

**Himatsingka Seide**

ANNUAL REPORT

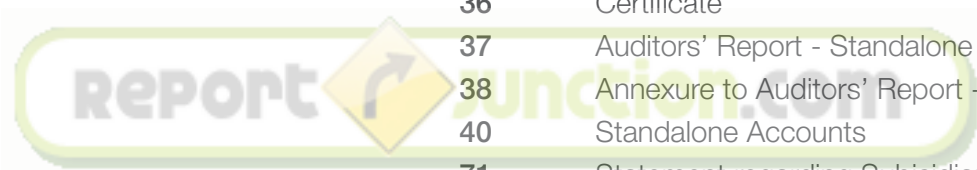
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2007-08



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# Outlook

**Dinesh Himatsingka**  
Managing Director

Dear Shareholders,

2007-2008 has been a rather eventful year for our Company. All the initiatives taken in the previous year have come to fruition. We inched closer to the overall vision to make our Company a vertically integrated home textile player with a global presence.

The new Bed-linen facility at the Hassan SEZ was commissioned during October 2007. This is a significant milestone for the Company from a standpoint of project execution as well as the capability to diversify its product portfolio and make inroads into new markets in the home textile segment.

Having completed the acquisition of Giuseppe Bellora SpA, Italy, we acquired Divatex Home Fashions Inc., USA. Divatex is the third largest distributor of bed linen in the United States. This was followed by the acquisition of DWI Holdings Inc. USA. DWI holds the license to manufacture and distribute Calvin Klein bedding products in the United States, Canada, Mexico and India. In addition, it also has the license to manufacture and distribute Barbara Barry bedding products globally. These three overseas acquisitions and the manufacturing facility at Hassan, enhances our brand portfolio, makes us vertically integrated, and gives us global reach in distribution capabilities.

"ATMOSPHERE", our retail initiative in India and other Asian markets continued to post robust growth. We made a confident start in South East Asia with the opening of our first store in Singapore during October 2007. With this we now have fourteen showrooms under the Atmosphere brand. Our retail foray will be the subject matter of continued focus as we stay engaged in unlocking value for our Company.

As a result, our Company grew at an astounding pace and clocked consolidated revenues of Rs.892.32

crores as against Rs.244.58 crores in the previous year, an increase of 364.83%. Given the sluggish global macro economic environment, this is a considerable achievement. The Company has however posted a loss of Rs.23.99 crores during the year. This is primarily on account of a Rs.49.78 crore loss incurred from the new bed linen facility at Hassan. The loss includes expenses incurred prior to the commissioning of the facility and reflects the low capacity utilization at the plant given its recent commissioning. I expect the plant to stabilize in the current year. In addition to the loss from the bed linen facility, the company also provided Rs.27.77 crores towards an outstanding foreign exchange derivative contract taken to hedge its foreign exchange receivables.

We realize that the macroeconomic environment will be challenging in the coming year given the global slowdown. However, I believe, the vertical business model that we have so painstakingly built, together with our proven design capabilities, will result in enhanced value for our company. The stabilization of the Hassan bed linen plant and the management of foreign exchange risks, will get our focused attention. The year ahead will also be a year of consolidation of our various acquisitions.

I would like to thank the Board of Directors, my colleagues in the Management Team and our employees for their efforts and perseverance during a difficult year. I also thank our shareholders for the confidence reposed in us. I am certain that we have laid the right foundations for the future growth of the Company.

**Dinesh Himatsingka**  
Managing Director  
Himatsingka Seide Limited

## Management Discussion and Analysis

### Himatsingka Seide Limited

#### Industry Structure and Developments

The textile industry is among the largest industry in India in terms of employment generation and foreign exchange earnings. Home textiles segment in which the Company operates is an important part of the textile industry. The global environment in the home textile industry has been undergoing change in view of the increasing impetus on building capacities in the east while consolidating distribution channels in the key markets of the EU region and the United States. There have been consistent capacity additions in the weaving and processing of high-end home furnishing fabrics in India as well as in China.

Global competition, cost competitiveness, low productivity levels and a strong rupee appreciation are some of the key challenges faced by the industry.

India being the second largest producer of cotton, enjoys a competitive edge in low cost cotton sourcing compared to other countries. Design and fashion capabilities are the differentiators that have enabled Indian industry to build relationships with global retailers and score over competition from China and other countries.

The international market of home textiles has been marked by increasing product complexity, higher service standards by manufacturers and shorter delivery cycles. The higher dependence on suppliers for research and development and innovation continues. Hence, investing in design and product development expertise has become a key differentiator in the global equation between buyers and suppliers.

Operating in this segment of the market tests a manufacturer's ability in coping with best in the class technology, global design trends and the ability to harness talent in creating new product lines for the market. 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 enlarging design teams, both in India and overseas, have been an integral part of the Company's strategy. Additionally, with the new bed-linen manufacturing facility and Rs.35 crores investment in the apparel park facility, the Company is positioned to offer its customers a complete range of home textile products.

#### Opportunities

In the home textile space, India's share in the world trade is expected to increase from \$ 1.2 billion currently to \$ 5 billion in 2010. (Source: KSA Technopak). The continuation of Textile 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 going on stream and the acquisitions of Giuseppe Bellora SpA, Divatex Home Fashions Inc and DWI Holdings Inc, the Company has created a strong presence in three segments which include the manufacturing of high end home furnishing fabrics, manufacturing of bed-linen fabric and made-ups and distribution of home furnishing and bed linen products in business-to-business and business-to-customer models.

Having integrated forward into retailing through the 'ATMOSPHERE' brand, the Company also has a strong presence in the Indian market, Middle East and South East Asian markets. The Company plans to continue opening new stores in select cities in India and other Asian markets to drive growth. With 14 stores in its portfolio, including two international stores at Dubai and Singapore, 'ATMOSPHERE' brand has become fairly visible in the home furnishing fraternity.

#### 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 India can potentially be a threat to the market share which the Company commands.

In the bed linen segment, the Company will be competing with other large players in India, Pakistan and China, with similar or larger capacities. 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.

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

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### **Strengths**

Our core strengths continue to be product design and development, 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. In addition, we invest in expanding our design teams both in India and overseas to be able to address the increasing need for new products globally.

We ensure that our marketing team and our global buyers closely interact with our designers. We provide our design team with adequate facilities to enable them to anticipate market trends and create products that are cutting edge, novel and highly creative.

To successfully create products that are differentiated and unique, we constantly upgrade our manufacturing techniques. The array of intelligently balanced machines on our shop floor represents the best that technology has to offer.

Our production facilities remain flexible and unique. 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 upgradation and consistently work towards improving our productivity standards.

In the silk business, we have a growing clientele that is 150-strong. We sell to highly reputed international brands in the home textiles and apparel space. Our customers' 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.

The acquisitions during the last eighteen months have given the Company strategic foothold in the home textiles space of United States of America and Italy.

The acquisition of Giuseppe Bellora S.p.A in the previous year offers a significant share in the luxury market in Italy which gives us a platform to expand our business in the European market.

The acquisition of Divatex Home Fashions Inc. brings distribution strength for our bedding products. Divatex is the third largest distributor of bed linen products in the USA.

The acquisition of DWI Holdings Inc. which possesses licenses of luxury home textile brands such as Calvin Klein Home, Barbara Barry Home and Royal Sateen 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

(Value in Rs. crores)

Parameter	2007-08		2006-07	
	Quantity	Value	Quantity	Value
Silk/Blended Fabrics (meters)	15,69,667	146.09	15,77,386	148.84
Spun silk/ blended Yarn (kgs)	1,43,151	25.26	1,35,218	25.32
Bed linen Fabric (meters)	2,01,492	3.83	-	-
Bed linen Sets (nos.)	7,74,350	57.50	-	-

Sales realisation for silk fabric increased from US \$ 20.93 per meter in the previous year to US \$ 23.10 per meter. However, due to appreciation of the Indian rupee by 10.6% during the year, the realisation in the Indian rupee declined from Rs.943.53 to Rs.930.71 per meter.

### Sales by geographical area

(Rs. crores)

Country/Region	Value 2007-08	Value 2006-07
USA	107.10	58.15
Western Europe	90.70	86.69
India	18.68	16.15
Others	16.20	13.17

### Revenue break-up

(Rs. crores)

	2007-08	%	2006-07	%
Sales	232.68	93.20	174.16	86.55
Other income	16.97	6.80	27.06	13.45
Total income	249.65	100.00	201.22	100.00

### Expenditure analysis

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

(Rs. crores)

	2007-08	%	2006-07	%
Material cost	113.01	45.27	61.06	30.34
Manufacturing expenses	32.50	13.02	16.27	8.09
Employee cost	41.37	16.57	25.22	12.53
Other expenses	28.46	11.40	23.24	11.55
EBIDTA before exceptional item	34.29	13.74	75.43	37.49
Interest	9.05	3.63	0.45	0.22
Exceptional item	27.77	11.12	-	-
EBDT	(2.53)	(1.01)	74.98	37.27
Depreciation	26.37	10.56	14.04	6.98
Profit/(Loss) before tax	(28.90)	(11.57)	60.94	30.29
Tax	(2.86)	(1.14)	6.33	3.15
Profit/(Loss) after tax	(26.04)	(10.43)	54.61	27.14

Since the bed linen facility is commissioned during the year, the costs as a percentage of sales for the current year are not comparable with the previous year.

### Material costs

Material cost as a percentage of sales has gone up due to

- Inclusion of results of bed linen operations during the current year which has higher material costs.
- Though raw silk prices have been lower in the current year due to appreciation of the Indian rupee, material cost as a percentage of sales has marginally increased due to lower sales realisation per meter on rupee basis.

### Manufacturing and Other Expenses

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

EBITDA margin (before exceptional item) declined from 37.49% in 2006-07 to 13.74% in 2007-08 primarily due to loss of Rs.22.45 crores at EBITDA level on account of the bed linen operations during the year.

Interest expense is higher at Rs.9.05 crores (Rs.0.45 crores in 2006-07) due to interest on TUF loan and working capital loans for bed linen facility availed by the Company.

Depreciation is also higher due to capitalisation of bed linen facility in the third quarter of the current year.

Tax provision is as follows:

	(Rs. crores)
Current Tax	1.29
Less: MAT Credit availed	(1.29)
Reversal of Deferred Tax liability	(3.66)
Fringe Benefit Tax	0.80
Total Tax Provision	(2.86)

### Share capital

The Company's share capital consists only of equity shares. As on 31st March, 2008, the share capital was Rs.49.23 crores consisting of 9,84,57,160 equity shares. The face value of each equity share is Rs.5/-.

### Reserves and surplus

The Company's reserves and surplus stood at Rs.552.39 crores at the end of 2006-07.

Rs.12.80 crores was added to share premium account towards issue of equity shares to promoters/ promoter group on conversion of warrants, during the year 2007-08.

Loss of Rs.26.04 crores for the year resulted in reduction in the profit and loss balance.

During the year Rs.0.44 crores was adjusted against opening balance of General reserves on account of employee benefits due to revised Accounting Standard 15 – Employee benefits as per transitional provision.

The Company's reserves and surplus stood at Rs.538.71 crores at the end of 2007-08.

The Company's entire reserve position was fully distributable to shareholders. The Company did not have any revaluation reserves as on March 31, 2008.

### Loans

The Company has availed a term loan of Rs.300 crores, at a weighted average interest of 8.35% per annum 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 33 quarterly instalments after a initial moratorium of two years. Total term loans outstanding as at the end of 2007-08 is Rs.310.17 crores, including Rs.12.44 crores availed during 2004-05 for addition of weaving looms in the silk facility.

The Company has also availed Rs.86.92 crores as working capital borrowings from its bankers, as on March 31, 2008.



## Fixed Assets

(Rs. crores)

Particulars	2007-08	2006-07
Buildings	103.37	25.20
Plant and machinery	458.42	190.00
Others	32.75	24.30
Gross block	594.54	239.50
Less: Accumulated depreciation	149.28	134.24
Net block	445.26	105.26
Add: Capital work-in-progress	46.45	250.76
Net fixed assets	491.71	356.02
Depreciation as a % of Total Income	10.56	6.98
Accumulated Depreciation as a % of Gross Block	25.11	56.05

## Investments

Surpluses generated by the business are used to fund the Company's growth.

As on March 31, 2008, the Company has invested Rs.17.79 crores in various schemes of mutual funds.

During the year, the Company invested Rs.7.50 crores towards additional equity in Himatsingka Wovens Pvt Ltd (HWPL). This was done to part finance the setting up of Apparel Park unit by HWPL.

During the year, the Company invested Rs.102.94 crores towards additional equity in Himatsingka America Inc (HimA) to facilitate the acquisition of Divatex Home Fashions Inc., and DWI Holdings Inc. by HimA.

The mutual fund investments generated a return of 8.01% in 2007-08, as compared to 7.51% in 2006-07. On a composite basis (including investments sold and investments held as on March 31, 2008), the return works out to 7.78% (7.49%).

As on 31st March, 2008, break up of investments is as follows:

(Rs. crores)

Investments in subsidiaries	As on 31.3.2008	As on 31.3.2007
- Himatsingka Wovens Pvt Ltd	11.64	4.14
- Himatsingka America Inc.	109.85	6.91
- Twill & Oxford LLC	0.37	0.37
- Giuseppe Bellora SpA	68.76	68.76
<b>Other investments</b>		
- Investment in US 64 bonds	1.67	1.67
- Investment in mutual funds	16.36	49.35
Total Investments	208.65	131.20
Less: Provision for diminution in value	0.24	0.10
<b>Net investments as on 31st March, 2008</b>	<b>208.41</b>	<b>131.10</b>

## Sundry debtors

The total debtors of the Company increased from Rs.41.48 crores in 2006-07 (including Rs.15.76 crores from subsidiaries) to Rs.59.26 crores (including Rs.33.01 crores from subsidiaries) in 2007-08.

The debtors' turnover (days) was maintained at 87 days.

The Company has an excellent track record on the realisation 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 – increased from Rs.49.26 crores in 2006-07, to Rs.100.45 crores in 2007-08. The inventory levels increased due to the commissioning of the bed linen plant during the year. The break-up of inventories is as follows:

	2007-08	%	2006-07	%	YoY%
Raw material	30.66	31.26	14.20	28.82	(20.8%)
Stores and spares	8.20	7.43	2.33	4.73	50.32%
Work-in-process	50.27	50.04	26.23	53.26	40.12%
Finished goods	11.32	11.27	6.50	13.19	52.22%
Total	100.45	100.00	49.26	100.00	15.96%

For the silk business, the Company mainly imports its raw material from China and Brazil. It maintains about four months of raw material inventory to overcome any temporary disruptions in supply. At times, this inventory is stepped up to six months to take advantage of lower raw material prices.

India being the second largest producer of cotton, the main raw material for the bed linen facility, availability is assured throughout the year.

#### Cash and cash equivalents

Cash and cash equivalents decreased from Rs.224.10 crores to Rs.8.56 crores during 2007-08 on account of infusion of funds in Himatsingka America Inc., for the acquisition of Divatex Home Fashions Inc., and DWI Holdings Inc.

#### Derivative contracts

The Company is exposed to foreign currency fluctuations on foreign currency assets and forecasted cash flows denominated in foreign currency and follows a policy of covering the risks arising out of foreign exchange fluctuations through a combination of forward contracts and options. During the year ended 31st March, 2008, apart from forward contracts, the Company, entered into three foreign exchange derivative contracts.

The Company has accounted for marked to market loss of Rs.27.77 crores as indicated by the contracting bank in respect of the foreign exchange derivative contract.

#### Financial Performance (Consolidated)

##### Sales by geographical area

Country/Region	Value 2007-08	Value 2006-07
USA	573.49	59.23
Europe	245.39	102.99
India	31.75	25.20
Others	19.65	21.69

#### Revenue break up

	2007-08	%	2006-07	%
Sales	870.28	97.53	209.11	85.50
Other Income	22.04	2.47	35.47	14.50
Total Income	892.32	100.00	244.58	100.00

The results of the current year are not comparable with the previous year on account of acquisitions made during the year and the commissioning of the bed linen facility during the mid year.