

Khadim India Limited

Regd. Office: Kankaria Estate, 5th Floor, 6 Little Russell Street, Kolkata- 700 071

DIRECTORS' REPORT TO THE MEMBERS

The Board of Directors of your Company ("the Board") is pleased to present its report on the business and operations of your Company for the financial year ended on **31 March 2012**.

FINANCIAL HIGHLIGHTS

Fig. Rs.

	2011-2012	2010-2011
Revenue from Operations (Net)	3,593,228,393	2,931,526,393
Other Income	31,658,855	12,750,215
Profit before Depreciation, Interest, and Tax	409,268,103	372,877,772
Depreciation	69,410,738	71,064,523
Interest	174,137,078	141,703,872
Profit before tax	165,720,287	160,109,376
Provision for Taxation		
- Current and deferred Tax	56,053,478	54,122,463
- Fringe Benefit Tax	Nil	14,479
Profit for the year after tax	109,666,809	105,972,434

GENERAL OVERVIEW

The Directors of your Company submit this report at a time when the world economy is passing through a very challenging time. Though the global macroeconomic conditions have started showing slow signs of improvement, the turn of events in the Euro zone at large has failed to remove doubts about the long term sustainability of this trend. Impact of the global economic downturn coupled with internal complexities, have affected the Indian economy adversely. This is evident from the slow GDP growth rate in comparison with the previous year viz. the GDP growth during April-December 2011 was 6.9 % against 8.1% for the corresponding period previous year. Apart from this, the skyrocketing prices of food items and other essential commodities have also impacted the economy negatively.

So far as the performance of your Company is concerned, the Directors are pleased to declare that during the financial year 2011-2012 the net revenue from operations of the Company has witnessed a growth of

22.5 % over the revenue from operations of the previous year and in the process has crossed the Rs. 350 crore mark. However, profitability did not see a corresponding growth on two counts. Firstly the increase in manufacturing cost could not be passed on to the end user immediately and secondly, the return on investments in new stores and manufacturing units were moderate.

During the year under review the Company has rolled out several big footwear stores in strategic locations. Overall 55 retail outlets selling exclusively the products of the Company were launched during 2011-2012. Southern India in general and the State of Tamil Nadu in particular, has always been important for the Company. Keeping this in mind, the Company has opened its largest store in terms of selling area in Chennai during the year. Apart from this, the Company has also started selling slow moving stocks at a discount through discount stores during this year.

The Directors are also pleased to inform you that the much awaited rubber sheet manufacturing facility covering over 1,25,000 sq ft. in Panpur in the District of 24 Parganas (N), became ready for operation during the year under review. The unit has actually commenced production in the 1st quarter of 2012. This state-of-the-art rubber sheet manufacturing facility will help the Company to move seamlessly across various designs in the footwear segment thereby increasing the flexibility of the Company in the mass market products.

In 2011-12, the Company exported men's shoes and ladies ballerinas to the developed countries as per their specifications and requirement. The management is hopeful that in the coming years your Company shall be able to further consolidate its position in these markets.

BUYING AND MERCHANDISING

Buying and Merchandising has always been a key business driver for the Company. During 2011-2012, the Buying and Merchandising division has kept their focus on the latest fashion trends amongst the Indian consumers and has responded to the needs of the market with various designs at various price points. During this period, the existing core collection in all major categories was strengthened. Apart from this, additional shoe lines were introduced commensurate to the market trends. Moreover, in order to cater to the seasonal trends and demand, collections like "Spring Summer", "Festival / Autumn" and "Winter collection" were developed and launched to give the consumer, especially the younger generation, a global flavour with Indian touch.

MANUFACTURING

During 2011-2012, the manufacturing facility at Kasba saw some increased activity in response to the growing demand of its products. The PVC/DIP division saw a growth of 39% in terms of pairs over the last fiscal. Similarly, there was 37% growth in terms of pairs in the stuck-on division. In addition to this specific focus was maintained towards stringent quality control that has helped the Company in achieving a reduction in customer complaints in respect of the products manufactured by the factory.

As has been mentioned earlier, the rubber sheet manufacturing facility in Panpur in the District of 24 Parganas (N) has commenced operation from the 1st quarter of 2012. This factory having an area of 1.25 Lakh sq. ft. has a well-equipped testing laboratory for checking quality of the products.

LOGISTICS

In 2011-2012, the logistics function concentrated more on reduction in transit time and transit loss and cost rationalization. For reduction in transit time and transit losses, a system of Discrepancy Management was implemented in 2011-2012 in addition to tracking the movement of material in transit on-line. This year a cost effective packaging with greater standardization and enhanced quality was introduced. The logistics division gave adequate support in reduction of slow moving stock through proper liquidation planning. A new distribution centre in Malancha, on the Eastern fringes of Kolkata was set up for enhancing the strength of the Distribution network.

BRAND AND MARKETING

Increasing exposure to the electronic media at real time has made Indian Consumers more mature and conscious about their needs and choices. Your Company always keeps this development in mind while taking any initiative in the branding and marketing space. During 2011-2012, the target was to get maximum mileage for each rupee spend. The objective was to undertake a focused marketing strategy based on categories like Wedding, School Spring – Summer and Monsoon collections or event specific marketing like Bihu, Onum, Eid, Puja, Diwali, X Mass, Pongal. Moreover, each footwear store has been used as a marketing space and has been utilised adequately by deploying enhanced visual merchandising activities. Apart from this need-based support was also given for the business of Khadim's Sona Khazana & Khadim's Khazana

INFORMATION TECHNOLOGY

As planned last year, the commissioning of internet based Credit Card Swapping system in all the footwear retails, Sona Khazana stores and Khazana was introduced. This would reduce the ever increasing telephone bills apart from yielding a quicker realisation of funds. Development of IT facility was done as per the requirement of the Panpur factory which will help seamless connectivity at nominal charges. During the year, the system down-time at the footwear retail level was reduced to less than 5% which included the regular maintenance activities.

INTERNAL AUDIT

During 2011-2012, the Internal Audit department of your Company, like earlier years, has kept vigil on the various operations of your Company. More emphasis was given on streamlining and strengthening the existing controls over the various production lines of operation at the factory along with the periodic audit of inventory, monitoring of logistics operations and audit of selected transactions as per the Audit Plan developed under the supervision of the Audit Committee.

HUMAN RESOURCES MANAGEMENT

Human Resource is the lifeblood of any organisation and your Company is no exception to this. Accordingly, it has always been a sincere effort of your Company that our Human Resources are nurtured and properly taken care of. During the year several initiatives were taken towards these objectives including rationalisation of pay structure at all levels, revision of reimbursement policies keeping in mind the changing times etc. Moreover, from 1 April 2012 a "Variable Pay" scheme for the top management has been introduced to help the Company nurture a performance-orientation to reach its desired goal. Apart from this, to improve management and operational skills of store in charges of various stores, rigorous training continues to be imparted on their joining. With the launching of the new factory at Panpur, the need for a dynamic team to supervise the manufacturing activities at both the factories has become necessary. Accordingly, a team of experienced middle and senior level management staff has been recruited. Consistent efforts were made for improving safety standards in the Company by taking measures like intensive safety drives in works areas; conducting safety awareness workshop and training etc., in your manufacturing unit at Kasba. The Directors of your Company sincerely appreciate the contribution made by the human resources of your Company.

CORPORATE SOCIAL RESPONSIBILITY AND CONTRIBUTION OF THE ENVIRONMENT

The Directors of the Company firmly believe that a corporate does not exist only for earning profits but has responsibility towards the society and the environment.

The Directors feel that discharging social responsibility is a continuous process and can take various forms and structures even if such action is not publicised every now and then. However, for the records, the Directors are pleased to mention that the age old practice of the Company in uplifting the artisans / vendors and their families by making them self-reliant and legally compliant, continues.

Your Company has always been conscious about its responsibility towards the environment. To this end, several initiatives were taken during the year. You are aware that indiscriminate use of plastics poses tremendous threat to the environment and the entire world is deeply concerned about this. The Company on its part, has upgraded from dispensing plastic carry-bags to non-woven carry-bags which are being well accepted by the consumers. Similarly, while constructing the factory building at Panpur, extensive care was taken at the planning stage to minimise the use of power without hampering the production process thereby ensuring energy conservation. Details in this respect appear under the head *Conservation of Energy*. Apart from this, the Company has planned Water Harvesting in the Panpur factory for reducing the consumption of water.

The Directors feel all these initiatives will go a long way in protecting the environment apart from reducing expenditure.

PARTICULARS OF EMPLOYEES

Information as per the provisions of Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, forms a part of this Report and is given in Annexure A.

DIVIDEND

The Directors are pleased to recommend a dividend @ 10% for the financial year ended on 31 March 2012. This is at par with the last year. The recommendation, if and when approved by the members at the ensuing Annual General Meeting, shall be payable to those members who are legally entitled to dividend.

PUBLIC DEPOSITS

During the financial year 2011-2012, the Company has neither invited nor accepted any deposits from the Public within the meaning of Sections 58A and 58AA of the Companies Act, 1956 read with Companies (Acceptance of Deposits) Rules, 1975.

AUDITORS' REPORT

Except the qualification in Paragraph 4.6 of the Auditors' Report, which is dealt hereunder, there is no other reservation, qualification or adverse remark in the Auditors' Report, within the meaning of section 217(3) of the Companies Act, 1956.

1. With respect to the qualification in the Auditors' Report, in Paragraph 4.6, pertaining to impairment of land and work in progress, the Directors of your Company state as under:

During the financial year 2008-2009 a Petition under Section 397 & 398 of the Companies Act, 1956, (hereinafter "the Act") being No. C.P. No. 4 (KOL) of 2009 (hereinafter "the said proceedings") before the Hon'ble Company Law Board, Kolkata Bench, New Delhi (hereinafter "CLB") was filed by two members of Company who are part of the promoter group, inter-alia, against the Company.

After several rounds of hearing the CLB passed its final order dated 24 July 2009 disposing off the said proceedings in terms of the Terms of Settlement dated 24 July 2009 (hereinafter referred to as the "ToS") executed by and between the petitioners and all the companies, partnership firm and the individuals of / related to the Khadim Group being in the nature of family settlement.

As per the ToS, the Company was supposed to release its land at Gariahat measuring 8 Cottahs 15 Chittaks 9 sq. ft, situate at Premises No. 49A, Leela Roy Sarani (formerly Gariahat Road) Kolkata 700019 (hereinafter referred to as the Gariahat Land").

Moreover, any one or more of the Respondents or any of their duly appointed representative(/s) or nominee(/s) or successor(/s-in-interest) or legal heir(/s) is supposed to pay to the Petitioners or their legal heirs, representatives, administrators, assignees or

nominees an aggregate sum of Rs.18,00,00,000/- (Rupees eighteen crore only) over a period of 5 years 4 months from 13 May 2009 and against such consideration the petitioners shall transfer their shares to the respondents or their nominees and shall not be entitled to attend any Board meetings/ General meetings and shall observe non-compete for 5 years.

In accordance with the direction of the CLB, the Company has transferred its Gariahat Land to the nominee of the Petitioners on 11 June 2010.

The Company has not made any provision for loss in the Profit & Loss Account for the financial year 2011-2012 as the Management intends to write off the cost of the Gariahat Land and the payment shown under "Payments to Minority Shareholders' under Loans and Advances, by way of reduction of share capital and reserves after obtaining approval from the Members and the High Court at Calcutta or any other court / authority having appropriate jurisdiction, at the end of the entire transaction period i.e. 5 years 4 months' time from 13 May 2009.

AUDITORS

The Statutory Auditors of the Company, M/s Ray & Ray, Chartered Accountants, retire at the conclusion of the ensuing Annual General Meeting, and being eligible, offer themselves for reappointment. Furthermore, M/s Ray & Ray, Chartered Accountants, have confirmed that, if appointed, their appointment would be within the limit prescribed under Section 224(1B) of the Companies Act, 1956.

DIRECTORS

As on the date of this Report the number of members on the Board is 7 comprising of 2 Whole-time Directors, 1 Non-executive Director and 4 Non-executive Independent Directors.

Pursuant to Section 256 of the Companies Act, 1956, Prof. A N Sadhu, Director being a Director liable to retire by rotation under Section 255, retires at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

Mr. Sunil Mitra was appointed an additional Director within the meaning of Section 260 of the Companies Act, 1956 ("the Act"), as a Non-executive Independent Director by the Board of Directors at its Meeting held

on 3 August 2012. Mr. Mitra shall hold office up to the date of the ensuing Annual General Meeting. Meanwhile the Company has received a notice pursuant to Section 257 of the Act, proposing his name as a Director of the Company to be appointed at the ensuing Annual General Meeting. The respective resolutions seeking your approval for the above two matters is being forwarded to you through the Notice of the Annual General Meeting at which, this Report will be tabled.

INFORMATION AS PER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

A. CONSERVATION OF ENERGY

Energy conservation is an ongoing process in the Company through investments in the latest energy efficient technologies to conserve energy at all locations, plants and sites of the Company. As a part of your Company's endeavor towards conservation of energy and prevention of energy wastage, constant improvements are undertaken in order to conserve energy on an ongoing basis. In the new Rubber Sheet Manufacturing Unit at Panpur the Factory Building has been designed by using Energy Conservation methods like use of Translucent Roofing Sheet which permit Natural light inside the premises thereby reducing the need of electrical lights to a negligible level, use of Turbo Vents and Ridge Vents and latest insulating materials for the roof and side panels for reducing the internal heat and thus keeping the temperature at a moderate level even during peak summer without use of air-conditioning.

During the year under review, your Company has taken adequate measures to optimize the consumption of electricity by reducing operational losses as much as possible. As the Company is not operating in an industry listed in the Schedule to Form A referred to in sub-clause (d) of Clause A of Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the details as per Form A is not relevant.

B. TECHNOLOGY ABSORPTION:

Research and Development

Though no "Research and Development" initiatives were taken within the meaning of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 or Accounting Standard

26 during the year, the Company, which is present in the retail space, understands the importance of continuous improvement of the product line and development initiatives and thus continued to carry out various design development and improvement activities not only to keep itself abreast with the market but also to stay ahead of the times.

Technology Absorption, Adaptation and Innovation:

No specific technology was absorbed, adapted or innovated within the meaning of Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, in the last 5 years.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The details of Foreign exchange earnings and outgo is as follows:

Fig. In Rs.

Sl.	Particulars	2011-2012	2010-2011
(a)	Value of import on CIF basis		
	Raw material, components & spare parts	852,477	632474
	Finished footwear	43,808,247	45133328
	Capital Goods - including Moulds	34,518,495	18831520
(b)	Foreign exchange Earning	24,393,455	3952074
(c)	Foreign exchange outgo	14,261,404	10046843
(d)	Others	Nil	Nil

DIRECTORS' RESPONSIBILITY STATEMENT UNDER SECTION 217(2AA) OF THE COMPANIES ACT, 1956

The Directors confirm that:

1. In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanations relating to material departures;
2. Such accounting policies were selected and applied consistently; judgments made and estimates projected, that are reasonable and prudent in order to provide a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;

3. Proper and sufficient care was taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. The annual accounts have been prepared on a going concern basis.

ACKNOWLEDGEMENT

The Directors place on record their sincere gratitude to the Central Governments and various State Governments and other statutory bodies including the Registrar of Companies, West Bengal and the Ministry of Corporate Affairs, Vendors, Lenders, Bankers, Financial Institutions, employees, the shareholders and other stakeholders for their consistent and uninterrupted support.

**Kankaria Estate, 5th Floor,
6, Little Russell Street,
Kolkata- 700 071**

For and on behalf of the Board

Sd/-

(Satya Prasad Roy Burman)

Chairman

Dated: 28 August 2012