

ANNUAL REPORT

2012-2013

Hitachi Home & Life Solutions (India) Limited

OUR PRODUCT RANGE



i-Clean Inverter



i-Clean



Ace Cutout



Ace Followme



Kaze Plus Split



Star



Kampa



Summer TM



Summer QC



Kaze Plus Window



Cassette



Big French
Inverter
Refrigerator



3-Door
Inverter
Refrigerator



2-Door
Inverter
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.

Greetings to all of you,

The year 2012-13 started with a hope of growth in the Air conditioning industry compared to the previous fiscal year. The last year was difficult and challenging for us. In spite of the slowdown of the Indian Economy and the decline in growth of the Room Air conditioning industry, it was a positive year for our Company. It is indeed a pleasure to share with you the highlights of our Company's financials for the year 2012-13.

HHLI has made an Operating Profit (Profit before Depreciation, Interest and Tax) of ₹ 4805.23 Lacs.

During the year, Room Air conditioning industry has declined by around 5%. A short summer season and other economic conditions had an adverse impact on the industry. However, our Company has grown marginally over last year. We are focusing on Inverter technology for energy saving, therefore, the new line up will include Split Air conditioner with Tropical Inverter technology & Green refrigerant (i-Clean Inverter).

We are increasing our focus on the B2B product range. For the first time in India we are introducing installation-friendly Front Flow and Top Flow VRF systems. During the last quarter, we also introduced Eco-friendly R410A refrigerant Ductables in the scroll range. We continue to be one of the preferred brands in all customer segments. We are the market leader in the Telecom Air conditioner segment. Even though the telecom industry experiences a downward trend in investments and reduction in margins, we had a phenomenal growth mainly due to the introduction of the Free Cooling Unit (FCU) and large replacements done by the Infrastructure companies.

In Refrigerator business, our Company is increasing its focus on models with Inverter Compressors. We now have five models in the inverter range. To differentiate from competitors, we have French Door Bottom Freezer range. The different variants available are 2-Door, 3-Door, 4-Door, and 3-Door Bottom Freezer. A higher growth is expected by introducing these models to the market as the Indian people's buying power is also increasing.

We are constantly strengthening our after-sales service network and operating through our own 35 service centers in 26 towns apart from 600 other service points including multi brand sales and service dealers, exclusive sales and service dealers and franchisees. With this network, the Company is covering 317 towns across the country.

As you are aware, on 18th July, 2012, manufacturing Unit II at Kadi was entirely gutted in a major fire incident. We were fortunate that there were no human casualties. Fighting against any adverse situation is the core of Hitachi's culture. This has enabled us to overcome this disaster, and within a record 165 days, we have rebuilt the factory. We have received unconditional support from all the stakeholders, dealers, customers, vendors and state government, and above all, our employees.

The Board joins me in expressing our appreciation for the support that we have always received from our shareholders, and for the faith and confidence they have shown us throughout difficult times.

I wish all of you the best of health and prosperity in the year of 2013-14.

Shinichi Iizuka

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	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

COMPANY SECRETARY

Parag Dave

AUDITORS

S. R. Batliboi & Associates LLP
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 shares 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	2012-13	2011-12	2010-11	2009-10	2008-09
Revenue from Operations (Net)	92,999	79,809	76,401	64,090	46,990
Revenue Growth	17%	4%	19%	36%	5%
Other Income	161	87	467	1,183	723
Total Revenue	93,160	79,896	76,868	65,273	47,713
Profit before Depreciation, Interest and Tax (PBDIT)	4,805	3,114	6,336	7,031	3,739
Financial Charges	721	1,003	738	151	267
Depreciation	2,018	1,832	1,605	1,178	799
Profit Before Tax (PBT)	2,066	279	3,993	5,702	2,673
Provision for Taxation	536	(47)	1,061	1,088	565
Profit after Tax (PAT)	1,530	326	2,933	4,614	2,107
Equity Share Capital	2,296	2,296	2,296	2,296	2,296
Reserves & Surplus	15,879	14,826	14,900	12,367	8,155
Net Worth	18,175*	17,122	17,196	14,663	10,451
Net Worth Growth	6%	0%	17%	40%	25%
Gross Fixed Assets	25,988	21,359	19,863	15,886	10,985
Net Fixed Assets	17,755	12,956	13,094	10,457	6,496
Total Net Assets	40,237	27,038	26,237	20,729	15,626
KEY INDICATORS					
Earnings Per Share (₹)	6.67	1.42	12.77	20.10	9.18
Cash Earnings Per Share (₹)	15.46	9.40	19.76	25.23	12.66
Book Value Per Share (₹)	79.16	74.57	74.89	63.87	45.52
Total Debt to Equity	0.91 : 1	0.58 : 1	0.52 : 1	0.41 : 1	0.48 : 1
PBDIT / Revenue from Operations (Net)	5%	4%	8%	11%	8%
Net Profit Margin	2%	0%	4%	7%	4%
Return on Net Worth	8%	2%	17%	31%	20%
Return on Capital Employed	7%	5%	18%	28%	19%

Notes:

Previous years' figures regrouped wherever necessary

*Exclusive of "share application money pending allotment"

DIRECTORS' REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

Dear Members,

Your Directors have pleasure in presenting the Twenty Eighth Annual Report and the Audited Financial Statements, for the year ended March 31, 2013.

Financial Highlights

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

(₹ in Lacs)

	For the year ended March 31, 2013	For the year ended March 31, 2012
Revenue from operations (gross)	101922	86732
Less : Excise Duty	8923	6923
Revenue from operations (net)	92999	79809
Other Income	161	87
Total Revenue	93160	79896
Profit before finance cost, depreciation and tax	4805	3114
Finance Cost	721	1003
Depreciation and amortization expenses	2018	1832
Tax expense	536	(47)
Profit for the year	1530	326

Dividend

Your Directors recommend a dividend of ₹ 1.50 per Equity Share for the year ended March 31, 2013 to the Equity shareholders holding 27,190,884 Equity Shares (including shareholders holding 4,230,876 Equity Shares allotted on 8th April, 2013).

This is subject to the approval of the Members at the ensuing Annual General Meeting.

Issue of Equity Shares on Rights Basis

Company had, vide Letter of Offer dated February 27, 2013, offered fully paid-up Equity Shares at a price of ₹130 per Equity Share (including face value of ₹10 per Equity Share and share premium of ₹120 per Equity Share) to the Equity Shareholders of the Company on a Rights Basis in the ratio of 1(One) equity share for every 5 (Five) Equity Shares(s) held by the equity shareholders on the record date, i.e. March 06, 2013. The Rights Issue was opened on March 14, 2013 and closed on March 28, 2013. Company has made allotment of 4,230,876 Equity Shares on April 8, 2013 aggregating to ₹ 5500 Lacs.

Manufacturing Unit II reconstructed at Kadi (Gujarat)

Manufacturing Unit II situated at Kadi (Gujarat) was entirely gutted in a major fire incident happened on July 18, 2012 and fortunately no human casualty was there. The loss incurred by the Company is adequately covered under insurance claim. Company has received interim payment of ₹ 7,000 Lacs from the Insurance Company.

We have overcome this turbulence and within 165 days' time, we have rebuilt it. The Unit II has been reconstructed and production has recommenced from January 13, 2013.

We have received unconditional support from all stakeholders, dealers, customers, vendors, state government and employees.

Industry Structure & Developments

Air conditioning Industry

Our estimate of the industry performance during FY 2012-13 is given below;

Category	Total Industry Sales		
	2012-13	2011-12	Growth
Room Air conditioners (Units in Lacs)	27.1	28.5	(5%)
Ductable Air conditioners (Tr. in Lacs)	3.4	3.6	(6%)

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 has declined by around 5% in 2012-13 in comparison to de-growth of about 14% in 2011-12. Despite negative growth of industry, Company has grown marginally with 2.34 Lacs units against 2.33 Lacs units in last financial year in Room Air conditioners segment.

The demand of Split Air conditioners is continuously increasing. Now Split Air conditioners contribute to more than 76% of Room Air conditioner market.

Hitachi's Split Air conditioners range comprises of twenty one models, with capacities ranging from 1.0 Tr. to 3.5 Tr. Main models are 'i-Clean', 'Ace Followme', 'Kaze Plus', 'Ace Cutout', 'Star', 'Kampa' and 'Sugham'. The Window Air conditioners range includes eleven models, with capacities ranging from 1.0 Tr. to 2.0 Tr. Main models are 'Summer TM', 'Summer QC' and 'Kaze Plus'.

Commercial range of Air conditioners

Negative sentiments affected the commercial market during this Financial Year. Overall the Ductable Air conditioning industry has also declined in this year. However in case of Company, despite supply constraints due to fire incident, we have done better than industry. During last quarter we also introduced Eco-friendly R410A refrigerant Ductable in scroll range. The range of Ductable products is available from 3.0 Tr. to 16.5 Tr. which are highly appreciated and well received in the market.

In the Chiller category, due to sluggish economic conditions, over all market has grown marginally during the period. However market showed improvement in the last quarter. Due to fire incident, Company could not supply India-made-chillers in last three quarters of 2012-13. However Company kept on supplying chillers to the market from the overseas plants of Hitachi Group. Chiller manufacturing will start from May-2013 onwards and Company is planning to introduce new models in water cooled chiller series with environment friendly R134a refrigerant and with improved performance. Such Chiller range is enhanced upto 180 HP.

In VRF (Variable Refrigerant Flow) product category, market is showing positive trend and this category is continuously growing. During the year under review, industry has grown by about 19%. VRF is based on inverter technology therefore it saves 25% to 30% energy compared to fixed speed compressor. Company has started manufacturing of Front Flow 'Set Free' system in 6 HP, 8 HP, 10 HP and 12 HP capacities. The Front Flow 'Set Free' range is designed specifically to meet hot weather conditions along with space constraints. Moreover, Hitachi 'Set Free' is fitted with 'Scroll Compressor' and advanced heat exchangers to tackle such situation and to deliver the improved efficiency. To meet the growing market demand, Company also imports Out Door Units of Top Flow 'Set Free' system from 8 HP to 54 HP from Hitachi overseas plants. This category has potential and Company is focusing on the same to gain momentum in the market.

Telecom Air conditioners

We are the market leaders in this category. The Telecom industry has observed downward trend in CAPEX expenditure and reduction in margins but we had a phenomenal growth mainly due to introduction of Free Cooling Units (FCU) and large replacements done by the Infrastructure Companies.

Refrigerators

Company is increasing its focus on refrigerator category by introducing models with Inverter Compressors. We have five models in the inverter range. To differentiate from competitors, we have three models in the French Door Bottom Freezer range.

Now we have total twelve models for Refrigerators. The different variants available are 2-Door, 3-Door, 4-Door, 3-Door Bottom Freezer. We are presently operating in 300 Lts. & above Frost Free Refrigerator category which is only 15% approx of the total frost free industry and estimated size of this segment is 3.0 Lacs units. During the year under review Company has grown by 28%.

Service Initiatives

1. **Hitachi owned & operated service centers:** Company has expanded network of Company owned and Company operated service centers to 35 nos. in 26 towns with over 1500 technicians apart from 600 other service points including multi brand sales and service dealers, exclusive sales and service dealers and service franchisees. With this network, Company is covering 317 towns across country.
2. **Hitachi Genuine Accessories:** Company has launched genuine accessories viz. Stabilizers, Copper, Stand and IDUs under the brand "RYOKU".

Future Outlook: Opportunities, Threats, Risks and Concerns

Opportunities:

AC Penetration and Growth in Smaller Towns

Room Air conditioner penetration is very low i.e. approx 3% in the country. It is expected to grow in future. Smaller towns are showing encouraging growth. These towns are very critical as the next round of growth will come from them. The relevant consumer base is large and growing in small-town urban India due to their growing purchasing power and time spent on media.

Increased Affordability of Products

Air conditioners are now affordable both in terms of initial investment and running cost and Air conditioners are now treated as a necessity rather than a luxury item. The reduction of the price gap between the Split Air conditioner and Window Air conditioner has fuelled the growth of the Split Air conditioner segment.

Increase in Income Levels

Increasing affluence has led to increased consumption growth in Tier I, II and III towns. Middle income level population is growing; their average income levels are rising. Retailers are marketing their goods more aggressively by providing financing options to the consumers by partnering with banks / NBFCs.

Growth of Modern Retail

While there are established distribution networks in both rural and urban India, the presence of well-known brands and organized sector is increasing. Shopping malls are increasing in Indian cities. This will have a positive impact on the consumer durables industry. Organised retailing would not only streamline the supply chain, but also facilitate increased demand, especially for high-end and branded products.

Threats, Risks and Concerns:

1. India's core inflation has gone up significantly over the past year. Thereby input costs of raw material especially of Aluminum, Copper and Sheet Metal has gone up and has led to reduction of margins. Increasing freight cost and operational costs have led to increase in overall cost of the products.
2. Because of BEE standards of Energy efficiency, the specifications of all Air conditioners have gone up which results in to cost increase for new product development.
3. Banks / NBFCs are tightening their consumer finances. Inventory funding is also very tight, which is not a good situation for dealers to run their operations.
4. The growth of organized sector will hit the margins because they will increase their share and will demand more margins because of their market position.
5. High electricity cost & quality of power supply remain as hindrance in the growth of business. Long power cuts and voltage fluctuations may affect the pace of industry growth.
6. Air conditioner is seasonal product therefore delayed/ short duration summer affects the overall business performance and 2012-13 was affected with the same.

Human Resources

The total strength of employees (staff and operators) of the Company was 960 as on March 31, 2013.

To meet the market challenges and business requirements, the sales team was divided into three major channels focusing the Retail, Commercial & Power Retail segment. To strengthen the sales team as per the above business needs we recruited specialized manpower in various verticals.