

2011-12
ANNUAL REPORT

OUR PRODUCT RANGE



i-Clean



i-TEC



Star



Ace Cutout



Ace FollowMe



Kaze Split



ACE²



Summer TM



Summer QC



Kaze Window



Cassette



Big French Refrigerator



3-Door Refrigerator



2-Door Refrigerator



Takumi Ductable



Concealed Split



Set Free System



Water-Cooled Chiller



Air-Cooled Chiller



Space Maker

MESSAGE FROM THE CHAIRMAN



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

I would like to take this opportunity to greet all the shareholders of Hitachi Home & Life Solutions (India) Ltd. {HHLI}. It is indeed a pleasure to share with you the highlights of our Company's financials for the year 2011-12. This was one of the tough years for AC industry where it experienced a downward trend in business.

HHLI has made an Operating Profit (Profit before Depreciation, Interest and Tax) of Rs. 3002.05 Lacs.

During the year Room Air conditioning industry experienced negative growth close to 14% as against an approximate growth of 31% in 2010-11. Short summer season had an adverse impact on the industry, however Company has grown 1% over last year.

At present we have around 8% market share in Room Air conditioner business. We are further expanding the business to more towns /cities and are increasing our dealer & distributor base as well. Going forward we are prepared to capture 10% market in terms of sales volume which will translate into 12% in value terms.

We are steadily improving the Company's position in Indian market by introducing innovative products that are ideally suited to the market. We have launched new exciting range of Room Air conditioners in premium & mass-premium segments. Now Hitachi's Split AC range comprises of 38 models, with capacities ranging from 1.0 Tr. to 3.5 Tr. The Window AC range includes 17 models within 1.0 Tr. to 2.0 Tr. capacities.

It is a matter of pride to announce that this year your Company has been honoured with Certificate of Merit at the National Energy Conservation Awards (NECA)-2011 by Bureau of Energy Efficiency (BEE), Ministry of Power for producing energy efficient Air conditioners.

This year Company has grown more than the market growth in Commercial Air conditioner segment. In Ductable Air conditioner business Company grew at 4.8%. In Chiller segment Company grew at 12% which is more than the industry growth. The Company retained its leadership position in Telecom Air conditioner with the market share of about 56%.

In refrigerator business, Company offers stylish & premium range of 4-door, 3-door & 2-door refrigerators. We operate only in premium and niche segment. Last year due to flood in Thailand, production of refrigerators suffered and due to limited supply, the refrigerator business of Company was adversely affected.

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

We are constantly strengthening our service network and operating through our own 34 service centers in 26 towns apart from 616 other service points including multi brand S&S, exclusive S&S and franchisees. With this network the Company is covering approx 317 towns across country.

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. By combining everyone's effort and strengths together, Company will firmly move forward step by step. Thus, Hitachi will actualize "Inspire the Nex't", and keep evolving toward the future.

I thank you all for continuous encouragement and support to 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>

COMPANY SECRETARY

Parag Dave

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, Baribrahmna – 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.

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 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 Lacs unless otherwise stated)

PARTICULARS	2011-12	2010-11	2009-10	2008-09	2007-08
Revenue from Operations (Net)	79,809	76,401	64,090	46,990	44,661
Revenue Growth	4%	19%	36%	5%	37%
Other Income	87	467	1,183	723	1,041
Total Revenue	79,896	76,868	65,273	47,713	45,701
Profit before Depreciation, Interest and Tax (PBDIT)	3,002	6,336	7,031	3,739	5,669
Financial Charges	891	738	151	267	218
Depreciation	1,832	1,605	1,178	799	763
Profit Before Tax (PBT)	279	3,993	5,702	2,673	4,688
Provision for Taxation	(47)	1,061	1,088	565	463
Profit after Tax (PAT)	326	2,933	4,614	2,107	4,225
Equity Share Capital	2,296	2,296	2,296	2,296	2,296
Reserves & Surplus	14,826	14,900	12,367	8,155	6,048
Net Worth	17,122	17,196	14,663	10,451	8,344
Net Worth Growth	0%	17%	40%	25%	103%
Gross Fixed Assets	21,359	19,863	15,886	10,985	7,332
Net Fixed Assets	12,956	13,094	10,457	6,496	3,147
Total Net Assets	27,038	26,237	20,729	15,626	9,614
KEY INDICATORS					
Earnings Per Share (Rs.)	1.42	12.77	20.10	9.18	18.40
Cash Earnings Per Share (Rs.)	9.40	19.76	25.23	12.66	21.73
Book Value Per Share (Rs.)	74.57	74.89	63.87	45.52	36.34
Total Debt to Equity	0.58 : 1	0.52 : 1	0.41 : 1	0.48 : 1	0.14 : 1
PBDIT / Revenue from Operations (Net)	4%	8%	11%	8%	13%
Net Profit Margin	0%	4%	7%	4%	9%
Return on Net Worth	2%	17%	31%	20%	51%
Return on Capital Employed	4%	18%	28%	19%	51%

Note: Previous years' figures regrouped wherever necessary

DIRECTORS' REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

Dear Members,

Your Directors have pleasure in presenting the Twenty Seventh Annual Report and the Audited Financial Statements, for the year ended 31st March, 2012.

Financial Highlights

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

(₹ in Lacs)

	For the year ended 31st March, 2012	For the year ended 31st March, 2011
Revenue from operations (gross)	86731.93	82988.99
Less : Excise Duty	6923.02	6588.24
Revenue from operations (net)	79808.91	76400.75
Other Income	87.41	467.31
Total Revenue	79896.32	76868.06
Profit before finance cost, depreciation and tax	3002.05	6336.11
Finance Cost	891.04	737.54
Depreciation and amortization expenses	1831.74	1605.20
Tax expense	(46.90)	1060.80
Profit for the year	326.17	2932.57

DIVIDEND

Your Directors recommend a dividend of ₹ 1.50 per Equity Share for the year ended 31st March, 2012. This is subject to the approval of the Members at the ensuing Annual General Meeting.

INDUSTRY STRUCTURE AND DEVELOPMENTS

The home appliances industry (only Air conditioners and Refrigerators) is estimated to be around ₹ 1,465,000 Lacs. Room Air conditioners contribute to around ₹ 630,000 Lacs and Refrigerators contribute ₹ 835,000 Lacs.

During the year under review, India's economic situation continued to decline due to depreciation in INR, high inflation rate and increased interest rates which adversely impacted Air conditioners business. In such indecisive environment, inflow and execution of orders remained slow. In addition to that industry faced the problem of margin pressure in all segments and in fact maintaining profit margin has been a tough job for all the consumer Durable players.

Air conditioning Industry

Our estimate of the industry performance during FY 2011-12 is given below:

Category	Total Industry Sales		
	2011-12	2010-11	Growth
Room Air conditioners (in Lacs Units)	28.5	33.0	(14%)
Ductable Air conditioners (in Lacs Tr.)	3.6	3.5	3%

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 declined by 14% in 2011-12 in comparison to about 31% growth in 2010-11.

Despite of such decline of industry, company has grown by 1% over the last year with 2.32 Lacs units against 2.30 Lacs units in last financial year in Room Air conditioner segment.

The demand of Split Air conditioners is continuously increasing and the price gap between a Window and a Split Air conditioner has shrunk in recent years. Today, the Split Air conditioners contribute to more than 74% of Room Air conditioner market.

During the year under review, the off-take during the peak summer season turned out to be lower than expectations which resulted into a situation where company was saddled with excess inventory. The Company has taken measures for liquidation of such inventory. Margin pressure continues to be a concern in Room Air conditioning segment. Several remedial steps taken by the Company including price increase, reduction in overheads and reduction in production cost by value engineering.

In the Room Air conditioner category we have about 8% market share in terms of sales volume. We are aiming to capture 10% market in terms of sales volume which will translate into 12% in value terms. We have expanded our network and are present in more than 300 towns with approx 2000 sales points. Another step is to launch exclusive Air conditioner models to each Distribution Channel i.e. Direct Dealer network, Distributor network, Modern Trade, Construction industry and Institutions.

Company has the mass-premium Air conditioner range, called 'Kaze' in the Split and the Window Air conditioners segment. The 'Kaze' range will help the Company to reach the middle level income group who want a quality product and at the same time Value for their money.

A range of Split Air conditioner models, called 'Sugoi' and 'Kampa' are launched exclusively for distribution network to widen the Air conditioner range and spread the availability across the country. The Company has also launched its popular Split Air conditioner models 'ACE Followme', 'ACE Cutout' and 'i-Tec' with refreshing looks.

Presently, Company's Split Air conditioners range comprises of 38 models, with capacities ranging from 1.0 Tr. to 3.5 Tr. The Window Air conditioners range includes 17 models within 1.0 Tr. to 2.0 Tr. capacities.

Achievement

Your company has been awarded "Certificate of Merit" at National Energy Conservation Awards Ceremony by Bureau of Energy Efficiency (BEE), Ministry of Power. Mr. Motoo Morimoto, Managing Director of the Company was awarded by Hon'ble Union Minister for Power, Mr. Sushil Kumar Shinde at the function held at Vigyan Bhavan, New Delhi on 14th December, 2011.

The Function was presided over by the Hon'ble Prime Minister of India, Dr. Manmohan Singh, Hon'ble Union Minister of State for Power, Mr. K. C. Venugopal, Secretary Min. of Power, Mr. Uma Shankar and Mr. Ajay Mathur - Director General-BEE.

The Company has won the Award based on parameters like the number of star labelled products sold, the energy savings achieved, its technology and the growth in sales of high energy efficient products over the previous financial year.

'i-Clean': The Auto Clean Air conditioner

The Company has refreshed the 'i-Clean' Range with a new colour fascia. The 'i-Clean' is equipped with exclusive feature - Automatic filter clean technology, which cleans the filter automatically after every 10 hours and maintains a hygienic room environment. 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. Looking to the exclusive feature, in current year, this model has been accentuated by the Company in advertising campaign.

5 star rated Window Air conditioners range, as efficient as Split Air conditioners

For Air conditioners, the star levels are categorized over a band of EER. EER is the Energy Efficient Ratio, which indicates the amount of cooling capacity in watts the Air conditioner delivers for every watt of electrical energy consumed by it. At present, for Split Air conditioners, the EER has to be minimum 2.5 to qualify for 1-Star rating and EER of 3.3 and above for 5-Star categories. For window air conditioners, the EER has to be minimum 2.3 to qualify for 1 star rating and EER of 3.1 and above for 5 star rating. BEE has plans to move up the energy efficiency level continuously every two years.

This year Company is strengthening its 5 star rated Window Air conditioners range (1.1 Tr. & 1.5 Tr. capacities) with 'Summer TM' and 'Summer QC'. 'Summer TM' is Split in a box concept which is based on twin motor technology and Summer QC is available with 3.3 EER (W/W)(1.5 Tr.) which is equivalent to a 5 star rated Split Air conditioner of 2012. It is creditable that Company's Window Air conditioners are as efficient as the Split Air conditioners. Both the Window Air conditioners are with innovative features, silent cooling and stylish looks in 3 capacities 1.1 Tr, 1.5 Tr. and 2.0 Tr. Class.

Commercial range of Air conditioners

During the year under review the Packaged / Ductable Air conditioning market has grown at a moderate pace on account of delayed / slow commercial construction activities by builders.

This segment of the industry has grown at about 3% however Company grew at 4.8% which is more than the market growth rate. The Company offers the 'Takumi' range of Ductable Air conditioners with unique Energy Efficient Engineering design and the wide flexibility in application provides pragmatic solutions to suit best for varied and complex cooling requirements. The range of these products is available from 3.0 Tr. to 16.5 Tr. which have been well accepted in the market.

This year, the Chiller and VRF segments have shown growth. The chiller industry grew at approximately 8.8%, whereas Company grew at 12%. We offer a wide range of chillers in the Air-cooled (40 HP to 400 HP) and Water-cooled (40 HP to 570 HP) categories and now manufactures water cooled chillers upto 120 HP capacity in India plant as well as imports it if customers so demand. The VRF category is also a promising and fast growing segment. The Company offers a range of Set Free (VRF) in Modular type from 8 HP to 54 HP and front flow type from 8 HP to 12 HP.

Telecom Air conditioners

This specialized Air conditioning system is designed for unmanned Telecom Shelters / Telecom BTS sites. 'Spacemaker', Company's product for the telecom sector consists of varied features viz. high cooling capacity and safety features. The 'Spacemaker' range is available from 0.9 Tr. to 4.0 Tr. capacities. Company has also now developed a 'Free Cooling Unit' for this Segment, which reduces the running power consumption and hence the OPEX for the Operator. It is well accepted by all the customers.

This segment has shrunk due to sharing of towers amongst the telecom operators who tried to manage with existing infrastructure. Therefore, new setups are not coming up and the growth is negative. However, Company is maintaining its leadership position with the market share of about 56% in comparison to 42% in last year.

Refrigerators

Company is increasing its focus on the Refrigerator category with the launch of 2012 range i.e. Side-by-Side refrigerator with inverter technology. This was launched to increase and strengthen the high end range. The other models i.e. Big French (4-Door), 3-Door and 2-Door refrigerators were also introduced with all new look and features. These models will be available by mid of 2012 in the market. Currently the Company offers 12 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 about 15% of total frost free refrigerator industry and the size of this segment is 22.5 Lacs units. The Company operates only in premium category therefore the big sales volume is not expected. During the year under review the production of refrigerators suffered because of the floods in the Thailand Manufacturing Plant. This affected the supplies and because of that, the business of the Company affected by 4% against last year.

Customer Service

Company has expanded network of company owned and company operated service centers to 34 nos. in 26 towns with over 1500 technicians apart from 616 other service points including multi brand S&S, exclusive S&S and franchisees. With this network company is covering approx 317 towns across country.

Company has launched genuine accessories under the brand 'RYOKU'. In the initial phase 'Ryoku' Stabilisers, 'Ryoku' Copper, 'Ryoku' Stand and 'Ryoku' IDUs are available to the customers.

Apart from training of Company's own service technicians, Company has trained technicians of service franchisees in the state of art training center "Hitachi Centre for excellence". Other than Technical and behavioural training, the training to the Dealer Sales person and Hitachi Profile communicators is also imparted.

Market Drivers' Outlook, Opportunities, Threats, Risks and Concerns

Market Driver	Description	Outlook
AC Penetration	Room Air Conditioner penetration is very low approx 3% in the country. It is expected to grow in future.	↑
Market Growth	Middle income level population is growing; their average income levels are rising. Smaller towns are showing encouraging growth. These towns are very critical, as the next round of growth will come from them.	↑
Input Cost	India's core inflation has gone up significantly over the past year, and is unlikely to moderate significantly in the coming months. Thereby input costs of raw material especially of Aluminum, Copper and Sheet Metal has gone up and has led to an erosion of Margins. Increasing Tax, freight cost, and operational cost are some other factors which increase the cost.	↓
Energy Efficiency	From Jan 2012 onwards BEE has made the star rating system more stringent, which means the EER of all star ratings has gone up. Therefore to qualify to be a 5 star Air conditioners the minimum EER is now 3.3, which was 3.1 earlier. Company offers higher EERs in all the models therefore we could easily adopt to the new system.	↑
	Because of BEE standards of Energy efficiency the specifications of all Air conditioners have gone up which may result in the cost increase for new product development.	↓