Himatsingka Seide

ANNUAL REPORT

2010-11

CONTENTS

Management Discussion and Analysis

Himatsingka Seide Limited

Industry Structure and Developments

We are a leading home textile manufacturer having a global distribution network and a portfolio of premium international brands. Our principal business is producing an extensive range of home furnishing fabrics for curtains and upholstery, silk apparel fabrics for bridal wear and women's wear, and bed linen products.

The Textile industry is among the largest industries in India. It occupies an important place in the economy of the country because of its contribution to the industrial output, employment generation and foreign exchange earnings. During 2010-11, the global environment for home textiles has been relatively buoyant in the American markets while it has been under continuing stress in the European markets.

The international home textiles market has been marked by increasing product complexity, higher service standards required from manufacturers and shorter delivery cycles. In addition very tight control on cost of sourcing from the retailers end has resulted in an inability to pass on higher input prices in entirety within a defined time frame. There has also been a marked trend of brands addressing various pricing formats. Private label distributors, Big Box retailers and brand distributors have consciously cultivated the mid-market segment to manage the difficult economic environment.

High input costs, competition, cost competitiveness, low productivity levels and the rupee volatility are some of the key challenges faced by the industry.

India being the second largest producer of cotton, it enjoys a competitive edge in low cost cotton sourcing compared to other countries. However, the last year saw a continuous upward spiral of cotton prices (consequently impacting cotton yarn prices) in India and globally.

The Indian home textile market includes products such as bed linen, curtains, towels, blankets, upholstery, rugs and carpets etc. The market is estimated at Rs. 155.7 billion (US$ 3.5 billion) in 2009 and expected to reach Rs. 400 billion (US$ 9 billion) by 2020 growing @ 9% CAGR. (Source: Technopak Indian Textile and Apparel Compendium, September 2010).This is expected to happen due to the growing affluence levels of the Indian consumers, increased urban household population and corporatization.

Bed Linens, curtains and upholstery contributed 64.8% or Rs.101 billion to the total Indian home textile market in 2009 and this is expected to increase Rs. 175 billion by 2015(E) (Source: Technopak Indian Textile and Apparel Compendium, September 2010).

Design and fashion capabilities are the differentiators required to build relationships with global retailers and score over competition from China and other countries. To address these challenges the Company continuously invests in new technology, and strives to shorten delivery cycles to meet customer demands. Expanding product breadth and strengthening design focus, both in India and overseas, have been an integral part of the Himatsingka strategy.

Opportunities

The continuation of Technology Upgradation Fund (TUF) scheme by the Central Government in the 11th plan period indicates the opportunities the industry has going forward. A gradual shifting of textile manufacturing facilities from the developed economies to developing economies is making countries like India and China play an increasingly important role.

With the Hassan Bed Linen facility and distribution and brand synergies with Giuseppe Bellora SpA, Divatex Home Fashions Inc. and DWI Holdings Inc., the Company has created a strong presence in the home textiles segment. We supply products to 6 out of the top 10 retailing giants in the North America.

We operate a luxury home furnishing brand 'atmosphere' – through a retail chain of 14 showrooms of which 12 are located in India and one each in Dubai and Singapore. This gives us strong retail network to capitalize on the rising consumer demand for luxury home furnishing products in India, South East Asia and the Middle East. Our reputation as a leading exporter of silk and blended fabric will enable us to take advantage of future growth in the domestic home furnishing market.

Threats

We are dependent on China for quality raw materials for our silk business.

China is also the largest producer of silk fabric in the world, hitherto focusing on mass production. Though the Company continues to be the market leader in this space, growing competition from China and other players in India can potentially be a threat to the market share which the Company commands.

The Company's silk business addresses a high end clientele. Given the impact on brands as a result of the global recession, it is likely that the silk business may be impacted.

In the Bed Linen business, the Company is competing with other large players in India, Pakistan and China, with similar or larger capacities. Given the tough macro economic environment, the industry has been witnessing a highly competitive environment with regard to the pricing of products. The challenge will be to garner market share profitably while competing with other large players.

There has been an upward spiral in prices of both the cotton yarn and silk yarn. Cost escalations have been passed on in large measure to the customers. However complete mitigation of price increase has not been possible due to the steep escalation in prices of raw material and the short time frame.

Strengthening of the Indian rupee vis-à-vis other currencies may erode our margins as well as our competitive advantage.

Strengths

Our core strength is product design and development capabilities, state-of-the-art and flexible manufacturing facilities and efficient marketing and distribution channels. Our in-house design studio is considered amongst the best in the world for its design capabilities. It is equipped with state-of-the-art infrastructure and related facilities to be able to churn out more than 1500 new products annually.

We provide our design team adequate facilities to enable them to anticipate market trends and create products that are cutting edge, novel and highly creative.

To successfully manufacture products that are differentiated and unique, we constantly upgrade our manufacturing facilities. The array of intelligently balanced machines on our shop floor represents the best that technology has to offer. We are able to manufacture a large number of exclusive products, in small quantities, at just-in-time deliveries. This has increased our credibility and enabled us to reinforce long-term relationships with our global clientele.

Our IT infrastructure is seamlessly integrated, from design to manufacture. We continuously invest in capacity up-gradation and consistently work towards improving our productivity standards. We are in the process of implementing an enterprise resource planning package to improve efficiencies.

In the silk business, we have a growing clientele that is 150-strong. We sell to reputed international brands in the home textiles and apparel space. Our customer's global retail network maximizes our product visibility and provides us with avenues for market penetration through new product introductions.

Our enduring relationships with clients are testimony to our effective and highly successful business model. The high percentage of repeat business we generate is a measure of the confidence our customers have in us.

With a portfolio of distribution companies in the Bed Linen business, the Company today occupies a strategic foothold in the home textiles space of United States of America and Italy.

Giuseppe Bellora S.p.A, Italy, has a significant share in the luxury market in Italy and gives us a platform to expand our business in the other markets of Europe and other geographies.

Divatex Home Fashions Inc., USA, is the third largest distributor of Bed Linen products in the USA and gives the Company deep inroads into the private label market. Divatex also has the license to market important brands such as Esprit and Waverly in certain stores in United States.

DWI Holdings Inc., USA, which possesses licenses of luxury home textile brands such as Calvin Klein Home and Barbara Barry Home, gives us access to the high end and branded segment of the bedding market in the USA.

Internal control systems and their adequacy

The Company's internal control system ensures proper safeguarding of assets, maintaining proper accounting records and reliable financial information.

An external independent firm carries out the internal audit of the Company's operations and reports its findings to the Audit Committee on a regular basis. Internal Audit also evaluates the functioning and quality of internal controls and provides assurance of its adequacy and effectiveness through periodic reporting.

The combination of policies and process addresses the various risks associated with the Company's business. The Company periodically reviews the risk management framework to maintain its contemporariness so as to effectively address the emerging challenges in a dynamic business environment.

Risks and Concerns

The Company's risks and concerns have been discussed comprehensively under the segment, Risk Management, later in this section.

Financial Performance (Standalone)

Product-wise performance

Parameter	Quantity		Value (Rs. in lakhs)	
	2010-11	2009-10	2010-11	2009-10
Silk / blended fabrics (quantity in meters)	942,320	913,756	9,358.30	8,967.90
Spun silk / blended yarn (quantity in kgs)	82,570	39,050	1,717.28	660.63
Bed Linen fabric (quantity in meters)	2,189,758	611,321	2,405.57	1,126.72
Bed Linen sets (quantity in numbers)	2,860,748	3,034,395	33,539.33	34,627.92
Traded sets (quantity in numbers)	172,473	34,342	1,695.01	241.61

Sales realization for silk/blended fabric increased from Rs. 981 per meter in the previous year to Rs. 993 per meter inspite of 3.2% appreciation of the rupee during the year, due to increase in product prices.

Sales of Spun silk / blended yarn increased by 22.9% as volumes rebounded from a lower sales of 39,050 kgs in the previous year to 82,570 kgs reflecting a recovery in market conditions. The realization per kg also improved from Rs. 1692 per kg to Rs. 2080 per kg.

Sales realization for Bed Linen increased from Rs. 225 per meter in the previous year to Rs. 246 per meter in the current year inspite of 3.2% appreciation of the rupee, due to a better product mix and increase in product prices.

Revenue break-up

	Mix %		Value (Rs. in lakhs)	
	2010-11	2009-10	2010-11	2009-10
Sales	93.63	95.86	48,715.49	45,624.77
Other operating income	4.01	1.86	2,086.12	885.91
Other income	2.36	2.27	1,226.35	1,082.13
Total income	100.00	100.00	52,027.96	47,592.81

Other operating income increased from Rs. 885.91 lakhs to Rs. 2,086.12 lakhs mainly due to sale of surplus power from the captive co-generation power plant.

Expenditure analysis

The major heads of expenses are given below as a percentage of total income.

	Percentage of total income		Value (Rs. in lakhs)	
	2010-11	2009-10	2010-11	2009-10
Material cost	65.07	57.01	33,852.20	27.133.49
Manufacturing expenses	12.47	11.80	6,487.91	5,616.99
Employee cost	10.69	10.12	5,561.86	4,818.20
Other expenses	5.33	6.38	2,774.09	3,038.15
EBITDA before exceptional items	6.44	14.68	3,351.90	6,985.98
Interest	5.38	5.40	2,800.86	2,572.15
Exceptional items	-	(1.79)	-	(853.18)
EBDT	1.06	11.07	551.04	5,267.01
Depreciation	9.17	9.36	4,769.41	4,456.04
Profit / (loss) before tax	(8.11)	1.70	(4,218.37)	810.97
Tax	-	(0.02)	-	(9.57)
Profit / (loss) after tax	(8.11)	1.72	(4,218.37)	820.54

Material costs

Material cost as a percentage of sales has increased significantly on account of higher input costs in both the Bed Linen and the Silk business. The increase in material cost in the current year over a stable pricing scenario year is estimated to be Rs. 9,000 lakhs. The increase in material costs were mitigated in part through various initiatives taken by the Company in cotton yarn and cotton fabric sourcing.

Manufacturing and Other Expenses

Manufacturing expenses include power and fuel, stores and spares, repairs, design and product development expenses.

The EBIDTA margin (before exceptional item) decreased from 14.68% in 2009-10 to 6.44% in 2010-11 on account of higher input costs. The increase in input costs have been partly mitigated due to various cost optimization measures adopted during the year.

Interest expense is higher at Rs.2,800.86 lakhs (Rs.2,572.15 lakhs in 2009-10) due to higher working capital utilized during the year as well as the impact of the interest on the Technology Up-gradation Fund loan taken for the captive cogeneration power plant – the second boiler of the Captive Power Plant commenced operation during the year.

Tax provision

The Company has made a provision for current taxation amounting to Rs.337.82 lakhs in view of the book profits for one of its division during the current year, and has recognized a minimum alternate tax credit of the same amount in view of reasonable estimates of future taxable profits in the carry forward period.

Share capital

The Company's share capital consists only of equity shares. As on 31st March, 2011, the share capital was Rs.4,922.86 lakhs consisting of 98,457,160 equity shares. The face value of each equity share is Rs. 5/-.

Reserves and surplus

The Company's reserves and surplus at the end of 2009-10 was Rs.51,727.03 lakhs .

Loss of Rs.4,218.37 lakhs for the year resulted in decrease in profit and loss balance.

The Company's reserves and surplus at the end of 2010-11 is Rs.47,508.66 lakhs.

The Company's entire reserve is fully distributable to shareholders. The Company did not have any revaluation reserves as on March 31, 2011.

Loans

The Company has availed a term loan of Rs. 30,000.00 lakhs from Export Import Bank of India and Canara Bank, under the Technology Upgradation Fund (TUF) scheme, for its Bed Linen project. An interest subsidy of 5% is available under this scheme. The loan is repayable in quarterly installments over the next 6 years.

As part of the Bed Linen project, the company has set up a 12.5 MW captive co-generation power plant. The Company has availed a term loan of Rs. 6000.00 lakhs from Canara Bank to set up this facility. The loan is repayable in quarterly installments over the next 8 years.

Total term loans outstanding as at the end of 2010-11 are Rs.32,045.14 lakhs.

The Company has also availed Rs.14,589.02 lakhs as working capital borrowings from its bankers, as on March 31, 2011 as compared to Rs 16,114.74 lakhs as on March 31, 2010.

Fixed Assets

	Value (Rs. in lakhs)	
	2010-11	2009-10
Buildings	13,675.76	13,536.89
Plant and machinery	58,292.86	56,474.53
Others	3.647.50	3,554.31
Gross block	75,616.12	73,565.73
Less: Accumulated depreciation	27,720.62	23,953.90
Net block	47,895.50	49,611.83
Add: Capital work-in-progress	989.23	2,756.47
Net fixed assets	48,884.73	52,368.30
Depreciation as a % of Total income	9.17	9.36
Accumulated depreciation as % of Gross block	36.66	32.56

Investments

As on March 31, 2011, the Company has invested Rs.674.93 lakhs in various schemes of mutual funds.

The mutual fund investments generated a return of 5.58 % in 2010-11, as compared to 5.40% in 2009-10.

On a composite basis (including investments sold and investments held as on March 31, 2011), the return works out to 6.21% as against 5.33 % in the previous year.

As on 31st March, 2011, break up of investments is as follows.

	Value (Rs. in lakhs)	
Investments in subsidiaries	2010-11	2009-10
Himatsingka Wovens Private Limited	1,164.12	1,164.12
Himatsingka America Inc.	17,344.63	16,362.04
Twill & Oxford LLC	37.35	37.35
Giuseppe Bellora S.p.A.	6,875.50	6,875.50
Share application money	3,413.05	2,809.65
Other investments		
Investments in mutual funds	674.93	459.43
Total investments	**29,509.58**	**27,708.09**

Sundry debtors

The total debtors of the Company decreased from Rs.5,325.99 lakhs in 2009-10 (including Rs 4,077.74 lakhs from subsidiaries) to Rs. 4,981.13 lakhs (including Rs.3,450.11 lakhs from subsidiaries) in 2010-11.

The debtors' turnover (days) has reduced from 43 days in 2009-10 to 37 days in 2010-11.

The Company has an excellent track record on the realization of receivables and does not foresee any bad debts. Accordingly, no provision is considered necessary.

Inventories

The Company's inventories – raw materials, stores and spares, work-in-process and finished goods – decreased from Rs.19,682.91 lakhs in 2009-10, to Rs.16,622.29 lakhs in 2010-11 . The focus on effective inventory management has helped to reduce inventory in-spite of increase in prices of all key inputs and increased inventory requirements of co-generation captive power plant.

Cash and cash equivalents

Cash and cash equivalents decreased from Rs.843.98 lakhs to Rs.290.47 lakhs during 2010-11.

Derivative contracts

The Company is exposed to currency fluctuations on foreign currency assets and cash flows denominated in foreign currency. The Company follows a policy of covering the risks arising out of foreign exchange fluctuations through a combination of forward contracts and options.

The only remaining foreign exchange derivative contract has a duration of 60 months, to sell US Dollars on a monthly basis at fixed rate subject to certain conditions. The contract also obligates the Company to pay a notional amount of Swiss Franc and receive notional amount of Rupees based on the Swiss Franc to US Dollar exchange rates during a specified monitoring period in the year 2012. There is significant uncertainty regarding the exchange rates that may be prevalent at that time and consequently the liability, if any, under the contract. Due to this uncertainty, as in the previous year, no provision has been made in the financial statements as at 31 March 2011.

The marked to market valuation, as indicated by the bank, is a loss of Rs 1,957.34 lakhs (previous year Rs.1,136.68 lakhs) as on March 31, 2011.

Financial Performance (Consolidated)

Sales by geographical area:

Country/Region	Mix %		Value (Rs. in lakhs)	
	2010-11	2009-10	2010-11	2009-10
North America	78.97	77.61	95,330.78	82,161.73
Western Europe	14.76	16.57	17,818.53	17,538.87
India	4.45	2.70	5,375.44	2,857.75
Others	1.81	3.13	2,189.76	3,313.10

Expenditure analysis

The major heads of expenses are given below as a percentage of total income.

	Percentage of total income		Value (Rs. in lakhs)	
	2010-11	2009-10	2010-11	2009-10
Material cost	63.97	57.29	79,368.30	62,057.26
Manufacturing expenses	6.56	6.27	8,135.59	6,790.23
Employee cost	11.83	13.80	14,678.19	14,947.54
Other expenses	9.99	12.78	12,392.02	13,849.89
EBITDA before exceptional items	7.65	9.86	9,493.41	10,685.48
Interest	4.23	4.54	5,245.28	4,921.74
Exceptional items	-	(0.79)	-	(853.18)
EBDT	3.42	6.11	4,248.13	6,616.92
Depreciation	4.55	5.05	5,646.17	5,470.70
Profit / (loss) before tax	(1.13)	1.06	(1,398.04)	1,146.22
Tax	0.15	0.16	179.92	174.28
Minority interest	0.06	(0.19)	79.62	(202.27)
Profit / (loss) after tax	(1.34)	1.09	(1,657.58)	1,179.21

Manufacturing and Other Expenses

Manufacturing expenses include power and fuel, stores and spares, repairs, design and product development expenses.

EBIDTA margin (before exceptional item) decreased from 9.86% in 2009-10 to 7.65 % in 2010-11 on account of higher input prices partly mitigated by various cost optimization measures taken by the Company.

Interest expense increased on account of higher working capital requirements and the commencement of the second boiler of the captive cogeneration power plant at Hassan.

Tax provision is as follows.

(Rs. in lakhs)

Current tax	494.59
Less: MAT credit availed	(340.82)
Deferred Tax liability	101.74
Reversal of excess provision of earlier years	(75.59)
Total Tax Provision	179.92

Share capital

The Company's share capital consists of only equity shares. As at year end, the share capital was Rs. 4922.86 lakhs consisting of 98,457,160 equity shares. The face value of each equity share is Rs. 5/-.

Reserves and surplus

The Group's reserves and surplus at the end of 2009-10 was Rs.49,227.35 lakhs .

Loss of Rs.1,657.58 lakhs for the year resulted in decreased profit and loss balance.

Legal reserve increased by Rs.0.27 lakhs on account of exchange fluctuation.

Foreign currency translation reserve has decreased by Rs.195.59 lakhs on account of difference in exchange rates arising on translation of financials from foreign currency to reporting currency.

The Group's reserves and surplus at the end of 2010-11 is Rs.47,374.85 lakhs .

The Group did not have any revaluation reserves as on March 31, 2011.

Secured Loans:

Secured loans decreased from 71,784.53 lakhs in 2009-10 to Rs.66,020.65 lakhs at the end of 2010-11.

Unsecured Loans:

Unsecured loans have increased to Rs.8,436.02 lakhs from Rs. 7,648.53 lakhs in the previous year.

Goodwill on consolidation:

The excess of cost to the Group of its investments in the subsidiary companies over its share of the equity of the subsidiary companies, at the dates on which the investments in the subsidiary companies were made, is recognized as goodwill, being an asset in the consolidated financial statements.

Goodwill has increased by Rs.258.48 lakhs due to foreign exchange fluctuation.

Fixed Assets

	Value (Rs. in lakhs)	
	2010-11	**2009-10**
Buildings	19,731.43	19,736.51
Plant and machinery	60,708.90	58,856.79
Others	10,539.80	10,720.60
Gross block	90,980.13	89,313.90
Less: Accumulated depreciation	36,169.27	32,342.33
Net block	54,810.86	56,971.57
Add: Capital work-in-progress	1,004.78	2,863.44
Net fixed assets	55,815.64	59,835.01
Depreciation as a % of Total income	4.55	5.05
Accumulated depreciation as % of Gross block	39.76	36.21

Investments

As on 31st March, 2011, break up of investments is as follows:

	Value (Rs. in lakhs)	
	2010-11	**2009-10**
Long term investments		
Milano Confezioni S.r.L.	1.24	1.19
BP Venture S.r.L.	893.70	858.36
Industriae Universita S.r.L.	13.67	13.08
ConsorzioTutela Lino	0.87	0.87
Less: Provision for diminution in value of investments	580.16	556.71
Other investments		
Investments in mutual funds	674.93	459.43
Total investments	**1,004.25**	**776.22**

Sundry debtors

The total debtors of the Group decreased from Rs.9,238.31 lakhs in 2009-10 to Rs.7,037.52 lakhs in 2010-11.

The debtors' turnover (days) has reduced from 31 days in 2009-10 to 21 days in 2010-11.

The Group has created a provision of Rs.220.66 lakhs in 2010-11 towards the receivables in the books of overseas subsidiary.

Inventories

The Group's inventories – raw materials, stores and spares, work-in-process and finished goods – decreased from Rs. 39,170.87 lakhs in 2009-10, to Rs.38,394.73 lakhs in 2010-11. The break-up of inventories is as follows:

	Mix%		Value (Rs. in lakhs)	
	2010-11	**2009-10**	**2010-11**	**2009-10**
Raw material	12.93	17.21	4,966.12	6,743.04
Stores and spares	3.26	5.16	1,253.07	2,020.55
Work in progress	30.10	29.13	11,557.72	11,409.30
Finished goods	53.70	48.50	20,617.82	18,997.98
Total	100.00	100.00	38,394.73	39,170.87

Cash and cash equivalents

Cash and cash equivalents decreased from Rs 1,784.79 lakhs to Rs.999.30 lakhs during 2010-11.

Material developments in Human Resources

Our people are our key asset. We have been able to create a work environment that encourages pro-activeness and responsibility. The Company employed 3499 people as on March 31, 2011.

A people oriented work environment combined with a market-driven compensation and benefit package has ensured that we have a moderate attrition rate.

Outlook

With our investments in Bed Linen manufacturing, retailing and overseas acquisitions, we believe we are positioned to embrace the various opportunities available to us in these segments to significantly enhance our revenues and market share.