



Report

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chairman's view

The performance of the Indian economy last year has confirmed the widely held belief that the Indian economy would rank along with the major economies of the world in the next decade. While the service sector has been growing at a spectacular pace, even with respect to the manufacturing sector, the economy seems to have achieved global competitiveness. As a consequence of these factors, the economy is poised to grow between 6% and 7%, regardless of the vagaries of the monsoon. If the political system has taken the right lessons from the recent elections, we should see a spurt of investments in agriculture and infrastructure, which should catapult the economy to close to double-digit growth – something which we have been dreaming of for years.

Your Company's performance last year was largely influenced by global trends, which continued to be lacklustre. Given this, the performance on an overall basis can be considered quite creditable. We are seeing signs of a turnaround in the world economy and we should hopefully see our growth rate in exports returning to the previous trend levels. In fact, your management feels sufficiently encouraged by the trends emanating from the markets to increase the capacity by about 30% to cater to the anticipated demand. With the expiry of the Multi Fibre Agreement in 2005, India's share in textile exports is likely to register a sharp increase, and your Company has already started working on a variety of plans to take advantage of this possible opportunity. Quite a few projects are on the drawing board and it is more than likely a few of them such as the bed linen one may be launched in the near future.

The retail foray of the Company in the form of launching a new brand in the Indian market, ATMOSPHERE, has so far met with considerable success. Given the fact that the brand had been launched late last year in a few select cities, the performance can be considered commendable. The response of the clients to the brand has indeed been positive and we see a bright future for growth in this segment of business.

We are conscious of the fact that the Company carries a significant amount of liquid cash and that your Board has constantly sought to strike a balance between the need to preserve cash for further investments in the business and a liberal pay-out. I hope that the shareholders would be happy at the decision of the Board to pay out a much larger quantum by way of dividend while at the same time, retaining enough resources to invest in the future growth of the Company.

I must commend the Executive Management for effectively combining enterprise and caution in whatever they chose to do and I am sure that under their able management, the Company can look forward to a very bright future.

N Vaghul
Chairman



Dear Shareholders,

In 2003-04, your Company delivered its strongest financial results in its 18-year history. In spite of business conditions being difficult over the last few years, we wove our way through the economic cycle and stayed on course. More importantly, we have used our core strengths – our design-centric business model and our ability to foresee trends and strategise accordingly – to set the stage for stronger growth.

Our main markets in Europe and USA showed some signs of improvement during the year but failed to gather momentum. As a result, our sales grew at a slower pace and generated Rs.1356 million in revenues, up from Rs.1255 million in the previous year. Profits from operations grew by 5% in the current year to touch Rs. 560 million. Our net profit improved by 26% to Rs.505 million as prudent investments in debt-based mutual funds gave us an average return of 9.23% during the year. This propelled our other income from Rs. 39 million in 2002-03 to Rs. 134 million in this year.

I feel, however, that the low interest rate regime is here to stay. Also, the debt market's performance is likely to be muted in the absence of any fresh triggers. Hence, the returns on our investments may not be as high in the coming years. Our operational performance must, therefore, compensate for this. We expect our exports to pick up during 2004-05. More importantly, we realise that we must use our strengths to create new growth opportunities in an increasingly competitive and uncertain world.

Last year, I spoke of our plans to tap one such opportunity, the growing domestic market for furnishing fabrics. As promised, we launched our brand 'ATMOSPHERE' during the year under review. Our first showroom opened in Bangalore in September 2003 and by the end of the year, we had three more in Mumbai, Delhi and Chennai. We have used our experience and expertise in manufacturing home furnishings to offer a distinct product and brand experience to the Indian consumer.

Our domestic foray is at a nascent stage yet and 2004-05 will be the first full year of its operation. Nevertheless, the signals from the market are positive. We are confident that as many as 14 of our ATMOSPHERE showrooms will be operational during 2004-05 and should account for as much as 20% of our fabric division's revenues in year one itself. I consider this to be a commendable achievement. Not only will we add substantially to our revenue stream but our foray in the domestic market will also help us to de-risk our business in a meaningful way. We are now focusing on building the ATMOSPHERE brand in the domestic market and may even explore the option of taking it overseas at an appropriate time.

Product differentiation is one of the key ways in which companies derive market power. Over the years, we have found that innovation, high-quality products and speed-to-market offer customers the shortest distance between concept and reality. This entails creative concepts and fast prototyping as well as rapid and robust experimentation. What is more, the path to product development and differentiation includes team members from multiple disciplines – internal and external to the organisation, located near and far – who effectively collaborate and contribute their knowledge and expertise.



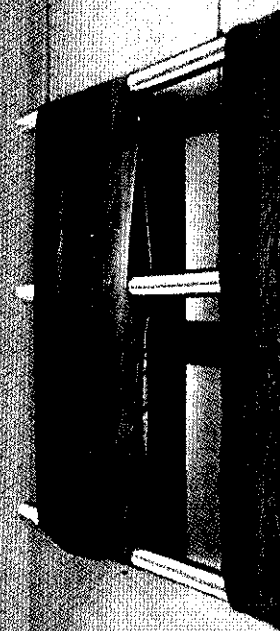
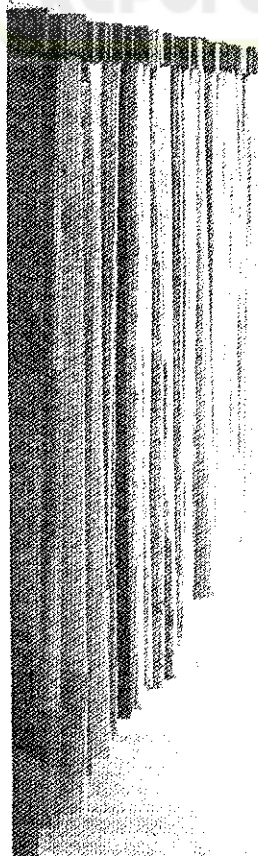
We have frequently employed the services of freelance international designers to strengthen the creativity of our in-house Design Studio. But this is still one step removed from the market. Hence, we have set up a fully owned subsidiary, HIMATSINGKA AMERICA INC., in April 2004. We intend to establish a Design Studio in New York through this subsidiary so that we can harness talent even more efficiently.

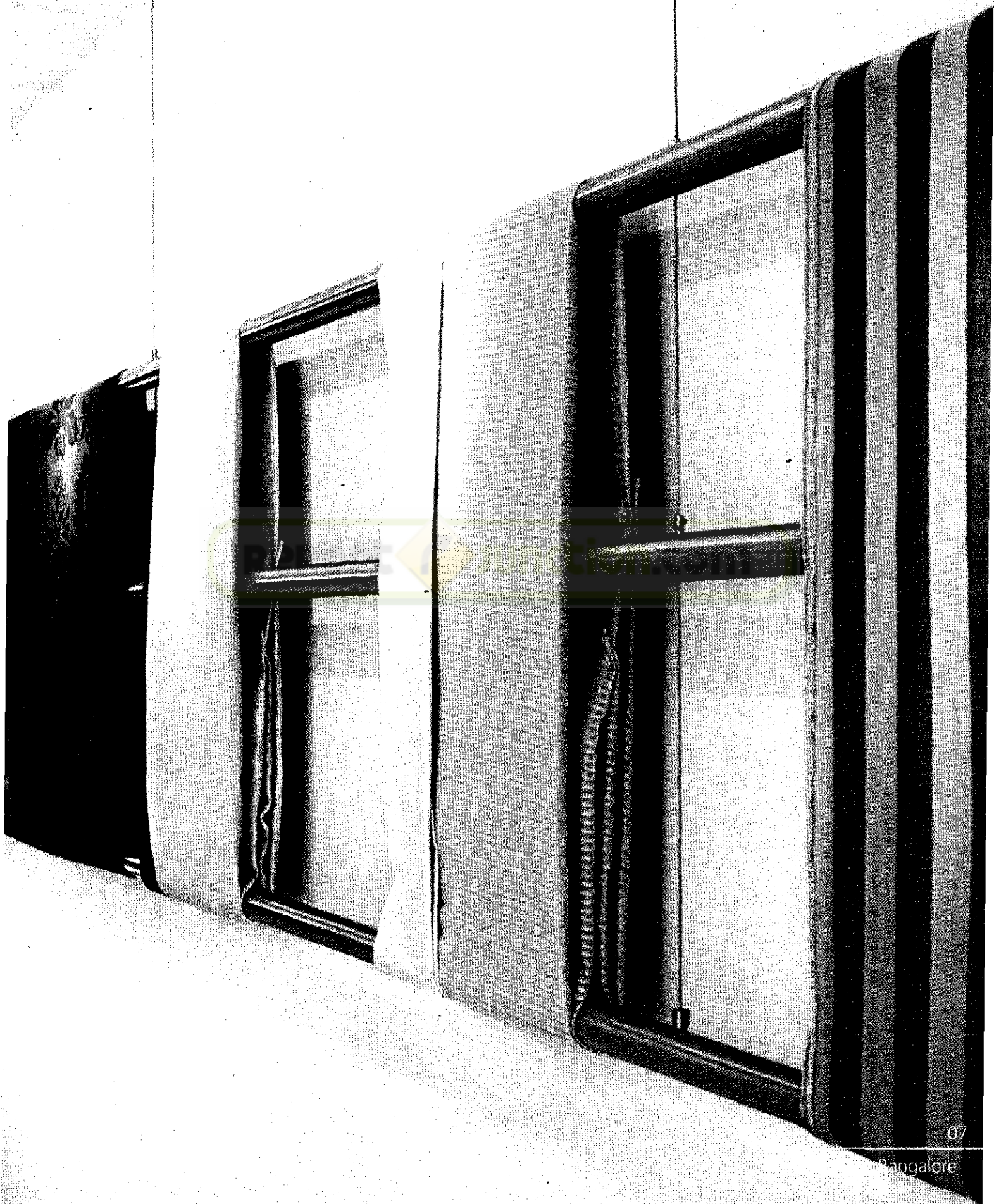
There is another growth opportunity that we have put under our scanner – the large domestic and international bed linen market. This segment has synergies with our existing export business and ATMOSPHERE showrooms. We hope to offer a design-centric, differentiated product in this segment as well. A new production facility at a new location needs to be set up for this and we have commissioned feasibility studies. We will announce the details shortly.

We have endured the rough patch in the global economy. We recognise that the present lull in the international market will not last forever. The markets will eventually rebound. We are preparing ourselves for that turnaround. The dismantling of the quota regime from January 2005 will give it a further boost.

Our people are passionate about satisfying our customers while maintaining the highest standards of corporate governance and excellent industrial relations. I am extraordinarily proud of all our people and the work they do. I am gratified by the support and confidence of our shareholders and of our very active Board of Directors. I appreciate and thank you for your continued support.

Dinesh Himatsingka
Managing Director





Over the last three years, the organised retail sector in India has changed significantly. The sophistication in retail formats and the consumer dynamism that prevail today are unprecedented. It was considering this change that we thought a domestic presence for Himatsingka Seide would be prudent and timely.

The 'Atmosphere' brand was conceived to be India's first chain of furnishing stores offering a truly international range of home furnishing products. It is our endeavour to offer our clients products that epitomise creative and technological innovation. We benchmark ourselves with the best global brands and aspire to perfect every aspect of our product offering, including customer relationship management, visual merchandising and in-store service.

With Atmosphere, Himatsingka Seide is a truly integrated enterprise that has managed to capture the entire value chain from spinning to retailing. Our 14-store programme across India will be completed by the third quarter of 2004-05 and will give us the national visibility that we require as a brand. To ensure increasing market share, Atmosphere will broaden its offering to between 1200 and 1500 products in addition to a bed linen range that is being planned to complement our furnishing products.

The optimism in the housing sector and thus, the emergence of the home-proud consumer make us believe that the upper end of the home furnishing market will grow at 30% per annum over the next four to five years.

Shrikant Himatsingka
Executive Director

