Himatsinga Seide

ANNUAL REPORT

2009-10

CONTENTS

Management Discussion and Analysis

Himatsingka Seide Limited

Industry Structure and Developments

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. The Company operates in the home textiles segment, an important part of the textile industry. The global environment in the home textile industry has been stable in the past year. There has been a conscious movement towards brand expansion at lower price points. The industry in these difficult times has therefore been consciously cultivating the mid market segment.

Global demand , competition, cost competitiveness, low productivity levels, high input costs and the rupee volatility 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. However the last year has seen a continuous upward spiral of cotton prices (consequentially impacting cotton yarn prices) in India.

The international home textiles market has been marked by increasing product complexity, higher service standards by manufacturers, shorter delivery cycles and very tight sourcing by retailers thereby resulting in inability to pass on higher input prices.

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. Hence, investing in design and product development expertise has become key for success.

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. Additionally, with the investments in the bed-linen manufacturing facility, the Company is positioned to offer its customers a complete range of home textile products.

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. The company's span of operations include the manufacture of high end Silk/blended home furnishing fabrics, the manufacture of bed-linen fabric and made-ups and distribution of Silk/blended home furnishing and Bedlinen products in business-to-business and business-to-customer models.

In the Silk business, the company has integrated forward into retailing through the 'ATMOSPHERE' brand and has a presence in the Indian markets, the Middle East and South East Asian markets. With 14 stores in its portfolio, including two international stores at Dubai and Singapore, the '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 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 Bedlinen 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 of prices in both the Cotton Yarn and Silk Yarn. The increase has been quite significant and there appears to be no possibility of passing on increase in input prices in the short run by way of increase of sales realisations.

Strengthening of the Indian rupee vis-à-vis other currencies 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 in the Bedlinen business, have given the Company a strategic foothold in the home textiles space of United States of America and Italy.

Our Bedlinen 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 Bedlinen distribution presence in the United States -

Divatex Home Fashions Inc. is the third largest distributor of Bedlinen products in the USA and gives the company deep inroads into the private label market.

DWI Holdings Inc. 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

(Rs. in lakhs)

	2009-10		2008-09	
Parameter	Quantity	Value	Quantity	Value
Silk / Blended fabrics (meters)	913,756	8,967.90	1,159,954	11,875.96
Spun silk / blended yarn (kgs)	39,050	660.63	86,942	1,874.17
Bed Linen fabric (meters)	611,321	1,126.71	690,240	1,376.83
Bed Linen sets (nos.)	3,068,737	34,869.53	2,161,810	25,703.57

Sales realization for silk/blended fabric decreased from US $ 24.82 per meter in the previous year to US $ 24.01 per meter. Further, due to the 3.72 % appreciation of the rupee during the year, the realization in rupees decreased from Rs 1023.83 per meter to Rs.981.74.

Sales realization for Bedlinen decreased from US $ 5.23 per meter in the previous year to US $ 4.77 per meter in the current year. Consequently the realizations in rupees decreased from Rs. 244.97 per meter to Rs. 225.21.

The sales meterage in the Silk business has shown a 21.25 % decline of due to the extreme recessionary conditions in the markets of United States and Europe. However the Bedlinen business has shown an increase of 44.82 % in meterage sold.

Sales by geographical area:

(Rs. in lakhs)

Country/Region	Value 2009-10	Value 2008-09
USA	36,810.33	28,806.18
Western Europe	4,218.87	8,921.82
India	2,003.20	1,803.63
Others	2,592.37	1,298.89

Revenue break-up

(Rs. in lakhs)

	2009-10	%	2008-09	%
Sales	45,624.77	95.86	40,830.53	95.70
Other income	1,968.04	4.14	1,833.43	4.30
Total income	47,592.81	100.00	42,663.96	100.00

Expenditure analysis

(Rs. in lakhs)

	2009-10	%	2008-09	%
Material cost	27.133.49	57.01	19,753.24	46.30
Manufacturing expenses	5,616.99	11.80	5,970.83	14.00
Employee cost	4,818.20	10.12	4,632.77	10.86
Other expenses	3,171.98	6.66	4,696.10	11.01
EBIDTA before exceptional item	6,852.15	14.40	7,611.02	17.84
Interest	2,438.32	5.12	1,966.76	4.61
Exceptional item (gain) / loss	(853.18)	(1.79)	4,255.81	9.98
EBDT	5,267.01	11.07	1,388.45	3.25
Depreciation	4,456.04	9.36	4,718.01	11.06
Profit/ (Loss) before tax	810.97	1.70	(3,329.56)	(7.80)
Tax	(9.57)	(0.02)	(31.76)	(0.07)
Profit/ (Loss) after tax	820.54	1.72	(3,297.80)	(7.73)

Note: Figures are net of pre-operative expenses capitalised

Material costs

Material cost as a percentage of sales has gone up appreciably on account of higher input costs in both the Bedlinen and the Silk business.

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 17.84% in 2008-09 to 14.40% in 2009-10 on account of higher input costs. The 10.71 % increase in input costs have been mitigated in some measure by cost optimization measures adopted during the year resulting in a cost saving of 7.29 %.

Interest expense is higher at Rs.2438.32 lakhs (Rs.1966.76 lakhs in 2008-09) due to higher working capital utilized as well as the impact of the TUF loan taken for the Captive Cogeneration Power Plant for the Bedlinen facility.

The exceptional item represents gain of Rs. 853.18 Lakhs on closure of one derivative. The Mark to Market value, at the time of closure of this derivative, was significantly lower than the provisions made for the same, hence resulting in such gain.

Tax provision is as follows:

(Rs. in lakhs)

Current Tax	369.72
Less: MAT Credit availed	(369.72)
Reversal of excess provision of earlier years	(9.57)
Total Tax Provision	(9.57)

Share capital

The Company's share capital consists only of equity shares. As on 31st March, 2010, the share capital was Rs.4922.86 lakhs 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.50,572.63 lakhs at the end of 2008-09.

Profit of Rs.820.54 lakhs for the year resulted in increased profit and loss balance.

Proposed dividend of Rs.246.14 lakhs and Tax on distributed profits of Rs.40.88 lakhs resulted in reduction of profit and loss balance.

Forfeited share application money of Rs.620.88 lakhs has been transferred to capital reserve account during the year.

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

The Company's entire reserve position was fully distributable to shareholders. The Company did not have any revaluation reserves as on March 31, 2010.

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 Bedlinen project. An interest subsidy of 5% is available under this scheme. The loan is repayable in 33 quarterly installments after an initial moratorium of two years.

As part of the Bedlinen project, the company has set up a 12.5 MW Captive Co-generation Power Plant. The company has availed a term loan of Rs. 56.08 crores from Canara Bank to set up this facility. The loan is repayable in 32 quarterly instalments after an initial moratorium of two years.

Total term loans outstanding as at the end of 2009-10 are Rs.33303.28 lakhs.

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

Fixed Assets

(Rs. in lakhs)

Particulars	2009-10	2008-09
Buildings	13,536.89	11,762.61
Plant and machinery	56,474.53	50,759.32
Others	3,554.31	3,500.52
Gross block	73,565.73	66,022.45
Less: Accumulated depreciation	23,953.90	19,584.14
Net block	49,611.83	46,438.31
Add: Capital work-in-progress	2,756.47	5,627.71
Net fixed assets	52,368.30	52,066.02
Depreciation as a % of Total Income	9.36	11.06
Accumulated Depreciation as a % of Gross Block	32.56	29.66

Investments

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

As on March 31, 2010, the Company has invested Rs.459.43 lakhs in various schemes of mutual funds.

The mutual fund investments generated a return of 5.40% in 2009-10, as compared to 4.69% in 2008-09. On a composite basis (including investments sold and investments held as on March 31, 2009), the return works out to 5.33% as against 4.96% in the previous year.

As on 31st March, 2010, break up of investments is as follows:

(Rs. in lakhs)

Investments in subsidiaries	As on 31.3.2010	As on 31.3.2009
- Himatsingka Wovens Pvt Ltd	1,164.12	1,164.00
- Himatsingka America Inc.	16,362.04	10,985.21
- Twill & Oxford LLC	37.35	37.35
- Giuseppe Bellora SpA	6,875.50	6,875.50
- Share application money	2,809.65	2,081.72
Other investments		
- Investment in US 64 bonds	-	52.50
- Investment in mutual funds	459.43	2,862.00
Total Investments	27,708.09	24,058.28
Less: Provision for diminution in value	-	1.95
Net investments as on 31st March	27,708.09	24,056.33

Himatsingka America Inc. (a 100% subsidiary of Himatsingka Seide Limited) settled deferred payment obligations during the year, for earlier acquisitions. The parent has therefore infused additional equity in Hima during the year, to the extent of Rs.5376.83 Lakhs for the settlement of these deferred payment obligations.

Sundry debtors

The total debtors of the Company decreased from Rs.5,456.91 lakhs in 2008-09 (including Rs 4,152.04 lakhs from subsidiaries) to Rs. 5,325.99 lakhs (including Rs.4,077.74 lakhs from subsidiaries) in 2009-10.

The debtors' turnover (days) has reduced from 49 days in 2008-09 to 43 days in 2009-10.

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 – increased from Rs.12,068.87 lakhs in 2008-09, to Rs.19,682.91 lakhs in 2009-10 . The inventory levels have increased due to the lower off take of product in the silk business, increase in raw material prices across the Silk and Bedlinen Businesses, increased inventory requirements of the newly commissioned Captive Cogeneration power plant during the previous year and due to higher capacity utilization at the Bedlinen plant.

The break-up of inventories is as follows:

(Rs. in lakhs)

	2009-10	%	2008-09	%
Raw material	5,517.50	28.03	2,303.43	19.09
Stores and spares	1,965.60	9.99	910.96	7.55
Work-in-process	10,772.59	54.73	7,800.50	64.63
Finished goods	1,427.22	7.25	1,053.98	8.73
Total	**19,682.91**	100.00	12,068.87	100.00

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 Bedlinen facility - availability is assured through out the year.

Cash and cash equivalents

Cash and cash equivalents increased from Rs. 328.17 lakhs to Rs.843.98 lakhs during 2009-10.

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 the year the Company accounted for a mark to market gain of Rs.853.18 lakhs as an exceptional item in the profit and loss account, on settlement of a foreign exchange derivative contract.

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 2010.

The marked to market valuation, as indicated by the bank, is a loss of Rs 1136.68 lakhs (previous year Rs.2188.45 lakhs) as on March 31, 2010.

Financial Performance (Consolidated)

Sales by geographical area:

(Rs. in lakhs)

Country/Region	Value 2009-10	Value 2008-09
USA	83,359.21	68,295.27
Europe	15,500.03	18,919.47
India	3,436.99	3,177.08
Others	3,575.23	11,536.64

Revenue break up

(Rs. in lakhs)

	2009-10	%	2008-09	%
Sales	105,871.45	97.73	101,928.46	98.05
Other Income	2,458.94	2.27	2,031.27	1.95
Total Income	108,330.39	100.00	103,959.73	100.00

Expenditure analysis

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

(Rs. in lakhs)

	2009-10	%	2008-09	%
Material cost	62,057.26	57.29	57,641.59	55.45
Manufacturing expenses	6,790.24	6.27	7,628.22	7.34
Employee cost	14,947.54	13.80	15,545.31	14.95
Other expenses	14,837.53	13.70	17,017.29	16.37
EBIDTA before exceptional item	9,697.82	8.95	6,127.31	5.89
Interest	4,019.35	3.71	3,672.12	3.53
Exceptional item (gain) / loss	(853.18)	(0.79)	4,255.81	4.09
EBDT	6,531.65	6.03	(1,800.62)	(1.73)
Depreciation	5,470.70	5.05	5,987.54	5.76
Profit/(Loss) before tax	1,060.95	0.98	(7,788.16)	(7.49)
Tax	89.00	0.08	75.38	0.07
Minority interest	(207.27)		(421.72)	
Profit/(Loss) after tax	1,179.22	1.09	(7,441.82)	(7.16)

Manufacturing and Other Expenses

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

The gross margin has dropped by 1.84% from 44.55% to 42.71% during the year. However focused cost optimization measures have reduced the overall operating costs by 4.90%, resulting in an increased EBIDTA margin for the year.

EBIDTA margin (before exceptional item) increased from 5.89% in 2008-09 to 8.95 % in 2009-10.

Interest expense has increased on account of higher working capital requirements and the start of the Captive Cogeneration Power Plant at Hassan.

Tax provision is as follows:

(Rs. in lakhs)

Current tax	424.14
Less: MAT credit availed	(369.72)
Deferred Tax liability	44.15
Reversal of excess provision of earlier years	(9.57)
Total Tax Provision	89.00

Share capital

The Company's share capital consists only of equity shares. As on 31st March, 2010, the share capital was Rs. 4922.86 lakhs 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.49,894.32 lakhs at the end of 2008-09.

Profit of Rs.1179.22 lakhs for the year resulted in increased profit and loss balance.

Proposed dividend of Rs.246.14 lakhs and Tax on distributed profits of Rs.40.88 lakhs resulted in reduction of profit and loss balance.

Forfeited share application money of Rs.620.88 lakhs has been transferred to capital reserve account during the year.

Legal reserve moved down by Rs.0.74 lakhs on account of exchange fluctuation and consolidation adjustments.

Foreign currency translation reserve has decreased by Rs.2,179.30 lakhs 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.49,227.36 lakhs at the end of 2009-10.

The Company did not have any revaluation reserves as on March 31, 2010.

Secured Loans:

Secured loans have increased to Rs.76,678.95 lakhs mainly due to term loan taken for the captive power plant project at Hassan SEZ and additional working capital facilities availed during the year.

Unsecured Loans:

Unsecured loans have decreased to Rs.2,531.07 lakhs.

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 decreased by Rs.4,792.09 lakhs during the year primarily arising from foreign exchange fluctuation.