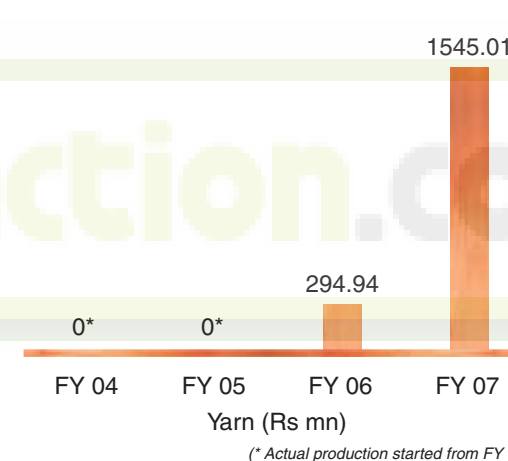
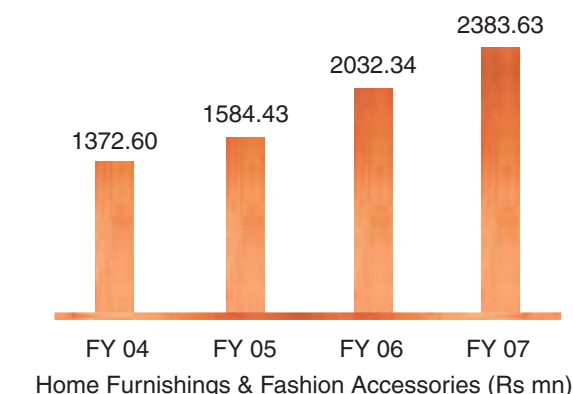
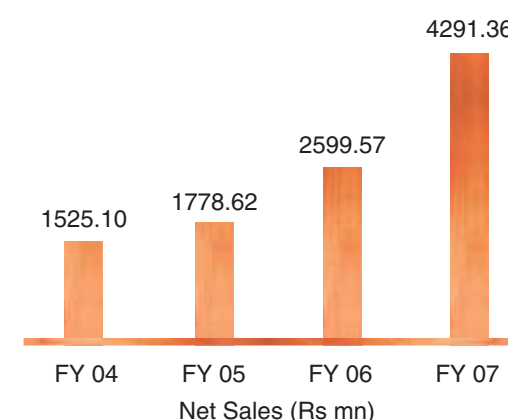
Net Profit up **27.5%** Rs. 303.50 mn



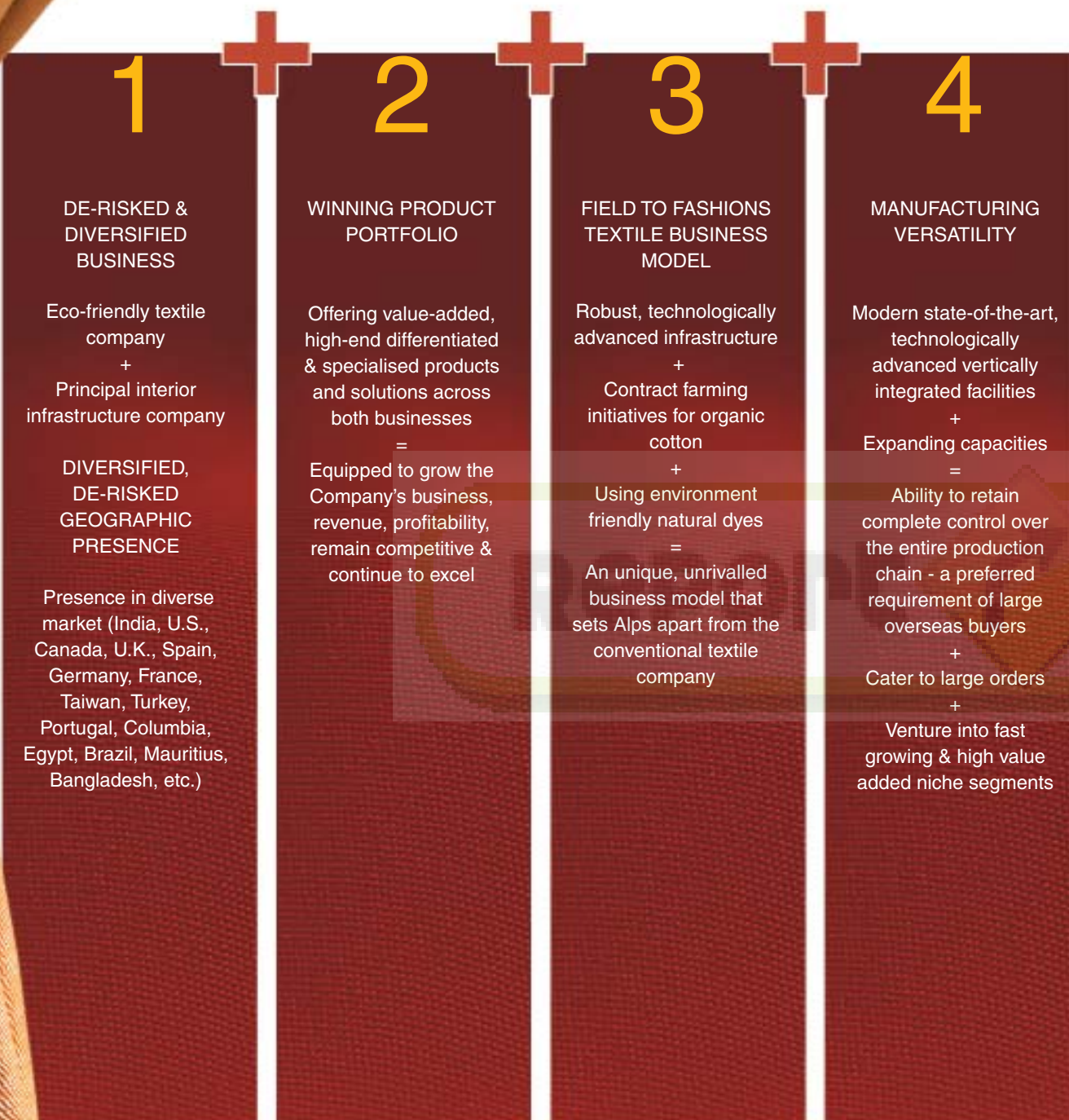
4 years financial summary

	FY 2004	FY 2005	FY 2006	(Rs in mn) FY 2007
EARNINGS DATA				
Total Income	1550.31	1797.56	2610.49	4340.67
Net Sales	1525.10	1778.62	2599.57	4291.36
EBIDTA	208.58	292.38	446.23	692.55
EBIT	137.82	217.18	356.86	547.06
Profit Before Tax	78.58	151.84	261.72	354.80
Profit After Tax	56.08	141.34	238.03	303.50
BALANCE SHEET DATA				
Equity	67.24	67.24	162.57	325.14
Term Debt	334.36	676.31	1259.91	2203.24
Net Worth	613.04	749.82	2399.51	2681.34
Capital Employed	1283.58	1899.81	4680.96	6401.36
STOCK EXCHANGE DATA				
Dividend per share (in Rs)	0.50	1.50	0.75	0.75
Earnings per share (in Rs)	8.45	21.02	27.52	9.34*
RATIOS & MARGIN				
EBIDTA margin (in %)	13.68	16.44	17.16	16.14
PAT margin (in %)	3.68	7.95	9.16	7.07
ROCE (in %)	10.74	11.43	7.60	8.54
RONW (in %)	9.15	18.85	9.92	11.31

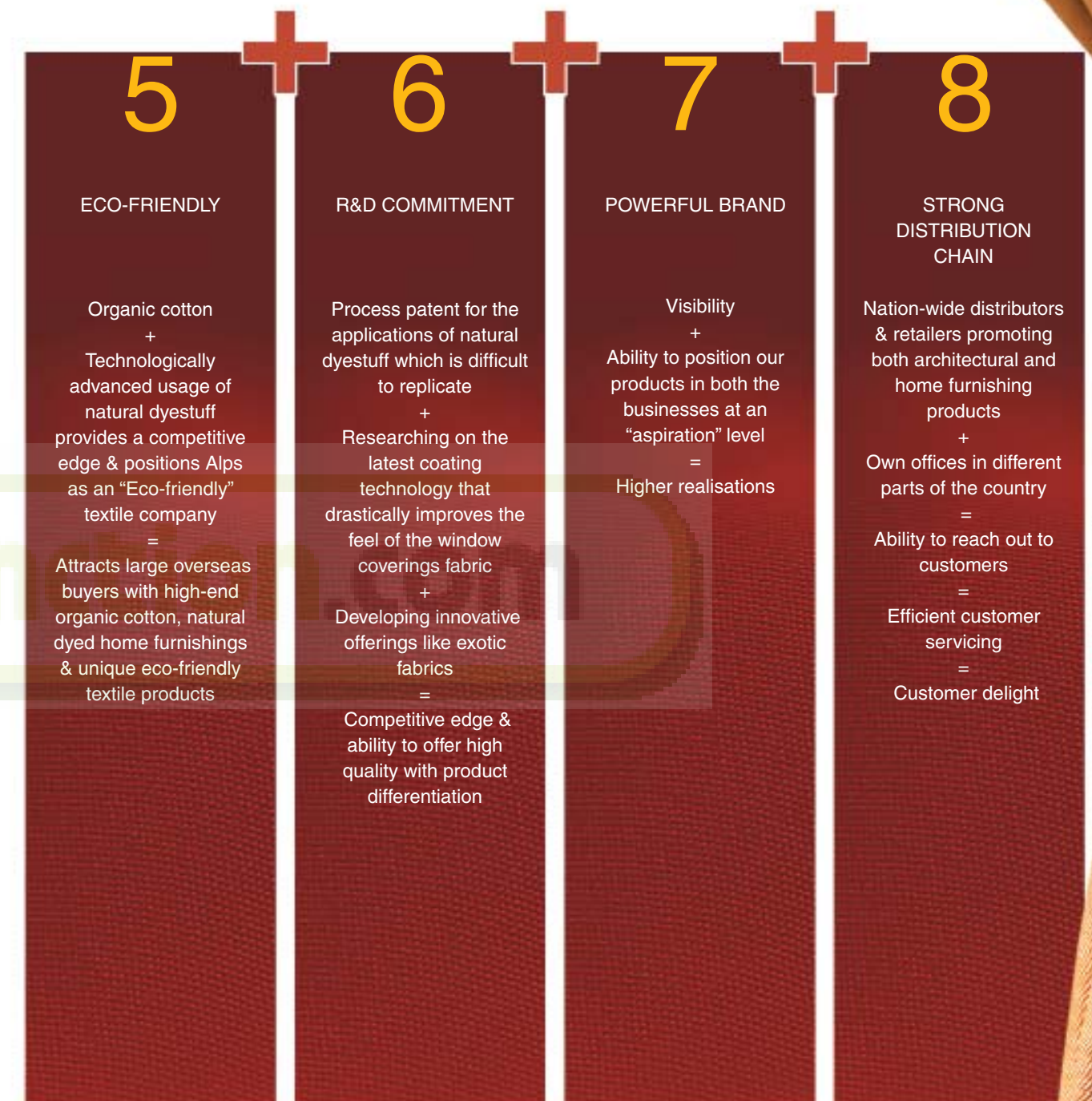
*Bonus issue of 1:1 made in September, 2006.
EPS has been calculated on a weighted average basis



Winning equation=



Ready for the future



READY FOR THE FUTURE

Our winning strategy, we believe will provide immense value to all stakeholders: our customers, vendors, employees & shareholders.

Mr. K.K. Agarwal

Letter from the Chairman

Dear Shareholders,

I am pleased to report yet another year of excellent results. The Company's commitment to technology & innovation, coupled with excellent responses from global as well as domestic customers underpins our growth.

Alps from being a basic textile company is now positioned as a vertically integrated player & has come a long way since it began operations in 1962. Alps is today a modern, eco-friendly textile company with fully integrated, technologically advanced manufacturing facilities, rich designing capabilities, diversified product range and is servicing reputed clients across the globe and in the domestic market.

Importantly, Alps has over the years also developed its architectural business segment which equips the Company to ride the realty rally prevailing in the country since the past 5 years.

Textile business

The rising outsourcing budgets of international retail giants & the recognition of India as a reliable supplier of quality has opened up opportunities for Indian textile manufacturers. However, intense competition from countries like Bangladesh, Pakistan, Sri Lanka & others (especially in the textile garment segment) and the recent appreciation of the rupee has set fresh challenges to the textile industry.

However, your Company's unique position sets it apart and we are very well positioned even in this industry scenario. While it is impossible to be completely insulated from an external factor such as appreciation of the Rupee, your Company's far sightedness & vision to build a de-risked & diversified business (textile & yarn with strong product differentiation & architectural products business segments) places it on a very solid foundation. Our strong domestic brand with national distribution network enables us to limit exports to less than a quarter of our operations - in

2006-07, exports contributed to only 21 per cent of our total revenue.

Through the architectural products business segment, Alps is already benefiting from the opportunities offered by the current realty boom in the country. Thus, your Company's presence in two businesses and also both in the domestic & international market helps mitigate the effect of the strengthening rupee.

Vertically integrated

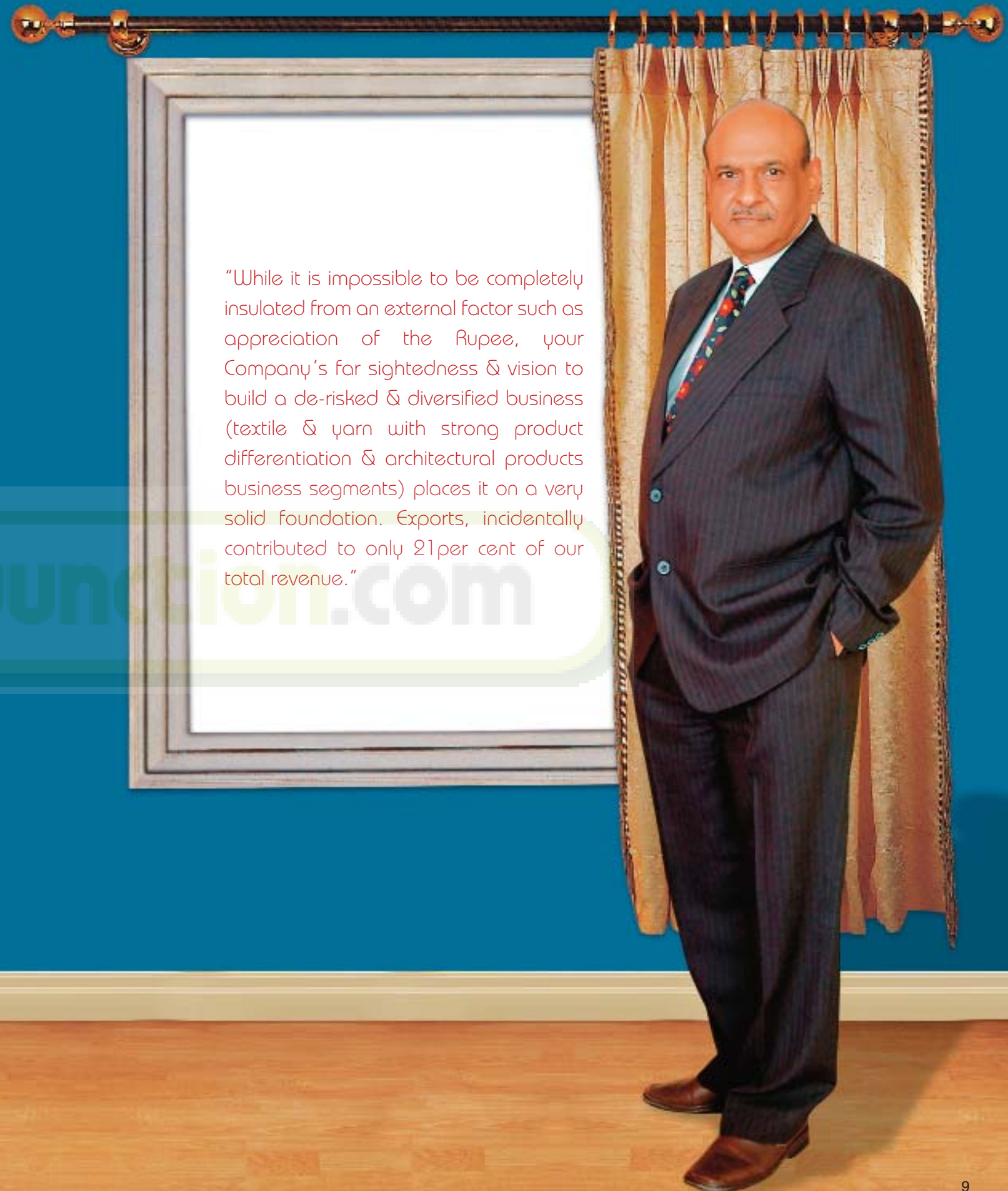
At Alps, being an integrated player, the Company continues to benefit in the post-quota era, as global retailers prefer players who have capacities to execute bulk orders.

The Company is going through an expansion phase to augment compact yarn spinning, decorative fabric weaving & processing capacities & fabrication facilities to meet the growing demand.

The textile sector possesses one of the longest & most complex supply chains in the world, which is one of the main reasons why larger players go for integrated facilities when off-shoring production overseas. Also, globally fashion cycles are becoming shorter, necessitating reductions in lead-time. Another reason why global retailers look for vertically integrated players who can provide a one-stop solution. Thus, your Company's robust infrastructure provides international buyers very solid reasons to partner with it.

The Company's carefully crafted expansion plans in niche areas would see revenues growing at a strong pace in the coming years as the funds already raised get deployed in productive assets. The Company has further strengthened its product appeal to large overseas buyers by offering organic cotton based yarn and skin friendly and eco-friendly premium fabric & home furnishing.

"While it is impossible to be completely insulated from an external factor such as appreciation of the Rupee, your Company's far sightedness & vision to build a de-risked & diversified business (textile & yarn with strong product differentiation & architectural products business segments) places it on a very solid foundation. Exports, incidentally contributed to only 21 per cent of our total revenue."



Strong R&D focus

Alps enjoys process patents for application of natural dyestuffs to textile fibers, which shall be valid till middle of next decade. The Company is also actively researching on use of exotic fibers like milk fiber, Ingeo (corn) & soya fiber. The use of latest technology with improvements in the coating process has enabled us to improve the texture of window coverings fabrics while simultaneously reducing processing costs.

Value added products

A robust manufacturing facility along with a strong R&D focus sets Alps apart from its competitors & enables us to offer high-end valued added products. We are consciously cutting down the traditional volume based commodity type textile business & replacing it with value-added products having environment-friendly skin-friendly appeal or other niche appeal. Thus, armed with manufacturing flexibility, versatility & breadth of our specialized & appealing product portfolio, imaginative styles, elegant finishing, reassuring servicing capabilities, Alps is moving forward, growing & continuously seeking ways to delight customers. Your Company continues to service high-end retail brands that set the fashion trends in the home furnishings segment. This international exposure gives us great insights into emerging design & colour trends that helps us in developing a vibrant & exciting range of home textiles for the domestic market.

Expanding footprints

The Company's products today reach customers across North America, Europe, South Africa & South East Asia. This wide geographic presence ensures we are present across different regions & enjoy the flexibility to concentrate on regions offering maximum returns. The Company's yarn products are exported to Israel, Bangladesh, Portugal, Taiwan, & Turkey. The Company is also looking at expanding its market presence into China, Thailand, South Korea, Hong Kong & Spain.

In the domestic market also, the Company enjoys wide acceptability with a strong nation-wide distribution network supported by our own sales offices in Chennai, Bangalore, Mumbai, Delhi & corporate office in Ghaziabad.

Architectural business

Our ability to offer complete facade solutions for buildings, wherein we design the structural façade, supply material & manage the complete installation makes us a one-stop-shop facility to customers & this core competency has enabled the Company to bag orders from reputed clients.

We have carefully nurtured relationships with architects, interior designers, contractors & real estate developers over the last 17 years. These relationships are being leveraged to expand the product offering thereby yielding higher revenue per customer.

Given the strong growth rate in infrastructure & real estate, we expect the Architectural Products SBU to do extremely well in the coming years.

Conclusion

Thus, emerging opportunities, a unique positioning, strong brands & value accretive growth strategies will catapult the Company to the next growth phase & ensure exciting times going forward. At Alps, we believe that success comes from caring for interests of all the stakeholders: employees, customers, vendors, financial institutions & shareholders. I wish to express my thanks to all the stakeholders for their whole-hearted support to our growth plans.

Your Company is well positioned for further success & I am quite optimistic about the future.

K. K. Agarwal
Chairman

"Emerging opportunities, a unique positioning, strong brands & value accretive growth strategies will catapult the Company to the next growth phase & ensure exciting times going forward."

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Mr. Sandeep Agarwal

Interview with the Managing Director



Can you share with us the main highlights for FY 06-07?

We recorded a robust growth of revenues of over 65 per cent year-on-year. Our increased textiles capacities were operational during the year. The Architectural Products division was successful in bagging several large orders including the largest spider glazing project in the NCR region.

Could you take us through the Company's capacity expansion plans?

We believe in identifying growth prospects that hold potential over the long term. The ongoing expansion in high quality compact yarn is expected to be completed ahead of schedule & commercial production is now expected to commence within the current calendar year. The decorative fabric weaving & processing project is expected to be completed on schedule by July 2008. The ongoing expansion projects would enable Alps to sustain the strong sales growth that it has achieved over the last two years. Post expansion, our yarn capacity would stand at 54,600 tons / year & weaving capacity at 27.4 mn sq.mtrs / year.

In addition to these ongoing expansions, we are identifying potential areas that involve technological applications for specialty textiles. Our technical edge places us ahead of competition & will continue to provide us a long term competitive advantage & enable us to retain our profit momentum.

What is the rationale behind expanding capacities in compact yarn & weaving?

Expansion in these segments will enable us to tap the high-end quality conscious market. Compact yarn has characteristics of low hairiness, thereby giving better luster to the fabric woven from this type of yarn & with this offering, we will be able to command higher realisations & earn higher operating margins. This will further enrich the yarn offering basket of the Company.

The expansion in weaving segment is mainly to enhance our decorative fabrics range. Capacity expansion in weaving essentially implies adding jacquard looms & related processing facilities. This would help the Company tap the fast growing domestic market & also open new opportunities overseas.

Additionally, the new spinning facilities are in Uttarakhand that offers substantial fiscal benefits available to the region besides quality power at economical rates. Further, expansions in Delhi-Haridwar belt ensure proximity to the existing units that will offer the Company advantages of a common pool of infrastructure & skills.

What have been the Company's efforts towards creating superior brands?

Strong brands are a result of commitment to quality & service over a length of time. Alps has always strived to do ethical business, providing products of high specifications. It is instilled in our sales team that customer requires not a product but a solution. Hence, our sales personnel work closely with the customers & their architects to help them make right decisions. It is this effort that builds lasting brand value. It is extremely satisfying that the *Vista* brand, under which our Architectural Products & Home Furnishings are sold in the domestic market, is today recognized as the undisputed market leader in its segment. Our *Le Pashmina* brand for fashion accessories has a strong 'brand recall' & enjoys a premium position in the personal fashion segment.

How do you see Alps progressing in the coming years?

We shall continue to build our business by leveraging technology to provide niche application products with features creating strong identifiable product differentiation. We are looking at technology not just from within, but also discussing with world leaders in their respective fields for specialty textiles.

The strong economic growth in our country means higher construction activity. The real estate boom not only drives the architectural products business, but also the home furnishings business. We are excited about the growth potential in both the segments of our business & our deep commitment to the consumers positions us well to capitalize on these opportunities. We look forward to continuing our growth momentum in the future.

"The real estate boom not only drives the architectural products business, but also the home furnishings business."

What are the factors responsible for the Company's growth during FY 06-07?

Strong growth has been seen in our home furnishings & fashion accessories & architectural products business segments which have grown 17 per cent and 33 per cent year-on-year respectively.

Yarn sales for the current fiscal witnessed an exceptional growth of 424 per cent. While the large growth is definitely not insignificant, what is more interesting is the composition. Our yarn capacities have been built up in a manner so as to cater to different kinds of users. Looking at the excellent response and the unique appeal to our organic cotton yarn, we are confident that it will offer a stable & long term market to us.

The ongoing capacity expansion plans for decorative fabric weaving & processing would help sustain the growth in the years to come.

With the US dollar depreciating against the rupee, is there pressure on realizations & operating margin?

The depreciating US dollar vis-à-vis the rupee is definitely an area

of concern. But if one closely looks at our business model, it can be observed that only 21 per cent of sales are contributed by export earnings. Majority of the Company's revenues accrue from the domestic market. With a strong domestic economy, rising income levels & a significant young population that is more conscious of designs, the growth potential of our business in the Indian market is extremely bright. Also as a de-risking strategy, Alps is aggressively looking to grow its architectural & home furnishing products business in the domestic market, which is likely to see a high growth phase on account of the booming real-estate sector in India.

We also proactively manage our foreign currency risks.

With cotton being the key raw material, what is your take on cotton prices?

It is true that cotton is a key raw material & it assumes a significant proportion of our total raw material cost. Cotton prices were strong during the year on account of strong demand from textile mills & increased exports on account of good international prices. As per EICA (East India Cotton Association) domestic cotton production

during the October 2006-September 2007 season is expected to be 28.2 mn bales. The cotton production for the same period in 2007-08 is expected to be more than 30 mn bales & the acreage for cotton crop in 2007-08 is expected to increase by 5 per cent to 9.6 mn hectares.

BT cotton yields 10 quintals of cotton per acre as compared to 6-7 quintals with normal seeds. Of late BT cotton is finding greater acceptability amongst farmers & many are switching to cotton cultivation this year. Thus, the combination of increased acreage & higher yields is expected to result in a good crop - leading to softening of cotton prices in the coming period. This trend is now already visible.

What would be the contribution to sales & profitability from the capacity expansion projects?

Growth with profitability has been the cornerstone of all activities undertaken at Alps. Of course this naturally follows the commitment to serve the customer ethically. More specifically, the expansion projects of compact yarn & decorative fabric weaving

would help in the long term growth of the Company. Post expansion both these projects combined would contribute substantially to the topline & also improve the operating margin. We expect strong demand for compact yarn, as it is a niche product targeting premium fabric manufacturers. The decorative fabric project will give a big boost to the home furnishing business.

What kind of growth are you expecting in the coming years?

We are confident of maintaining a strong growth rate in the next 2-3 years on the back of strong demand for textile & architectural products in the domestic market. Also the ongoing expansion projects would provide strong impetus for sustainable future growth. There are some other opportunities in special application textiles that we are currently evaluating, which also appear very promising.

Taking all these factors into account, we are confident of maintaining high growth momentum over the next 3 years time while improving profitability margins.

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Mr. R.K. Gulati, CFO

Reviews the financial performance of the Company

"We are confident of maintaining a strong growth rate in the next 2-3 years on the back of strong demand for textile & architectural products in the domestic market."



PRODUCTS OFFERED

HOME FURNISHINGS

- Comforters
- Duvet covers
- Throws
- Quilts
- Bed covers
- Pillow & cushion covers
- Bolster covers
- European shams
- Shower curtains
- Table linens
- Furnishing fabric for curtain & upholstery
- Window coverings

FASHION ACCESSORIES

- Pure & blended Pashima shawls/ stoles/ scarves
- Silk scarves
- Viscose wraps
- Mufflers

ALPS ASPIRES TO PROVIDE CUSTOMERS HOME FURNISHINGS & FASHION ACCESSORIES THAT REFLECT OUR CONCERN FOR A HEALTHY ENVIRONMENT & CREATE SHEER MAGIC IN DAY-TO-DAY LIFE THROUGH EXCLUSIVE DESIGNS, FLAWLESS FINISHES & SUPERIOR QUALITY PRODUCTS. ALL OF WHICH PROMISE TO USHER AN ELEMENT OF WARMTH & COMFORT.

Demand drivers

OUTSOURCING BY GLOBAL RETAILERS

As per Mckinsey estimates, international trade in home textiles is estimated to increase from current USD 8.6 bn to USD 23 bn by 2010 at a CAGR of 22 per cent.

VALUE OFFERED BY INDIAN PLAYERS

Overseas customers prefer Indian textile companies for their ability to offer variety, innovative design & patterns & their ability to adapt to design specifications of the customers swiftly. Customers also appreciate the better manufacturing practices adopted by Indian manufacturers & India's stable, transparent political & judicial system.

HIGHER DOMESTIC DEMAND

The Indian economy is passing through a high growth phase, resulting in increased disposable income for consumers which has led to a growth in domestic consumption levels. It is estimated that the income levels have multiplied nearly 5 times over the decade.

Segment performance

Sales of home furnishings & fashion accessories during the year was Rs 2383.63 mn, as compared to Rs 2032.34 mn in the previous year - a growth of 17 per cent.

Capacity expansion

- Expanding weaving capacities to enhance its decorative fabrics

range.

- Adding jacquard looms & matching processing facilities.
- The current capacity is placed at 19 mn sq. mtrs/ annum & post-expansion is expected to reach 27.4 mn sq. mtrs/ annum.
- Expansion plan is progressing as per schedule & the facility is expected to be fully commissioned by July 08.

Track record

Alps is recognized for reliability & performance & presently caters to global hi-end customers. The Company through its versatile infrastructure is in tune with the changing needs & demands of overseas markets - such as the US, Canada, UK, Spain, Germany, France & South Africa.

Strong distribution network

The Company has in place a distribution & marketing network of 30 distributors & over 1,100 retailers in domestic market spread across India & strives to increase this network on an ongoing basis. Around 78 outlets across in the country & the duty free shop at Delhi Airport showcase the Company's fashion accessories.

Brand visibility

Alps' owns a well-known & renowned brand: *Vista* under which it offers home furnishings & architectural products in the domestic market. The fashion accessories are marketed under its brand name *Le Pashmina*.

Future ahead

Alps is well positioned to explore business opportunities in the overseas markets. The Company is also optimistic on increasing its share in the domestic market on the back of strong demand in the home furnishings & fashion accessories segment.

Home furnishing & fashion accessories

56% of Total Revenues