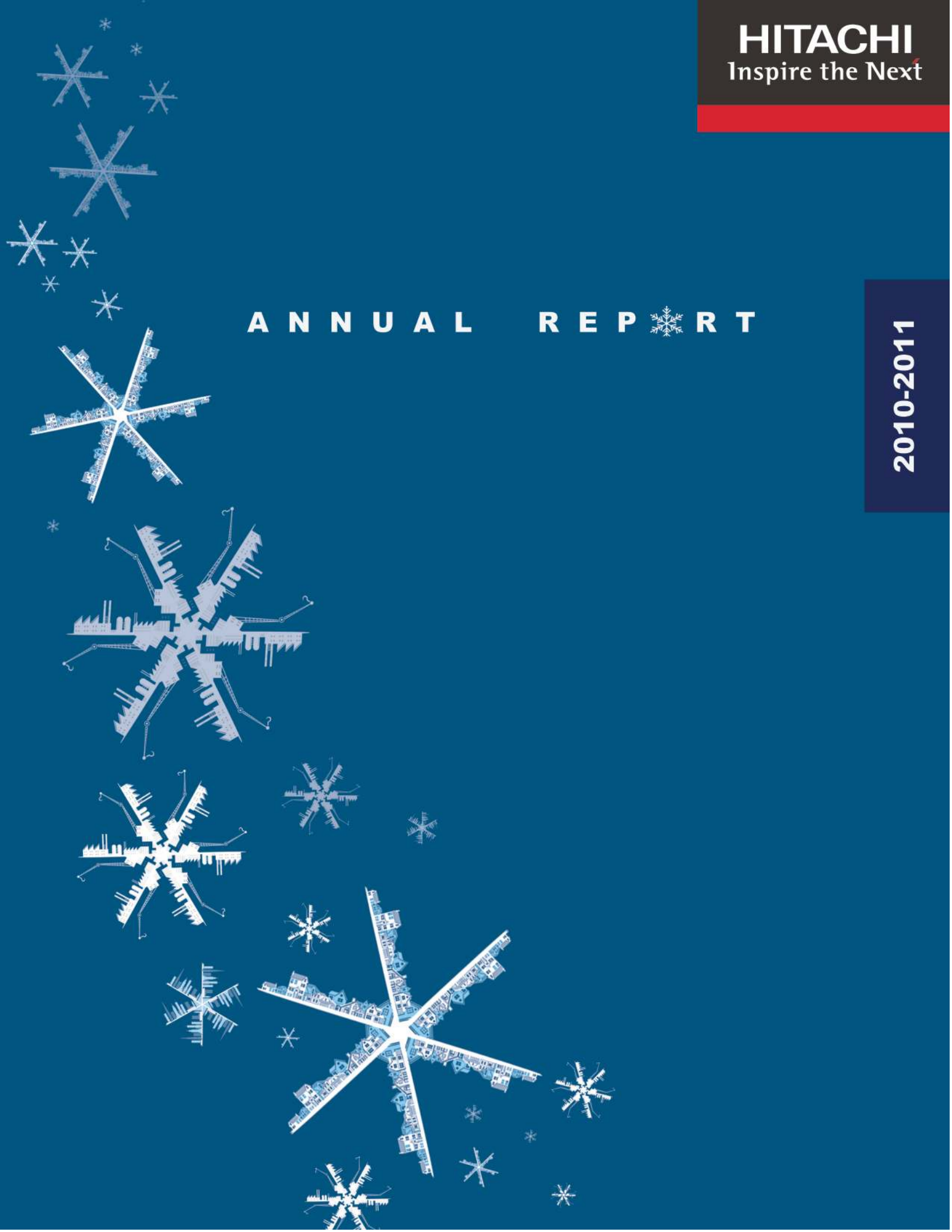


**A N N U A L    R E P O R T**

**2010-2011**



## OUR PRODUCT RANGE



i-Clean



i-Tec



Star



Ace FollowMe



Ace Cutout



Atom2XL



Atom



Kaze



Summer



Quadricool TM



Kaze



Cassette



Big French Refrigerator



3-Door Refrigerator



2-Door Refrigerator



Takumi Ductable



Space Maker



Set Free System



Water-Cooled Chiller



Air-Cooled Chiller



## MESSAGE FROM THE CHAIRMAN



**Shinichi Iizuka**  
Chairman  
Hitachi Home & Life Solutions (India) Ltd.

My warm greetings to all the shareholders of Hitachi Home & Life Solutions (India) Limited (HHLI). It gives me great pleasure to share with you the highlights of HHLI's achievements in FY 2010-11. During the year, Company's strategy revolved around understanding our customers' changing needs and to build our presence in key niches with new product segments & in new markets with strong and clear growth targets. We continued to leverage this strategy to proactively lead our way and improve execution across the organization.

HHLI has made an Operating Profit (Profit before Depreciation, Interest and Tax) of Rs. 580.32 Mn. and contributed to the consolidated accounts of Hitachi Group.

During the year, Room Air conditioning industry experienced a growth of close to 31% in comparison to about 25% growth in 2009-10. However, Company has grown by 46% over the last year. This year has been very remarkable since we have grown more than the industry growth rate.

HHLI has set target to capture 10% market share in terms of sales volume which will translate into 12% in value terms. We have embarked upon mass-premium segment this year, with encouraging response from the market and now we are strengthening this segment also. However, Company has experienced margin pressure in mass-premium segment due to increase in input cost and alignment of price in view of competition with Japanese players in the industry.

Inspiration, Trust and Continuous Innovation are the core values that drive Hitachi brand. Innovation is the key aspect of HHLI's business strategy. HHLI keeps on innovating and introducing the best in class products to Indian market every year.

This year, HHLI has launched new exciting range of Split & Window Air conditioners in premium & mass-premium segments. Now Hitachi's Split Air conditioner range comprises of 25 models, with capacities ranging from 0.9 Tr. to 3.5 Tr. The Window Air conditioner range includes 10 models within 1.0 Tr. to 2.0 Tr. capacities.

The innovation of the year is 'i-Clean', a newly launched Split Air conditioner. For the first time in India HHLI has introduced an Air conditioner with automatic filter clean technology, which cleans filter automatically, resulting in no blockage and no dust on the heat exchanger. Therefore, customer enjoys clean, healthy & powerful cooling forever with same high energy efficiency through out over the years.

During the year, HHLI has introduced India's first ever 5 star rated Window Air conditioner Summer where 1.1 Tr. & 1.5 Tr. capacities are 5 star rated in the range.

HHLI also enhanced its mass-premium Air conditioner range with the launch of new model of 'Kaze' in Split & Window Air conditioner segment. 'Kaze' range will help in reaching out to those customers who aspire to get Hitachi experience from middle level income group, who want Hitachi's quality and trust for their money. This will help Company to gain market share in Room Air conditioners segment in near future.

This year, HHLI has improved the business growth in Commercial Air conditioner segment as well. In Ductable Air conditioner business Company grew by 11% which is more than the market growth rate. In Chiller and VRF segments also Company grew more than the industry growth. HHLI has started manufacturing of water cooled chiller at Kadi plant. In Telecom Air conditioner segment Company is maintaining its leadership position with the market share of about 42%.

During the year HHLI introduced a spectacular range of refrigerators in 4-door, 3-door & 2-door categories. The new stylish & premium refrigerator series is all set to entice the consumers with its elegant designs and unique features. We operate only in premium category and Company has shown very encouraging growth by over 23% against last year; however the segment in which Company operates is small.

We are strategically introducing new solutions to increase our technological leadership and sales in the market with healthy long-term growth prospects.

Service has been the main thrust area for Company this year. We have now 32 Company owned & operated service centers across the country, a dedicated Company owned & operated 24x7 call centre and Hitachi Centre for excellence to train the service technicians.

HHLI has aggressive network expansion plans to cover maximum part of the country with deeper penetration into all markets. We are investing in emerging markets, this focus is positioning us to capture growth and drive more value.

Company's key assets are its brands, people and reputation. Over the next few years, our story will be about generating growth and creating value. Our markets are growing, our products are groundbreaking, and our technological leadership is capturing space in both emerging and mature markets.

I am always inspired by Hitachi's vision of being a catalyst for a changing society and continually challenging ourselves to discover new value and possibilities.

I thank you all for your constant support and goodwill for HHLI. I am sure this will continue in the years ahead.



## BOARD OF DIRECTORS



**Shinichi Iizuka**  
Chairman



**Motoo Morimoto**  
Managing Director



**Amit Doshi**  
Executive Director



**Anil Shah**  
Executive Director



**Vinay Chauhan**  
Executive Director



**Ashok Balwani**  
Director



**Dr. Devender Nath**  
Director



**L G Ramakrishnan**  
Director



**Mukesh Patel**  
Director



**R S Mani**  
Director



**Ravindra Jain**  
Director



**Vinesh Sadekar**  
Director

**BOARD OF DIRECTORS**

Shinichi Iizuka	<i>Chairman</i>
Motoo Morimoto	<i>Managing Director</i>
Amit Doshi	<i>Executive Director</i>
Anil Shah	<i>Executive Director</i>
Vinay Chauhan	<i>Executive Director</i>
Ashok Balwani	<i>Director</i>
Dr. Devender Nath	<i>Director</i>
L G Ramakrishnan	<i>Director</i>
Mukesh Patel	<i>Director</i>
R S Mani	<i>Director</i>
Ravindra Jain	<i>Director</i>
Vinesh Sadekar	<i>Director</i>

**AUDITORS**

S. R. Batliboi & Associates  
Chartered Accountants,  
Ahmedabad

**BANKERS**

State Bank of India  
ICICI Bank  
Standard Chartered Bank

**REGISTERED OFFICE**

9th Floor, Abhijeet-I,  
Mithakhali Six Roads,  
Ahmedabad - 380 006

**WORKS**

Hitachi Complex, Karannagar – 382 727  
Kadi, Dist.: Mehsana, Gujarat  
  
Canal Road, Bariabrahma – 181 133  
Jammu

**REGISTRARS & SHARE TRANSFER AGENT**

Sharepro Services (India) Pvt. Ltd.  
416-420,  
Devnandan Mall,  
Opp. Sanyas Ashram,  
Ellisbridge,  
Ahmedabad – 380 006

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### Payment of dividend through ECS / NECS

Company is going to use Electronic Clearing Service (ECS) / National Electronic Clearing Service (NECS) facility introduced by Reserve Bank of India (RBI) for distributing dividend to investors. In this system, the investor's bank account is directly credited with the dividend amount based on the information provided by the Company, under advise to the investor.

If your bank has not implemented Core Banking Solutions (CBS) or you have not provided your account number allotted by your Bank (which has implemented CBS), ECS may either be rejected or returned.

In this regard, if you are holding shares in electronic form, please furnish your Bank Account Number allotted by your Bank along with a photo copy of a cheque pertaining to the concerned account, to your Depository Participant (DP) at your earliest convenience.

However, if you are holding the securities in physical form, you are requested to furnish the new account number along with a photo copy of a cheque to the Company's Registrars at the following address:

Sharepro Services (India) Pvt. Ltd. 416-420, Devnandan Mall, Opp. Sanyas Ashram, Ellisbridge, Ahmedabad – 380 006

## FIVE YEARS FINANCIALS AT A GLANCE

(Currency: Rupees in thousands unless otherwise stated)

PARTICULARS	2010-11	2009-10	2008-09	2007-08	2006-07
<b>Sales and Services (Net of Excise Duty)</b>	7,632,459	6,409,033	4,698,968	4,466,060	3,248,899
Sales Growth	19%	36%	5%	37%	26%
Other Income	56,404	118,310	72,349	104,077	61,716
<b>TOTAL INCOME</b>	<b>7,688,863</b>	<b>6,527,343</b>	<b>4,771,317</b>	<b>4,570,137</b>	<b>3,310,615</b>
Profit before Depreciation, Interest and Tax (PBDIT)	580,322	703,083	373,879	566,892	299,726
Financial Charges	20,465	15,101	26,673	21,766	32,382
Depreciation	160,520	117,770	79,926	76,330	45,050
Profit Before Tax (PBT)	399,337	570,212	267,281	468,796	222,295
Provision for Taxation	106,080	108,810	56,541	46,311	29,030
Profit after Tax (PAT)	293,257	461,402	210,740	422,485	193,265
Equity Share Capital	229,600	229,600	229,600	229,600	229,600
Reserves & Surplus	1,489,973	1,236,743	815,501	604,761	388,358
Net Worth	1,719,573	1,466,343	1,045,101	834,361	411,876
Net Worth Growth	17%	40%	25%	103%	88%
Gross Fixed Assets	1,986,326	1,588,555	1,098,482	733,185	628,487
Net Fixed Assets	1,309,430	1,045,713	649,650	314,740	266,435
Total Assets	2,623,732	2,072,863	1,562,632	961,439	952,356
<b>KEY INDICATORS</b>					
Earnings Per Share (Rs.)	12.77	20.10	9.18	18.40	8.42
Cash Earnings Per Share (Rs.)	19.76	25.23	12.66	21.73	10.38
Book Value Per Share (Rs.)	74.89	63.87	45.52	36.34	17.94
Debt to Equity Ratio	0.52:1	0.41:1	0.48 : 1	0.14 : 1	0.81 : 1
PBDIT / Sales and services (Net of excise duty)	8%	11%	8%	13%	9%
Net Profit Margin	4%	7%	4%	9%	6%
Return on Net Worth	17%	31%	20%	51%	47%
Return on Capital Employed	16%	28%	19%	51%	27%

Note: Previous years' figures regrouped wherever necessary

## DIRECTORS' REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

Dear Members,

Your Directors have pleasure in presenting the Twenty Sixth Annual Report and the Audited Financial Statements, for the year ended March 31, 2011.

### FINANCIAL HIGHLIGHTS

The highlights of financial results of the Company for the year under review are given below:

(Rs. in Mn.)

	For the year ended March 31, 2011	For the year ended March 31, 2010
Income from operations	8291.28	6859.70
Less : Excise Duty	658.82	450.67
Other Income	56.40	118.31
Total Income	7688.86	6,527.34
Profit before interest, depreciation and tax	580.32	703.08
Interest	20.46	15.10
Depreciation	160.52	117.77
Tax	106.08	108.81
Profit after tax	293.26	461.40
Amount brought forward from previous year	802.24	427.14
Balance available for appropriation	1095.50	888.54
Amount transferred to General Reserve	29.33	46.14
Proposed Dividend (including Corporate Dividend Tax)	40.02	40.16
Surplus carried to Balance Sheet	1026.15	802.24

### DIVIDEND

Your Directors recommend a dividend of Rs. 1.50 per Equity Share for the year ended March 31, 2011. This is subject to the approval of the Members at the ensuing Annual General Meeting.

### INDUSTRY STRUCTURE & DEVELOPMENTS

#### Consumer Appliances Industry

The home appliances industry (only Air conditioners and Refrigerators) is estimated to be around Rs. 146,000 Mn. Room Air conditioners contribute to around Rs. 68,000 Mn. and Refrigerators contribute Rs. 78,000 Mn.

#### Air conditioning Industry

Our estimate of the industry performance during FY 2010-11 is given below;

Category	Total Industry Sales		
	2010-11	2009-10	Growth
Room Air conditioners (in Mn. Units)	3.30	2.51	31%
Ductable Air conditioners (in Mn. Tr.)	0.35	0.33	6%

Indian Air conditioning industry is experiencing a radical change since last few years. Image of Air conditioner has gone beyond from just cooling appliance to a stylish and intelligent Air conditioning System. This will increase the Air conditioner penetration in future. Energy awareness is increasing and is becoming an important purchase criterion, along with the aesthetics.



## Room Air conditioners

The Room Air conditioner category consists of both the Window and Split Air conditioners for the use in residential and commercial spaces.

The Room Air conditioning industry experienced a growth rate of close to 31% in 2010-11 in comparison to about 25% growth in 2009-10. However penetration of Room Air conditioners in India is still low at around 3% only.

The demand of Split Air conditioners is continuously increasing. Price gap between Window and Split Air conditioners has shrunk in recent years. The Split Air conditioners contribute to more than 65% of Room Air conditioner market. Company is also following the trend continuously improving its position in the market which has helped to achieve a growth in Split Air conditioner category more than the industry growth.

Your Company has grown @ 46% over the last year with 2.3 lac units against 1.58 lac units in last financial year in Room Air conditioners segment.

Your Company keeps on innovating and introducing the best in class products to Indian market every year. Company has launched new exciting range of Air conditioners in Split types & Window types in mass-premium & premium segments.

## Business Directions

- |             |  |
|-------------|--|
| Goal        | At present we have 7 % market share in terms of sales volume and 9% in value term in Room Air conditioner category. We are witnessing very encouraging growth in last couple of years. Therefore we are prepared to capture 10 % market in terms of sales volume which will translate into 12% in value terms.   |
| Initiatives | <ul style="list-style-type: none"><li>• We are expanding to smaller cities / towns and increasing dealers and distributors base as well.</li><li>• We have launched new exciting range of Air conditioners in Split type &amp; Window type in mass-premium &amp; premium segments.</li></ul>   |
| Highlights  | <ul style="list-style-type: none"><li>• In June 2010 Company's presence was limited to 236 towns, with an aggressive plan we are aiming at reaching out to approx 300 towns. We have reached to a dealer base of 1800 and aiming at 3000 nos. by the end of 2011.</li><li>• We have enhanced 'Kaze' Air conditioner range by launching new range of 'Kaze' Split &amp; Window Air conditioner for mass-premium segment. This range is fully loaded with Hitachi's quality and trust. This will help us in penetrating further.</li></ul> |

## Innovation of the year

As part of Company's continual innovation drive, 'i-Clean', Split Air conditioner model was launched. 'i-Clean' is equipped with automatic filter clean technology, which cleans filter automatically therefore no blockage, no dust and provides only clean, healthy and powerful cooling forever with high energy efficiency. The machine cleans the filter automatically after every 10 hrs. and maintains the hygienic room environment. The filter is stainless steel coated which is introduced first time. It comes with durable mesh. This model is 5 star rated (1.2 Tr. & 1.5 Tr. Class) and loaded with all other innovative features like Auto Climate Technology, Auto Humidity Control, Kaimin, On/Off timer with advanced startup etc. The 'i-Clean' is available in 1.2 Tr., 1.5 Tr. & 2.0 Tr. Class.

Company has also launched new models of its popular Split Air conditioner models 'ACE Followme' and 'ACE Cutout' with refreshing looks and stainless steel coated filter. The 'i-Tec', an inverter compressor based Air conditioner is also launched with new look.

## India's First 5 star rated Window Air conditioner

This year Company has introduced India's first ever 5 star rated Window Air conditioner 'Summer'. In 'Summer', 1.1 Tr. & 1.5 Tr. Class capacities are 5 star rated in the range. This is good news for all the customers of Window Air conditioner. 'Summer' is a power packed Window Air conditioner which has innovative features, silent cooling, stylish looks, metallic finish and very high energy efficiency. This Window Air conditioner model will accompany the existing but fresh looking model Quadricool TM. The 'Summer' is available in 3 capacities; 1.1 Tr., 1.5 Tr. and 2.0 Tr. Class.

## Mass-premium Range

Your Company enhanced its mass-premium Air conditioner range with the launch of new model 'Kaze' in Split & Window type Air conditioner segment. 'Kaze' range will help in reaching out to those customers who are aspiring to get Hitachi experience from middle level income group, who want Hitachi's quality and trust for their money. 'Kaze' Window Air conditioners are available in 1.0 Tr., 1.5 Tr. & 2.0 Tr. Class and 'Kaze' Split Air conditioners are available in 0.9 Tr., 1.2 Tr., 1.5 Tr. & 2.0 Tr. Class capacities.

Now Hitachi's Split AC range comprises of 25 models, with capacities ranging from 0.9 Tr. to 3.5 Tr. Class. The Window Air conditioner range includes 10 models within 1.0 Tr. to 2.0 Tr. Class capacities.

## Commercial range of Air conditioners

The financial year has shown a positive trend for the Commercial Air conditioning business. After global economic downturn Indian Government took several steps and the economy has shown a robust growth. All the sectors started showing positive movement. Commercial Air conditioner business depends upon the country's economic health, good economy growth is making the realty sector to grow hence the positive effect has started.

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In Ductable Air conditioner business industry has grown at about 6% however your Company grew @11% which is more than the market growth rate. Company offers the 'Takumi' range of Ductable Air conditioners, unique energy efficient engineering design and flexibility in application provides pragmatic solutions to suit best for cooling requirements. The range of these products is available from 3.0 Tr. to 16.5 Tr. which are highly appreciated and well received in the market.

This year Chiller and VRF segments also shown growth. The Screw chiller industry grew near to 15% whereas your Company grew @ 18%. Company offers a wide range of chillers in air cooled and water cooled category. VRF category is also promising and growing. Many upcoming residential complexes and commercial buildings use VRF systems. VRF system will continue with good growth rate in the coming years also.

Company has started manufacturing of water cooled chillers in 40 HP to 120 HP capacities at Kadi plant from September-2010.

#### **Telecom Air conditioners**

This cutting edge Air conditioning system is specially designed for unmanned Telecom Shelters/ Telecom BTS sites. Company's specialized and unique product, the 'Spacemaker' comes with higher cooling capacity, unique safety features, lower power consumption and lower operating costs.

This year market has de-grown. The major reason is the sharing of towers amongst telecom operators who tried to manage with existing infrastructure. Therefore, new setups are not coming and the growth is negative. However your Company is maintaining its leadership position with the market share of about 42% in comparison to 32% last financial year.

#### **Refrigerators**

This year your Company has introduced a spectacular range of refrigerators. The new stylish and premium refrigerator series is all set to entice the consumers with its elegant designs and spectacular features. This new range offers an elegant and healthy living for your home and designed to directly address every need of the modern consumer. Company offers 16 models in 3 variants i.e. Big French (4-Door), three door and two door refrigerators.

Company operates in 300 Ltr. & above frost free segment only which is only 15% of total refrigerator industry. We operate only in premium category therefore the huge sales volume is not expected. However your Company has shown very encouraging growth by over 23% against last year.

#### **Service Initiatives**

##### **1. Company owned & operated service centers:**

Your Company has taken an initiative by introducing Company owned and operated service centers to improve the after sales service quality and better customer satisfaction. In first phase Company has opened 32 centers with 1200 technicians in all the major towns. This is over and above 350 service points where service is provided by Sales & Service Dealers.

##### **2. Company owned & operated 24x7 call center:**

Your Company has its own 24x7 call center managed by Company's employees. A customer experiences personalized helpline service by trained Company's employees.

##### **3. Service Training:**

Apart from training Company's service technicians we have trained 2500 technicians of service franchisees in Company's state of art training center "Hitachi Center for excellence". This center is based at Kadi (Gujarat) plant and has a dedicated team for training needs.

#### **OPPORTUNITIES**

##### **Air conditioner Penetration**

Room Air conditioner penetration in India is @ approx 3% which is very low compared to other countries like China, Malaysia, Korea, Taiwan etc. It is expected to grow up to 5% by 2015.

##### **Market Growth**

The market is evolving at a rapid pace, there are several factors favoring the Indian Air conditioner market growth. Changing lifestyles, rise in disposable incomes and the ease of availability will aid this growth.

##### **Energy Efficiency**

From next year onwards BEE is making the star rating system more stringent, which means the EER of all star ratings will go up. Therefore to qualify to be a 5 star Air conditioner the minimum EER will be 3.3, which is 3.1 at present. As you know that your Company offers higher EERs in all the models therefore we will easily adapt to the new system.

##### **Growth of Modern Trade**

The Indian retail market, which is the fifth largest retail destination globally, has been ranked as the most attractive emerging market for investment in the retail sector. The organised retail sector is all set to witness maximum number of large format malls and branded retail