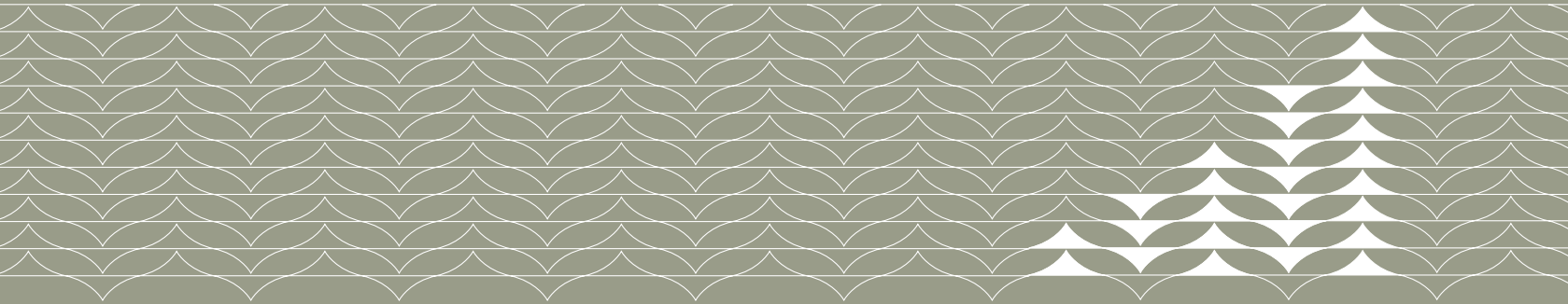


2014

ANNUAL REPORT



Himatsingka Seide

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OUTLOOK

Dinesh Himatsingka - Managing Director



Dear Shareholders

It gives me great pleasure to report that the Fiscal Year 2014 was a period of growth with stability for the company and we further consolidated our pivotal position in the Home Textile Industry.

As members are aware, we have consciously embraced a philosophy that “while we may not be the biggest we will strive to be the best”. I am happy that the initiatives in the last year and the consequent financial performance helped us reiterate this philosophy.

We operate two manufacturing facilities in India catering to High End Furnishings and Bedding products. Our four distribution entities across North America, Europe, India and Asia address branded and private Label requirements in Drapery, Upholstery, Bedding and Bath products. The distribution businesses cater to requirements from large box retail formats, institutions in the hospitality and real estate segment, Wholesale, architects and interior designers, Multi Brand Outlets (MBO), Shop in shops, and direct consumers.

FINANCIAL HIGHLIGHTS

The company crossed the ₹2000 crore mark for the first time with a consolidated Net Revenue of ₹2028.22 crores as against ₹1689.43 crores in the previous year, a growth of 20.05%. The growth in business, coupled with the various initiatives on the cost side, have helped drive a

better financial performance. The EBITDA grew by 22.7% to ₹204.77 crores as compared to ₹166.83 crores in the previous year. The Profit After Tax grew by 10.5% to ₹63.35 crores as compared to 57.32 crores in the previous year.

RETAIL AND DISTRIBUTION

The North American market which includes the United States, Canada, Mexico exhibited a growth of 18.6 %. The private label distribution business grew 21.6% and the branded business grew 11.40%. We see stable demand for our brands as well as our private label business. It was also a year in which we consolidated our corporate offices from two different locations to one office at New York. We also consolidated our warehousing facilities across two locations at Greenville and Roxboro to one location in Spartanburg in South Carolina, United States. We anticipate these consolidation initiatives to significantly enhance our capabilities in those markets.

Our heritage brand “Bellora” continues to be high on recall in the Italian markets. The revenues in this division grew by 8.80% signalling a small positive shift in an otherwise difficult market. We had initiated several cost rationalisation measures which have started to show results. To increase the visibility of the brand and to enhance royalty streams we have launched the “Bellora” brand in a large box retail format in the United States. We expect to see some positive results in the future.

The distribution businesses across India and Asia are represented by Atmosphere. As members are aware we have an e commerce platform “atmospheredirect.com” which offers the entire range of products viz., drapery and upholstery fabrics, bedding products and exclusive range of decorative pillows. We closed two stores one in Pune and the other in Powai as part of our rationalisation efforts in this division. We also opened an atmosphere “outlet” store in Whitefield Bangalore as part of our initiative to address a wider customer base. With this we have 13 stores in this division 11 in India, one each in Singapore and Dubai.

MANUFACTURING

The Revenues from Manufacturing activities grew 37.70% to ₹983.68 crores from ₹714.47 crores during the previous year. The growth was led by increased capacity utilizations at the Bed Linen Plant. We remain focused on sweating our manufacturing assets in both the Bed Linen and the Drapery and Upholstery Plant while we continue to optimize our product mix and realizations.

FUTURE OUTLOOK

ERP platform The Company had embarked on a program to integrate its various businesses. Consequent to this, we had successfully implemented the SAP ERP platform across all our manufacturing and retail locations in India. We have started the implementation of this platform

across the distribution locations in the United States. Post implementation, we expect to see benefits through efficiencies as a result of the integration.

It gives me immense satisfaction that the company has over time exhibited a significant distribution footprint across the globe in the Home Textile industry. This Distribution strength along with Design, strategic global sourcing capabilities, Supply chain capabilities and world class Manufacturing make the Himatsingka experience a name to reckon with in the Home Textile space. I see great opportunity to leverage this strength for our growth in the future.

DIVIDEND FOR THE YEAR 2014

We have always been a company that rewards our shareholders when we have had a good year. In line with our good performance this year, the Board of Directors have recommended a dividend of 30% to its shareholders.

In conclusion, on behalf of our Board of Directors, I would like to thank our employees and our Shareholders for their trust in the Management. We look forward as always, to your support and encouragement.

Thank You

Dinesh Himatsingka

Managing Director
Himatsingka Seide Limited

CORPORATE INFORMATION

Board of Directors

Dilip J. Thakkar
Chairman

A.K. Himatsingka
Vice Chairman

Dr. K.R.S. Murthy

Berjis M. Desai

A.K. Dasgupta - upto 12.8.2013

Rajiv Khaitan

Samuel Joseph Jebaraj
Nominee Director of
Export-Import Bank of India
- upto 10.01.2014

D.K. Himatsingka
Managing Director

Aditya Himatsingka
Executive Director

Shrikant Himatsingka
Executive Director

Audit Committee

Dilip J. Thakkar - Chairman

Rajiv Khaitan - Member

Dr. K.R.S. Murthy - Member

Shareholders/ Investors

Grievance Committee

Rajiv Khaitan - Chairman

A.K. Himatsingka - Member

Dr. K R S Murthy - Member

Investment Committee

D.K. Himatsingka - Member

A.K. Himatsingka - Member

Rajiv Khaitan - Member

Share Transfer Committee

A.K. Himatsingka - Member

D.K. Himatsingka - Member

Aditya Himatsingka - Member

Remuneration Committee

Rajiv Khaitan - Chairman

Dr. K.R.S. Murthy - Member

Dilip J Thakkar - Member

Risk Management Committee

Dr. K.R.S. Murthy - Member

Aditya Himatsingka - Member

Shrikant Himatsingka - Member

QIP Committee

Dr. K.R.S. Murthy - Member

D.K. Himatsingka - Member

Aditya Himatsingka - Member

Shrikant Himatsingka - Member

Senior Executives

David Greenstein
President & CEO
Himatsingka America Inc., U.S.A

Pradeep K.P.
President - Finance & Group CFO

Vasudevan V
President - Manufacturing Operations

Y. R. Wilson Maria Doss
President - Corporate HR (India)

Jayshree Poddar
Head of Design

Company Secretary

Ashok Sharma

Bankers

Canara Bank

Export - Import Bank of India

The Hongkong & Shanghai
Banking Corporation Ltd

ICICI Bank Ltd

Statutory Auditors

Deloitte Haskins & Sells

Registered Office

10/24, Kumara Krupa Road
High Grounds
Bangalore - 560 001

Works

Drapery and Upholstery Unit :
23A KIADB Industrial Area
Veerapura Village
Doddaballapur Taluk
Bangalore District

Bed Linen Unit :

Plot No.1, SEZ, Textile Specific
KIADB Industrial Area
Gorur Road
Hanumanthapura P O
Hassan-573201

MANAGEMENT DISCUSSION AND ANALYSIS

Global Economic Overview

The World economic growth for the year 2013 was subdued and stood at 2.1 percent. While most developed economies struggled to take appropriate fiscal and monetary policy action in the aftermath of the financial crisis, emerging economies that had already experienced a notable slowdown in the past two years encountered new domestic and international headwinds. However, there seem to be signs of improvement on the horizon. Global GDP (Gross Domestic Product) is forecast to grow at a pace of 3.0 and 3.3 percent in 2014 and 2015, respectively.

On the Global trade front, the growth of world merchandise trade slipped to 2.3 percent for 2013 as against 3.1 percent in 2012. The prospects for global trade are expected to improve, driven by better economic conditions in Europe, further recovery in the United States and dynamic trade in East Asia.

Indian Economic Overview

The Indian economy has been going through challenging times that culminated in a lower than 5 percent GDP growth for two consecutive fiscals, during FY 2012-13 and FY 2013-14. Persistent uncertainty in the global outlook, caused by the crisis in the Euro area, a general slowdown in the global economy compounded by domestic structural constraints and inflationary pressures, resulted in a protracted slowdown. This growth rate is in sharp contrast to an average growth rate of 8.3 per cent per annum from FY 2004-05 to FY 2011-12. (Source: MOSPI).

Table 1: GDP Growth Rates %



(Source: MOSPI – Ministry of Statistics and Programme Implementation)

This moderation in growth was primarily on the back of a less than desirable services sector performance and a significant contraction in the industrial sector. The Industrial sector saw the Index of Industrial Production (IIP) contracting for the first time in over three decades. However, a stable government at the center and a renewed vigor to pursue fiscal consolidation should provide a fresh impetus to the manufacturing and service sectors. In addition to the above, potential new policy reform measures are likely to put the Indian economy back on a high growth trajectory.

While India continued to witness sluggish GDP growth, it made considerable progress on containing its Trade Deficit for FY 2013-14. Total exports for FY 2013-14 grew 4% to USD 312.6 billion. Total imports, however, contracted 8.1% and thus lead to a reduction in Trade deficit by approximately 20% vis-à-vis the previous fiscal. The favorable trend on the export front, coupled with a reduction in imports seems to augur well for the Indian economy as this has contributed to a significant reduction of the current account deficit and is also helping the Indian currency stabilize from the levels it witnessed during 2013. FY 2013-14 was also a good year for the Indian economy as, in addition to bridging its Trade Deficit, it witnessed a significant improvement in containing its Fiscal Deficit. The government contained the Fiscal deficit to 4.5% of GDP vs. 4.9% during the previous year.

The economic slump witnessed over the last two fiscals had negatively impacted investor confidence. However, a stable government and improving economic fundamentals are likely to bring back sustained investor confidence in the Indian economy as has been witnessed during the latter half of FY 2013-14.

Global Textile Industry

The Global Textile & Apparel trade stood at USD 708 Billion and contributed to 4% of Global trade during 2012. Of USD 708 Billion, USD 423 Billion came from the Apparel sector and USD 285 Billion came from the Textiles sector. (Source: *International Trade Statistics 2013*, WTO)

The global Textile and Apparel trade has witnessed a Compounded Annual Growth Rate (CAGR) of 5.7% from 2004 through 2012. At this rate of growth, Global trade of Textile and Apparel products is expected to cross USD 1 Trillion by 2021.

While developed economies continue to be major consumption centers for textile products, emerging market economies, India and China in particular, are also contributing to the enhanced global demand for textile products. On the manufacturing front however, the structural shift to the east continues and India and China dominate the textile manufacturing space with large capacities, fresh investments in addition to access and proximity to vast raw material resources.

Global Home Textile Scenario

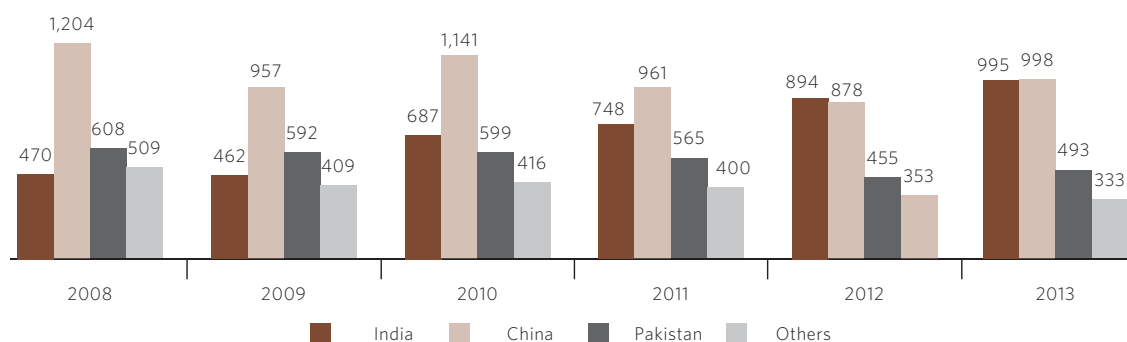
The United States continues to dominate the Global Home Textiles market. With an estimated market size pegged at USD 28 – 30 Billion (*Source: Home Textiles Today*), the United States constitutes an estimated 40% of the Global Home Textile market valued at USD 70 – 75 Billion.

The United States Home Textile market is an extremely mature market with the organized retail sector contributing over 99% of total throughput in that geography. The market is dominated by retailers who operate large Specialty store chains, Department store chains and Big Box discount chains.

Given the strong presence of Himatsingka in the bedding segment and its large presence in the North American market, the import data of the United States pertaining to cotton based bedding products is of particular significance.

The sourcing of Cotton based bedding products for the United States market is predominantly from India, China and Pakistan, among other countries. As seen in Table 2 below, the United States has increased its sourcing of Cotton Sheets, Pillow Cases, Bed Spreads and Quilts from India over the years. While total imports from India of these products stood at USD 470 Million in 2008, the same has grown to USD 1 Billion in 2013. This translates to a CAGR of 16.2% over the same period. China, however, has clocked CAGR of a negative 3.7% during the same period. This demonstrates India's manufacturing competitiveness in cotton based bedding products, which is likely to continue, given India's vast Cotton resources and a strong manufacturing platform for the usage of this fiber.

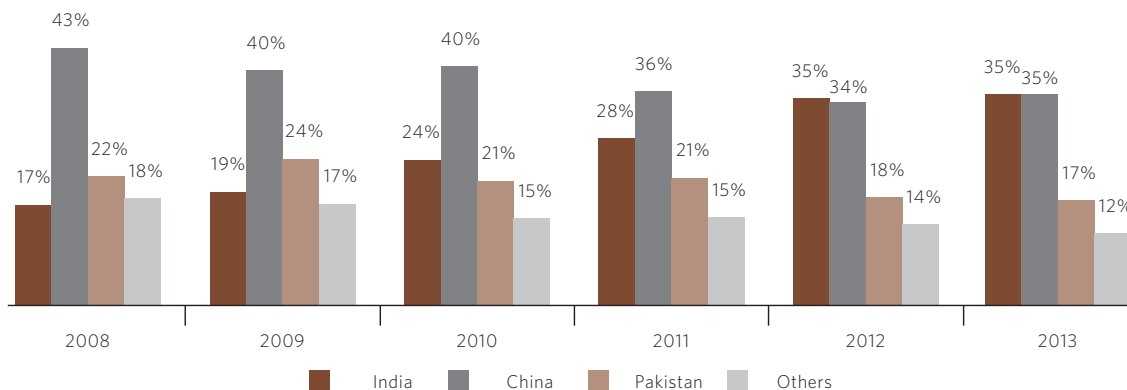
Table 2: US Imports USD Million



(Source: OTEXA, Department of Commerce, United States of America)

Further, Table 3 below demonstrates the percentage share of the United States imports of Cotton Sheets, Pillow Cases, Bed Spreads and Quilts. India and China clearly dominate the market with a 70% share of Imports. India's share of imports of the above products has grown from 17% in 2008 to 35% in 2013.

Table 3: US Imports Share of Countries



(Source: OTEXA, Department of Commerce, United States of America)

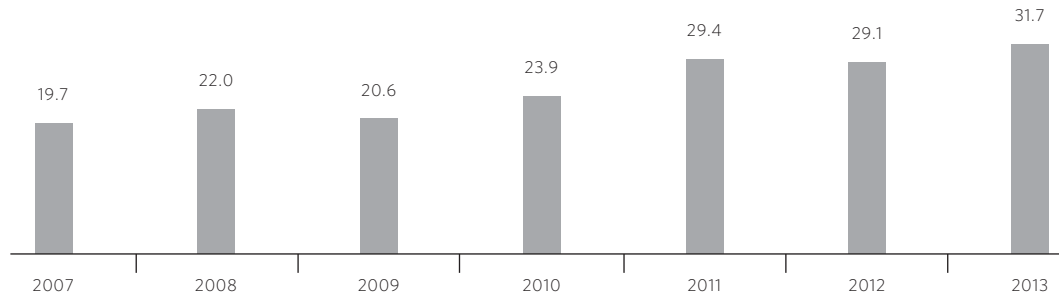
Indian Textile Scenario

The Indian Textile industry has kept pace with the growth India has witnessed over the years. The industry continues to substantially contribute to the country's GDP, employment and foreign exchange earnings.

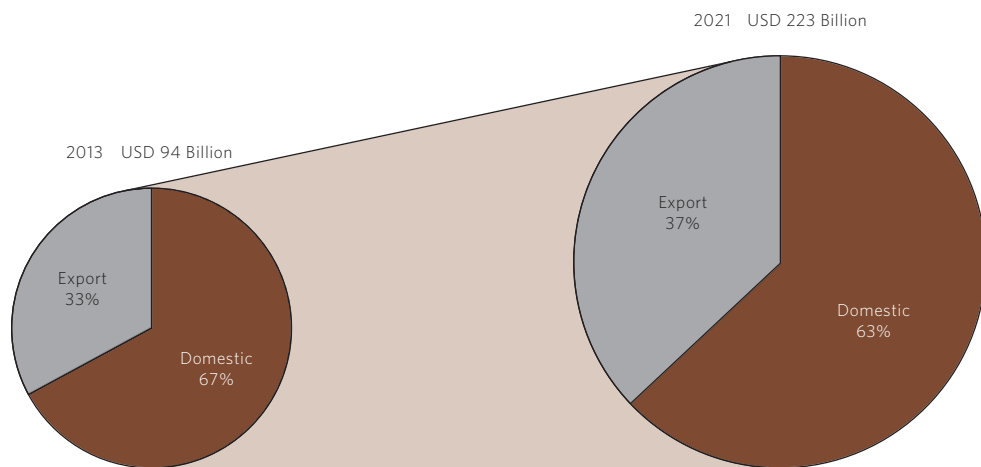
With a contribution of close to 4% of GDP, a direct employment base of approximately 40 million people, an 11% share of India's exports basket and a contribution of 12% to Industrial production, the Indian Textile Industry is a powerful sector and will play an important role in the economic growth of the country.

The size of India's Textile and Apparel Industry (Domestic and Exports) is estimated at USD 94 Billion in the year 2013. This is projected to grow to USD 223 Billion by 2021. The growth will be driven by both the domestic and export segments of the industry. While exports are likely to grow from USD 31 Billion in 2013 to USD 82 Billion in 2021, the domestic market is likely to grow from USD 63 Billion to USD 141 Billion during the same period. (Source: FICCI, Ministry of Textiles). As seen in Table 4 below, Indian textile and apparel exports have seen a steady rise over the years. Exports have clocked a CAGR of 8.2% from 2007 through 2013.

Table 4: India Exports of Textiles and Clothing (USD Billion)



(Source :International Trade Statistics 2013, WTO)



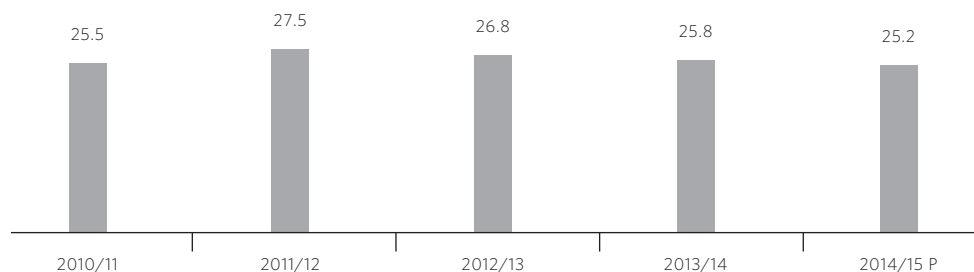
With a potential to cross USD 200 Billion by the end of the 13th Five Year Plan, it is evident that the Indian Textile Industry is poised to occupy an important place in the Global textile map. This growth will be fueled by the significant strengths and advantages India enjoys particularly in Cotton based textile products among other textile categories. The same will be leveraged to enhance its share of global textile trade and enable it to keep pace with the growing domestic demand.

India enjoys five significant strengths and advantages in the cotton textile sector. Below is an analysis of each of these strengths.

Raw Material Availability

Cotton is amongst the most extensively used fibers in the Global Textile space. India's vast cotton resources give it a strong competitive edge to be able to compete for a larger share in Global Textile and Apparel trade as well as position it to address the growing domestic demand for cotton textiles. World cotton production has been range bound over the last five years and stood at approximately 26 million tons during 2013-14. Table 5 below shows the Global Cotton Production over the last five years.

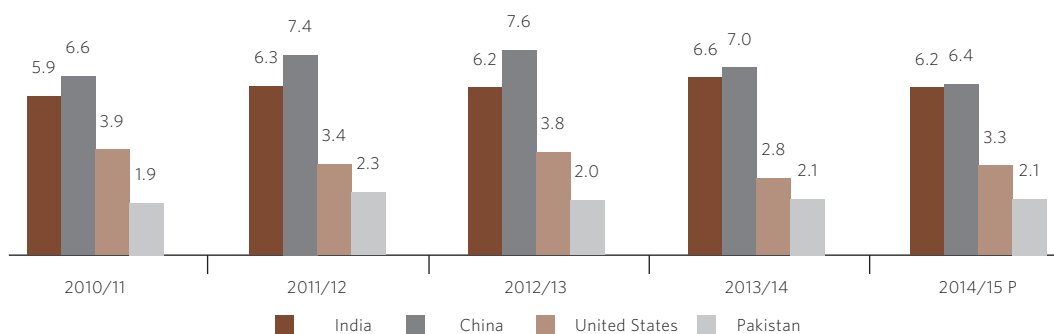
Table 5: World Cotton Production - Million Metric Tons



(Source: United States Department of Agriculture)

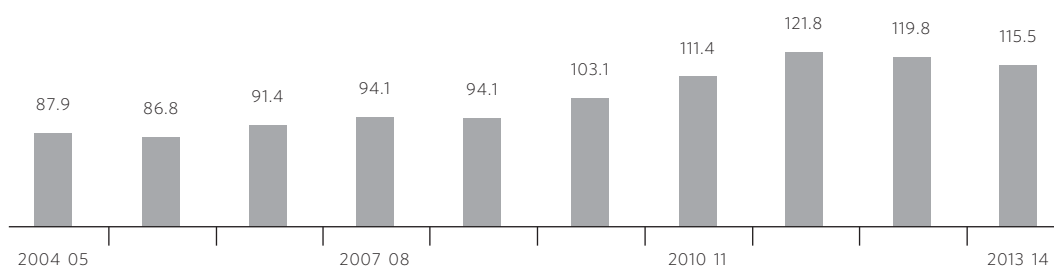
India and China contribute to close to 50% of global cotton output. With over 115.5 lakh hectares under cultivation and yields of approximately 552 kgs per hectare, the total output of cotton from India is close to 6.2 million tons per annum. (Source: Cotton Advisory Board, India). This makes India the second largest producer of cotton in the world and the largest from a perspective of the total area under cultivation. Table 6 and 7 below show India's cotton production vis-à-vis China, USA and Pakistan and the steady rise in the area under cultivation over the last ten years.

Table 6: Cotton Production - Million Metric Tons



(Source: United States Department of Agriculture)

Table 7: Area under Production - Lakh Hectares



(Source: Cotton Advisory Board, Cotton Corporation of India)