

ANNUAL REPORT

2013 -2014

Hitachi Home & Life Solutions (India) Limited

OUR PRODUCT RANGE



i-Clean Inverter



Ace Inverter



Kampa Inverter



Ace Cutout



Ace FollowMe



Kaze Plus Split



Star



Kampa



Summer TM



Summer QC



Kaze Plus Window



Cassette



French Door
Bottom
Freezer



Big French
Inverter
Refrigerator



3-Door
Inverter
Refrigerator



2-Door
Inverter
Refrigerator



Takumi Ductable



Set-Free System



Water-Cooled Chiller



Space Maker

MESSAGE FROM THE CHAIRMAN



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

"With the objective of sustained profitable growth we continue to invest and innovate in products to offer a wide range to customers. This will be supported by a sales and service network expansion to reach out to newer clients and deliver our value proposition. Demand is expected to pick up, we are well positioned to leverage this and counter competition."

My warm greetings to all the shareholders of Hitachi Home & Life Solutions (India) Ltd. (HHLI).

As of now the economy continues to be in a state of slumber. With an annual growth of 4.9% in 2013-14, India has now recorded two consecutive years of less than 5% annual growth. Sadly, for the first time in the last ten years, private consumption growth has been below 5% at 4.1% for 2013-14. The slowdown in economic growth was coupled with fairly high levels of domestic inflation. In addition, with adverse movements in current account deficit and some degree of capital flight, there was significant depreciation of the rupee when compared to the US dollar. This negatively affected the consumer durables industry, where Company operates, from two angles. For one, it made fully imported goods even more expensive for the average Indian consumer. For another, it increased costs of imported intermediaries, which account for a large proportion of value of durable goods produced in India exerting cost pressures on manufacturers.

In this difficult business environment, it gives me pleasure to share with you the highlights of the financial performance for 2013-14, which are largely in line with our goals of long term sustainable growth. Net revenues from operations increased by 18.3% to ₹ 1,099.7 crore. In fact, with this level of sales we are now a 1,000 crore plus turnover entity in India. Even though prices and costs were under pressure, operating profit or profit before depreciation, interest and tax increased by 11% to ₹ 53.3 crore in 2013-14.

Our strong belief is that "Society changes, Hitachi transforms it." Economic cycles are transient. What is important is to appreciate and understand the rapid transformation that is happening in the Indian consumer appliances market. Once perceived as luxury items, consumer durables have today become an indispensable tool of everyday use for the Indian middle class. The demand for consumer durables in India is expected to reach ₹ 52,000 crore (US \$ 8.4 billion) by 2015, according to ASSOCHAM; the largest contributing sector among durables is white goods, also known as consumer appliances, like Air conditioners, refrigerators and washing machines. Hitachi is playing its role as a catalyst for change by continuously investing in developing new and innovative products that stand out in the market. The diverse and rich product mix is supported by an ever expanding sales network that aims to reach out to maximum customers.

This was evident during 2013-14 in our two product segments – Air conditioners and refrigerators.

Company successfully introduced the Tropical Inverter Technology in the room Air conditioner segment. This technology is custom made for tropical weather conditions like the one that exists in India. Basically, with this technology, Hitachi inverter ACs can perform consistently and efficiently in extreme Indian weather conditions while optimally using energy. The Tropical Inverter Technology ensures less de-rating at high ambient temperatures to give consistent cooling comfort. The 'i-Clean Inverter', 'ACE Inverter' and 'Kampa Inverter' models are powered with this technology.

It gives me a great sense of pride to announce that Company has been honored with Certificate of Merit at the National Energy Conservation Awards (NECA)-2013 by Bureau of Energy Efficiency (BEE), Ministry of Power for producing its range of energy efficient Air conditioners.

A significant proportion of room Air conditioners is actually sold institutionally or on a Business-to-Business (B2B) basis. This is referred to as small size projects business. These sales are also spread out more evenly through the year, unlike direct consumer purchases of room Air conditioners that happen largely in summer. HHLI is now focusing on the B2B side of the room AC market. In addition, Company intends to leverage its strengths and significantly increase its play in the larger projects business that comprises pure commercial devices like chillers, VRF and ductables.

In the Commercial Air conditioner segment, we are increasing our focus on Variable Refrigerant Flow (VRF) technology. The Company has invested to develop and produce Top Flow 'Set Free' outdoor units from 8 to 54 HP in our Indian manufacturing facility. These machines are strictly designed to meet Indian weather conditions. Production will start in July 2014. We are already producing Front Flow set free outdoor units in India.

In refrigerators, Company focuses on the niche segment comprising larger frost free products. During 2013-14, Company introduced the new range of frost free, Tropical Inverter refrigerator range in 4-door, 3-door & 2-door categories. The new stylish and premium refrigerator series is expected to entice the consumers with its elegant designs and unique features. We operate only in premium category and Company has delivered growth of over 15% in 2013-14.

For success in any market the large diversified product base has to be effectively supported by an efficient service network. The increase in service network continued in 2013-14 and, today, we have 37 Company owned & operated service centres across the country apart from other service points including multi brand S&S, exclusive S&S and franchisees.

I believe India is turning the tide in terms of economics and consumer sentiments are turning positive. The opportunities will grow in 2014-15 and so will the challenges of an increasingly demanding consumer base and strong competition. We have always believed in steady and sustained growth, which is what we intend to deliver in the next few years.

I would like to take this opportunity to thank all the stakeholders of Hitachi Home & Life Solutions (India) Ltd. – the employees for their commitment and delivery, the vendors for their regular support, the customers for their belief in our products and to you, our shareholders for continuing to repose faith in our business. We intend to continuously deliver value to all of you.

I wish all of you the best of health and prosperity in the year 2014-15.

Shinichi Iizuka

BOARD OF DIRECTORS



Shinichi Iizuka
Chairman



Shoji Tsubokuta
Managing Director



Amit Doshi
Executive Director



Anil Shah
CFO & 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
Shoji Tsubokuta	Managing Director
Amit Doshi	Executive Director
Anil Shah	CFO & 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	2013-14	2012-13	2011-12	2010-11	2009-10
Revenue from Operations (Net)	109,973	92,999	79,809	76,401	64,090
Revenue Growth	18%	17%	4%	19%	36%
Total Revenue	110,547	93,160	79,896	76,868	65,273
Earning Before Depreciation, Finance Cost and Tax Expenses (EBDIT)	5,331	4,805	3,114	6,336	7,031
Financial Charges	1,195	721	1,003	738	151
Depreciation & Amortisation	3,004	2,018	1,832	1,605	1,178
Profit Before Tax (PBT)	1,133	2,066	279	3,993	5,702
Provision for Taxation	328	536	(47)	1,061	1,088
Profit After Tax (PAT)	805	1,530	326	2,933	4,614
Equity Share Capital	2,719	2,296	2,296	2,296	2,296
Reserves & Surplus	21,284	15,879	14,826	14,900	12,367
Net Worth	24,003	18,175*	17,122	17,196	14,663
Net Worth Growth	32%	6%	0%	17%	40%
Gross Fixed Assets	30,734	27,076	22,634	20,432	17,230
Net Fixed Assets	19,763	18,842	14,230	13,663	11,802
KEY INDICATORS					
Earnings Per Share (₹)	2.97	6.67	1.42	12.77	20.10
Cash Earnings Per Share (₹)	14.01	15.46	9.40	19.76	25.23
Book Value Per Share (₹)	88.27	79.16	74.57	74.89	63.87
Total Debt to Equity	0.52 : 1	0.91 : 1	0.58 : 1	0.52 : 1	0.41 : 1
EBDIT / Revenue from Operations (Net) %	5%	5%	4%	8%	11%
Net Profit Margin %	1%	2%	0%	4%	7%
Return on Net Worth %	3%	8%	2%	17%	31%
Return on Capital Employed %	6%	7%	5%	18%	28%

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 Ninth Annual Report and the Audited Financial Statements, for the year ended March 31, 2014.

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, 2014	For the year ended March 31, 2013
Revenue from operations (gross)	119934	101922
Less : Excise Duty	9962	8923
Revenue from operations (net)	109972	92999
Other Income	575	161
Total Revenue	110547	93160
Profit before finance cost, depreciation and tax	5332	4805
Finance Cost	1195	721
Depreciation and amortization expenses	3004	2018
Tax expense	328	536
Profit for the year	805	1530

Dividend

Your Directors recommend a dividend of ₹ 1.50 per Equity Share for the year ended March 31, 2014. This is subject to the approval of the Members at the ensuing Annual General Meeting.

INDUSTRY STRUCTURE AND DEVELOPMENTS

Hitachi Home & Life Solutions (India) Ltd (HHLI) is a subsidiary of Hitachi Appliances Inc., Japan. Since its inception HHLI has focused on developing and supplying quality products and technology that contribute to the overall prosperity of the society. As of today, HHLI produces a range of Air conditioners and trades in Refrigerators. Within Air conditioners, it has a slew of offerings including Room Air conditioners, Commercial Air conditioners, Chillers, VRF Systems and Rooftops. The refrigerators range focuses mainly on high end consumer refrigerators.

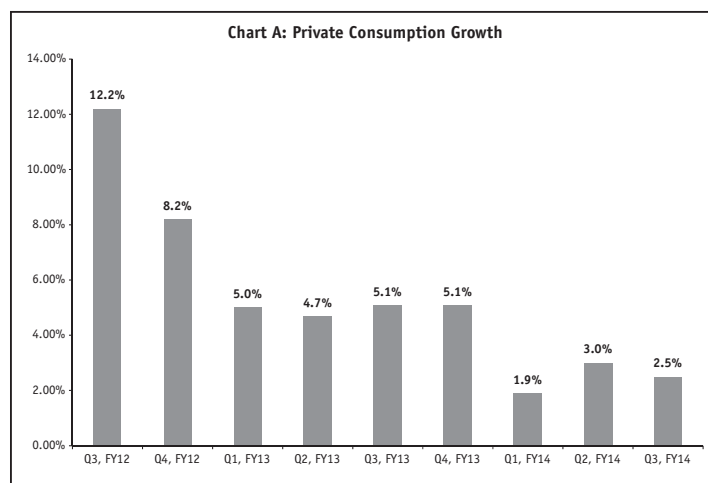
Company's manufacturing facility at Kadi, North Gujarat, is among the ten Hitachi Air conditioner manufacturing facilities worldwide. With a total installed capacity of 230,000 units (in a single shift) a year, HHLI is amongst the top Air conditioning companies in India.

The products are supported by a strong nationwide distribution consisting of 5 regional offices, 21 branch offices and over 200 exclusive sales and service dealers, over 1,500 sales points, 37 Company owned service centres (HCS) and 600 other service points including multi-brand S&S and franchisees. HHLI has a Company owned and operated 24x7 customer care centre.

The overall objective at Hitachi is to simplify life and to meet this objective the Company constantly innovates, brings in technology, adopts newer concepts and incorporates advanced features in its products to lead changes in making life comfortable.

Macro Economic Environment

With real economic growth slowing down to below 5% levels in 2012-13 and 2013-14, private consumption expenditure has been reducing quarter on quarter over the last 3 years (see chart A) even reaching lows of 1.9% in Q1, 2013-14 and 2.5% in Q3, 2013-14. Thus, India's strong consumer demand driven economy has taken a beating.



Growth in government consumption, which sharply picked up in the first quarter, remained subdued for the rest of the year as fiscal pressures intensified. Investment flattened during the year, registering no growth. While structural and procedural delays continued to hamper investment, new headwinds appeared in the form of monetary tightening and the heightened challenge of repayment in foreign currency as the currency weakened. Domestic demand contributed less than half of growth.

Consumer price inflation averaged 9.8% in 2013-14, while wholesale price inflation averaged 5.9%. Both picked up from May 2013 with higher food prices and periodic increments in fuel prices. However, from December 2013, inflation decelerated sharply due to a drop in food prices, especially for vegetables. Marked currency depreciation during the year increased import prices affecting companies like us, who have a reasonable proportion of imports, though to pass through the final prices has been limited by weak demand, which has curtailed firms' pricing power and forced them to tighten margins.

While the economic slowdown bottomed out last year, a spell of global financial turbulence caused capital outflows and pressure on the exchange rate, but strong policy measures stabilized the currency, rebuilt reserves, and narrowed the excessive current account deficit. Some weaknesses remain: persistent inflation, fiscal imbalances, bottlenecks to investment, and inefficiencies that require structural reform. One expects the new government that has come to power with a clear mandate will take necessary steps to resolve these weaknesses systematically and play a large role in accelerating the economic revival. However, given the challenges one expects the recovery process to be gradual.

Industry Update and Business Performance

Within the consumer durables space HHLI is present in Air conditioners and refrigerators.

AIR CONDITIONERS

Broadly, the Air conditioning market can be divided into room Air conditioners and ductable Air conditioners.

The Company's internal estimate of the industry performance during 2013-14 is given below:

Category	Total Industry Sales		
	2013-14	2012-13	Growth
Room Air conditioners (Units in Lacs)	27.97	27.1	3%
Ductable Air conditioners (Tr. in Lacs)	3.26	3.4	(-4%)

Room Air conditioners

Room Air conditioner industry has grown by approximately 3% in 2013-14 compared to de-growth of about 5% in 2012-13. Despite the low industry growth, HHLI has registered a growth with sales of 2.75 Lac units against 2.34 Lac units in the last financial year.

The Room Air conditioners category consists of both the Window type and Split type Air conditioners for cooling applications in residential and commercial spaces. The share of Split ACs in overall industry sales is increasing from around 49% in 2007-08 to over 79% in 2013-14. This growing trend of share of Split ACs is expected to continue due to lower noise levels, no security problems, aesthetic look and space adaptability.

Hitachi has a strong presence in the Split AC category in terms of products. The Company's Split AC range comprises 43 models, with capacities ranging from 1.0 Tr. to 3.25 Tr. The product line up has 1,2,3 and 5 star rated Air conditioners. The range comprises of 'i-Clean Inverter', 'ACE Inverter', 'Kampa Inverter', 'ACE Reidan (Hot & Cold)', 'Star', 'Star Sumo', 'Ace Followme', 'Sugoi', 'Ace Cutout', 'Kaze Plus', 'Logicool' and 'Kampa'.

While essentially Split ACs are sold to individual consumers, there is a significant proportion of the market which is actually project sales to companies for their offices, outlets or facilities. Rough estimates suggest this is around 30% of Split AC sales. Traditionally, HHLI has been a consumer focused Company in this space. It has now launched a new initiative to effectively penetrate the project sales market of Split ACs. Not only does this thrust offer growth opportunities but also makes the revenue flow less seasonal.

The Company also continues to sell its other room ACs. The Window Air conditioners range comprises 11 models to offer to the customers, with capacities ranging from 1.0 Tr. to 2.0 Tr. The product line up has 1, 2, 3 and 5 star rated Air conditioners. The range comprises of 'Summer TM', 'Summer QC', 'Kaze Reidan' and 'Kaze Plus series'.

The cassette Air conditioner range has 5 models to offer to the customers with capacities ranging from 1.5 tr to 4.0 tr.

With a slight uptick in consumer sentiments, the room AC market is poised for strong growth in the near term. Lower market penetration, rising income levels, increasing number of households, high temperatures & humidity, urbanization are strong growth drivers for this Air conditioning industry. It is particularly important to note that the household penetration of ACs in India is abysmally low when compared to the rest of the world. Hence, there is considerable scope of further penetration in Tier 2 and 3 towns and rural India.

In the Indian market, energy efficiency star rating, aesthetic look, maintenance, cooling capacity, warranty, price and technology are currently the major influential factors while purchasing an Air Conditioner. While Hitachi is focusing on these elements, its prime focus is on effective cooling with optimal energy consumption.

Commercial range of Air conditioners

The commercial range of Air conditioners includes ductables, chillers and VRF (Variable Refrigerant Flow) product categories and HHLI has a presence in all these. The Company is now strengthening its projects team to become even more aggressive in this market with a focus on its technological advantages.

Ductable: While the market witnessed around 4% de-growth in the ceiling suspended ductable category, HHLI grew by 16%. The major reasons of de-growth in industry were cost escalations due to high fluctuation in Forex, political uncertainties leading to poor investor sentiment and lower growth of economy. However, HHLI managed to grow despite these odds because of its strong brand recall in the segment, presence in medium to large size orders, availability of material and a wide product basket that could meet the requirements of all kinds of commercial customers.

Chiller: The overall market has grown marginally in 2013-14. HHLI was affected with the rupee depreciation that made its products which had large import content more expensive in the market. Consequently, there was major delay in sales finalization. The Company is going for greater localization and it launched a new range of R134a water cooled water chillers from the India Plant with enhanced capacity upto 180 HP. This has received good response from the market. During the period, Hitachi overseas plant has introduced higher efficiency model and is available for sales in India market.

VRF: This product category continues to show growth trend despite weak economic conditions. In fact, during the year under review, the industry has grown by approximately 12%. With its inverter technology, VRF products save around 25% to 30% energy compared to conventional technology products. HHLI's manufactured Front Flow 'Set Free' system in a capacity range of 6, 8, 10 & 12 HP, which was designed to meet Indian hot weather conditions, achieved good success in the year under review.

Keeping this success in mind and to meet growing market demand with good price propositions, the Company has decided to develop & produce Top Flow 'Set Free' Out Door Units in a capacity range of 8 to 54 HP from its own factory at Kadi, Gujarat. These Out Door Units again are being developed to meet Indian hot weather conditions.

Our "Set Free" systems are fitted with "Scroll Compressor" & advanced heat exchangers to tackle such situation and to deliver the improved efficiency. The commercial production of Top Flow 'Set Free' Out Door Units is planned to start from July 2014.

Telecom Air conditioners

In addition to the commercial AC segment discussed above, there is a specialized set of products that cater to the telecommunications industry. However, the Telecom Industry in India continues to be under severe debt burden and in difficulty. HHLI continued to be the market leader but volumes went down despite diversifying into power and railways. Free Cooling unit supported this category well. Going forward one expects a further consolidation of telecom operators, which will add further challenge to already difficult segment for AC suppliers. Consequently, efforts are being put to use the technology to diversify to other related industries.