Himatsingka Seide
ANNUAL REPORT
2008-09

Outlook

Dinesh Himatsingka
Managing Director

Dear Shareholders,

While consolidated revenues grew 16.62% to Rs. 1,039.59 crores as against Rs. 891.47 crores during the previous year, it has been another challenging year for the company.

The unprecedented economic slowdown witnessed the world over coupled with extreme volatility in financial and foreign exchange markets, made the management of business a lot more complex. Our key markets in North America and Western Europe have reacted unfavorably to these adverse economic conditions.

While operational progress was achieved in our bed linen manufacturing division, we continued to face pressure on margins due to steep increases in input costs.

Our distribution entities acquired during the previous financial year, viz., Divatex, DWI and Bellora, were impacted by the serious slowdown in the economies of North America and Europe. However, it is interesting to note that in spite of this, the advantages of being vertically integrated are now increasingly apparent. Apart from giving us a strong presence in key markets the integrated model has also enabled us to maintain a healthy order book.

The financial performance during the year has been primarily impacted by a Rs. 43 crore loss attributable to closure / provisioning on account of foreign exchange derivative contracts, a Rs 18 crore loss incurred on account of foreign exchange translation/realization and a loss of Rs. 15 crore on account of the stabilization of the Bed Linen plant in the first half of the financial year.

We have taken adequate steps to significantly eliminate the impact of foreign exchange derivatives on our financials.

In the current financial year, I am hopeful that our manufacturing and distribution businesses will continue to demonstrate stability. The possibilities of new markets, new product lines and new distribution channels are exciting and will be a key differentiator to growth.

We expect the commissioning of our 12.5 MW captive power plant to be completed by the end of second quarter of the current financial year. This is expected to significantly reduce the cost of operations at the Bed Linen plant.

The management team is focused on restoring the competitive advantage in our operational disciplines in the current year. However, further radical change is required to deliver the return to the previous levels of performance. I am pleased with the momentum of actions of the past six months and see these as a first step to delivering the required changes within the group.

I would like to thank the Board of Directors, my colleagues in the management team and our employees for their hard work and commitment. I also thank our shareholders for their continued support and the confidence reposed in us.

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 industries in India in terms of employment generation and foreign exchange earnings. The industry caters to both the local and export markets. The Home textiles segment in which the Company operates is an important part of the textile industry. The company caters to a predominantly export oriented market. The global environment in the home textile industry has significantly stressed on account of the demand recession in the global markets.

Global recession, competition, cost competitiveness, low productivity levels and volatile movement in the value of the rupee vis-à-vis global currencies, 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, shorter delivery cycles and very tight sourcing by retailers. 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 Himatsingka strategy. The silk and silk blended manufacturing unit at Dodballapur, the bed-linen manufacturing facility at Hassan and the Apparel Park made-ups facility at Dodballapur positions the Company to offer its customers a complete range of home textile products.

Opportunities

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 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 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. The company's silk business addresses a high end clientele in this segment of business. 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 segment, 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.

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

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 up-gradation and consistently work towards improving our productivity standards.

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.

The overseas acquisitions of distribution companies have given the Company a strategic foothold in the home textiles markets of North America and Europe.

Our distribution presence in Europe, Giuseppe Bellora S.p.A, offers a significant share in the luxury market in Italy and gives us a platform to expand our business in the other markets in Europe.

Our twin distribution presence in the United States -

- Divatex Home Fashions Inc. is the third largest distributor of bed linen products in the USA and gives the company deep inroads into the private label market or our bedding products.
- 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)

	2008-09		2007-08	
Parameter	Quantity	Value	Quantity	Value
Silk / Blended fabrics (meters)	1,159,954	118.76	1,569,667	146.09
Spun silk / blended yarn (kgs)	86,942	18.74	143,151	25.26
Bed Linen fabric (meters)	690,240	13.77	201,492	3.83
Bed Linen sets (nos.)	2,161,810	257.04	774,350	57.50

Sales realisation for silk fabric increased from US $ 23.10 per meter in the previous year to US $ 24.82 per meter. Further, due to the 13.01 % depreciation of the rupee during the year, the realisation in rupees increased from Rs 930.71 per meter to Rs. 1023.83.

The sales volume has been showing a steady decline in spite of higher realization per meter due to the extreme recessionary conditions in the markets of United States and Europe.

Sales by geographical area:

(Rs. crores)

Country/Region	2008-09	2007-08
USA	288.06	107.10
Western Europe	89.22	90.70
India	18.04	18.68
Others	12.99	16.20

Revenue break-up

(Rs. Crores)

	2008-09	%	2007-08	%
Sales	408.31	95.75	232.68	93.20
Other income	18.11	4.25	16.97	6.80
Total income	426.42	100.00	249.65	100.00

Expenditure analysis

(Rs. Crores)

	2008-09	%	2007-08	%
Material cost	197.53	46.32	113.02	45.27
Manufacturing expenses	59.71	14.00	32.31	12.94
Employee cost	46.33	10.86	40.33	16.15
Other expenses	46.74	10.96	29.35	11.76
EBIDTA before exceptional item	76.11	17.85	34.64	13.88
Interest	19.67	4.61	9.40	3.77
Exceptional item	42.56	9.98	27.77	11.12
EBDT	13.88	3.26	(2.53)	(1.01)
Depreciation	47.18	11.06	26.37	10.56
Profit/ (Loss) before tax	(33.30)	(7.81)	(28.90)	(11.57)
Tax	(0.32)	(0.07)	(2.86)	(1.14)
Profit/ (Loss) after tax	(32.98)	(7.73)	(26.04)	(10.43)

Since the bed linen facility was commissioned on 12th October 2007, 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 depreciation of the rupee and higher cost of inputs

Manufacturing and Other Expenses

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

The EBITDA margin (before exceptional item) increased from 13.88% in 2007-08 to 17.85% in 2008-09 on account of higher capacity utilisation at the Bed-linen facility.

Interest expense is higher at Rs.19.67 crores (Rs.9.40crores in 2007-08) due to interest on TUF loan and working capital loans for bed linen facility availed by the Company.

Depreciation is also higher due to full year impact of the capitalisation of bed linen facility. The bed linen facility was commissioned on 12th October 2007 and hence the previous year has only partial impact of depreciation.

The exceptional item includes the loss on closure of one derivative amounting to Rs. 9.23 crores and the provision of Rs. 33.33 crores on account of the second derivative.

Tax provision is as follows:

(Rs. Crores)

Current Tax	0.61
Less: MAT Credit availed	(0.61)
Fringe Benefit Tax	0.71
Reversal of excess provision of earlier years	(1.03)
Total Tax Provision	(0.32)

Share capital

The Company's share capital consists only of equity shares. As on 31st March, 2009, 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.538.71 crores at the end of 2007-08.

Loss of Rs. 32.98 crores for the year resulted in reduction in the profit and loss balance.

The Company's reserves and surplus stood at Rs.505.73 crores at the end of 2008-09.

The Company's entire reserve position was fully distributable to shareholders. The Company did not have any revaluation reserves as on March 31, 2009.

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. As part of the bed linen project the company is also setting up a Captive Co-generation Power Plant. The company has availed a term loan of Rs. 60 crores from Canara Bank to set up this facility. The loan is repayable in 32 quarterly instalments after a initial moratorium of two years The plant is likely to be commissioned in the second half of the current financial year.

Total term loans outstanding as at the end of 2008-09 are Rs.326.47 Crores.

The Company has also availed Rs.90.53 crores as working capital borrowings from its bankers, as on March 31, 2009.

Fixed Assets

(Rs. Crores)

Particulars	2008-09	2007-08
Buildings	117.63	103.37
Plant and machinery	507.59	458.42
Others	35.01	32.75
Gross block	660.22	594.54
Less: Accumulated depreciation	195.84	149.28
Net block	464.38	445.26
Add: Capital work-in-progress	56.28	46.45
Net fixed assets	520.66	491.71
Depreciation as a % of Total Income	11.06	10.56
Accumulated Depreciation as a % of Gross Block	29.66	25.11

Investments

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

As on March 31, 2009, the Company has invested Rs. 29.13 crores in various schemes of mutual funds.

The mutual fund investments generated a return of 4.69 % in 2008-09, as compared to 8.01% in 2007-08. On a composite basis (including investments sold and investments held as on March 31, 2008), the return works out to 4.96 % as against 7.78 % in the previous year.

As on 31st March, 2009, break up of investments is as follows:

(Rs. Crores)

Investments in subsidiaries	As on 31.3.2009	As on 31.3.2008
- Himatsingka Wovens Pvt Ltd	11.64	11.64
- Himatsingka America Inc.	109.85	109.85
- Twill & Oxford LLC	0.37	0.37
- Giuseppe Bellora SpA	68.76	68.76
- Share application money	20.82	15.14
Other investments		
- Investment in US 64 bonds	0.53	1.67
- Investment in mutual funds	28.62	16.36
Total Investments	240.58	223.79
Less: Provision for diminution in value	0.02	0.24
Net investments as on 31st March, 2009	240.56	223.55

Sundry debtors

The total debtors of the Company decreased from Rs. 59.26 crores in 2007-08 (including Rs 33.01 crores from subsidiaries) to Rs. 54.57 crores (including Rs 41.52 crores from subsidiaries) in 2008-09.

The debtors' turnover (days) was maintained at 49 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. 100.45 crores in 2007-08, to Rs. 120.69 crores in 2008-09 . The inventory levels increased due to the commissioning of the bed linen plant during the previous year. The break-up of inventories is as follows:

(Rs. crores)

	2008-09	%	2007-08	%	2006-07
Raw material	23.03	19.08	30.66	31.26	14.20
Stores and spares	9.11	7.55	8.20	7.43	2.33
Work-in-process	78.01	64.64	50.27	50.04	26.23
Finished goods	10.54	8.73	11.32	11.27	6.50
Total	**120.69**	100.00	100.45	100.00	49.26

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 through out the year.

Cash and cash equivalents

Cash and cash equivalents decreased from Rs. 8.56 crores to Rs 3.28 crores during 2008-09.

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. During 2007-08, apart from forward contracts, the Company, entered into three foreign exchange derivative contracts.

(i) During the year in respect of one of the derivative contracts, based on an external valuation, the Company has accounted for a mark to market loss of Rs. 33.33 crores (previous year - Rs.27.77 crores) as an exceptional item in the profit and loss account.

(ii) In respect of the second contract, the Company had in the previous year filed a suit against the counter party with which it had entered into a derivative contract, based on advice from legal counsel, that such a contract was *void ab initio* and not binding on the Company.

During the year, the Company and the counter- party have closed all disputes pertaining to the said contract by way of an out of court settlement for an amount of Rs.9.23 crores, which has been paid by the Company. The same has been treated as an exceptional item in the profit and loss account.

(iii) The third 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 2009.

The marked to market valuation, as indicated by the bank, is a loss of Rs. 21.88 crores (previous year Rs.6.85 crores) as on March 31, 2009.

Financial Performance (Consolidated)

Sales by geographical area:

(Rs. crores)

Country/Region	2008-09	2007-08
USA	682.95	573.49
Europe	189.19	245.39
India	31.77	31.75
Others	115.37	19.65

Revenue break up

(Rs. Crores)

	2008-09	%	2007-08	%
Sales	1,019.28	98.05	870.27	97.53
Other Income	20.31	1.95	21.20	2.47
Total Income	1,039.59	100.00	891.47	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.

Expenditure analysis

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

(Rs. Crores)

	2008-09	%	2007-08	%
Material cost	576.42	55.45	519.61	58.29
Manufacturing expenses	76.28	7.34	63.43	7.12
Employee cost	155.45	14.95	123.19	13.82
Other expenses	170.17	16.37	120.19	13.48
EBIDTA before exceptional item	61.27	5.89	65.05	7.30
Interest	36.72	3.53	25.16	2.82
Exceptional item	42.56	4.09	25.65	2.88
EBDT	(18.01)	(1.73)	14.24	1.60
Depreciation	59.88	5.76	35.88	4.02
Profit/ (Loss) before tax	(77.89)	(7.49)	(21.64)	(2.43)
Tax	0.75	0.07	5.39	0.60
Minority interest (gain)	(4.22)		(3.04)	
Profit/(Loss) after tax	(74.42)	(7.16)	(23.99)	(2.69)

Commercial production at Bed Linen facility commenced on October 12, 2007. The group acquired Divatex Home Fashions Inc., on June 30, 2007 and DWI Holdings Inc., on October 18, 2007. The results for the year ended March 31, 2009 are hence not comparable with the results for the year ended March 31, 2008.

Manufacturing and Other Expenses

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

EBIDTA margin (before exceptional item) declined from 7.3% in 2007-08 to 5.89 % in 2008-09 due to

- Loss of Rs. 22.45 crores at EBIDTA level on account of the bed linen operations during the year.
- Overseas distribution entities operated at a lower EBIDTA margin on account of tight market conditions.

Interest expense and depreciation are not comparable with the previous year due to inclusion of results of bed linen operations and newly acquired entities during the current year.

Tax provision is as follows:

(Rs. Crores)

Current tax	2.36
Less: MAT credit availed	(0.47)
Reversal of deferred tax liability	(0.87)
Fringe benefit tax:	0.76
Reversal of excess provision of earlier years	(1.03)
Total Tax Provision	0.75

Share capital

The Company's share capital consists only of equity shares. As on 31st March, 2009, 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. 540.25 crores at the end of 2007-08.

Loss of Rs. 74.42 crores for the year resulted in reduction in the profit and loss balance.

Legal reserve moved by Rs 0.0004 crores on account of exchange fluctuation and consolidation adjustments.

Foreign currency translation reserve has increased by Rs. 33.11 crores on account of difference in exchange rates arising on translation of financials from foreign currency to reporting currency.

The Company's reserves and surplus stood at Rs. 498.94 crores at the end of 2008-09.

The Company did not have any revaluation reserves as on March 31, 2009.

Secured Loans:

Secured loans have increased to Rs. 525.61 crores mainly due to term loan taken for the captive power plant project at Hassan SEZ, working capital facilities availed during the year and inclusion of secured loans of the entities acquired during the year.

Unsecured Loans:

The company has availed working capital facility for effective cash management thereby increasing the unsecured loans to Rs. 127.50 crores.

Goodwill on consolidation:

The excess of cost to the Company 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. 72.12 crores during the year primarily arising from foreign exchange fluctuation.

Fixed Assets

(Rs crores)

	2008-09	2007-08
Buildings	186.55	167 .72
Plant and machinery	532.83	489.00
Others	114.13	117.79
Gross block	833.51	774.51
Less: Accumulated depreciation	281.84	238.40
Net block	551.67	536.11
Add: Capital work-in-progress	56.23	46.63
Net fixed assets	607.90	582.74
Depreciation as a % of Total Income	5.76	4.02
Accumulated Depreciation as a % of Gross Block	33.81	30.78

Investments

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

As on March 31, 2009, the Company has invested Rs. 29.13 crores in various schemes of mutual funds.

The mutual fund investments generated a return of 4.69 % in 2008-09, as compared to 8.01% in 2007-08. On a composite basis (including investments sold and investments held as on March 31, 2008), the return works out to 4.96 % as against 7.78 % in the previous year.

As on 31st March, 2009, break up of investments is as follows:

(Rs crores)

Long term investments	**31.03.2009**	**31.03.2008**
Milano Confezioni S.r.l	0.01	0.01
BP Venture S.r.l	9.55	8.75
Industria e Universita S.r.l	0.15	0.14
Consorzio Tutela Lino	0.01	0.01
Spazio S.r.l	0.00	0.03
Banca Intesa debentures	0.00	0.29
Less: Provision for diminution in value of investments	6.20	5.60
	3.52	**3.63**
Other investments		
- Investment in US 64 bonds	0.53	1.67
- Investment in mutual funds	28.62	16.36
Total Investments	32.67	21.66
Less: Provision for diminution in value	0.02	0.24
Net investments as on 31st March, 2009	**32.65**	**21.42**

Sundry debtors

The total debtors of the Company increased from Rs. 115.62 crores in 2007-08 to Rs.195.34 crores in 2008-09.

The debtors' turnover (days) has increased from 48 days in 2007-08 to 70 days in 2008-09 primarily due to the global economic slowdown resulting in higher collection period.

The Company has created a provision of Rs. 2.60 crores in 2008-09 towards the receivables in the books of overseas subsidiary.