VISHAL
MEGA MART

Vishal Retail Ltd

Annual Report 2009-10

BOARD OF DIRECTORS

Shri Ram Chandra Agarwal	*Chairman & Managing Director*
Smt. Uma Agarwal	*Executive Director*
Shri Jay Prakash Shukla	*Executive Director*
Smt. Seema Kukreja	*Independent Director*

PRESIDENT, COMPANY SECRETARY AND MANAGER

Shri Arun Gupta *Head Legal & Company Secretary*

STATUTORY AUDITORS

Haribhakti & Co., Chartered Accountants
42-43, Press Free House, 215, Nariman Point
Mumbai-400021 (Maharashtra)

REGISTERED & CORPORATE OFFICE

Plot No. 332, Near Telco Service Station
Rangpuri, New Delhi - 110037
Phone(011)-32431314-15
Fax: (011)-26784281

REGISTRAR AND TRANSFER AGENT

Link Intime India Private Limited
C-13, Pannalal Silk Mills Compound, L.B.S Marg, Bhandup(W)
Mumbai -400 018
Phone: (022)-25963838
Fax: (022)-25946969
Email: Mumbai@linkintime.co.in

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NOTICE

NOTICE IS HEREBY GIVEN THAT NINETH ANNUAL GENERAL MEETING OF THE VISHAL RETAIL LIMITED WILL BE HELD ON 29TH DAY OF OCTOBER 2010 AT NCUI, SIRI INSTITUTIONAL AREA, AUGUST KRANTI MARG, NEW DELHI-110016 AT 10:30 AM TO TRANSACT THE FOLLOWING BUSINESS

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Profit and Loss account for the year ended March 31, 2010 and the Balance Sheet as at that date together with the Report of the Board of Directors and the Auditors thereon.
2. To appoint a Director in place of Ms. Uma Agarwal who retires by rotation and being eligible offers herself for reappointment.
3. To reappoint M/s. Haribhakti & Co., Chartered Accountants as Statutory Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS

4. **To consider and if through fit, pass with or without modification (s), the following resolution for approval of appointment of Mr. Jay Prakash Shukla as Whole time Director of the Company who has been appointed as an additional Director with effect from September 30, 2009 and was appointed as the Whole time Director of the Company with effect from the same date and in respect of whom the Company has received a notice in writing from the Member proposing his candidature for the office of Director and to move the following as Special Resolution :-**

"RESOLVED that pursuant to the provisions of the section 257, 198, 269, 309 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956 and/or any statutory modification or re-enactment thereof from time to time and in force, the consent be and is hereby accorded to the appointment of Mr. Jay Prakash Shukla as Director, who was appointed as Additional Director w.e.f 30.09.2009 and on the same date as the Whole time Director of the Company for a period of 5 years with effect from 30.09.2009, liable to retire by rotation,

"RESOLVED FURTHER that pursuant to the discussion with the Remuneration Committee, Mr. Shukla would not be liable to receive any remuneration from the Company till the time the financial condition of the company improves and the remuneration committee is further authorized to vary / modify / amend any of the aforesaid terms and conditions provided such variation / modification / amendment is in conformity with the applicable provisions of the Act, as amended from time to time.

'RESOLVED FURTHER that the Board be and is hereby authorized to do all such acts, deeds, matters or things as may be considered necessary, appropriate, expedient or desirable to give effect to this resolution."

By the Order of the board of directors
For Vishal Retail Limited

sd/-
Ram Chandra Agarwal
Chairman & Managing Director

Date : 30.09.2010
Place : New Delhi

Notes:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY. A PROXY FORM IS ENCLOSED. THE INSTRUMENT APPOINTING A PROXY SHOULD, HOWEVER, BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.**
2. Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of Special Business set out in the notice is enclosed.
3. All documents referred to in the notice or in the accompanying explanatory statement are open for inspection at the registered office of the Company between 11:00 a.m and 1:00 p.m. on all working days upto the date of Annual General Meeting.
4. The details pertaining to the appointment / reappointment of Directors are furnished in statement of Corporate Governance in the Directors' Report/ in the Explanatory Statement in the notice.
5. The register of members and the share transfer books of the Company will be closed from 25th October 2010 to 29th October, 2010 both days inclusive.
6. Members/ proxies should bring their copy of the Annual Report for reference at the meeting as also the attendance slip duly filled in for attending the meeting.
7. Members holding shares under more than one folio may use photocopy of this Proxy Form for other folios. The company shall provide additional forms on written request only.
8. Members are informed that in case of joint holders attending the meeting, only such joint holder who is first in the order of names will be entitled to vote.
9. Shareholders holding the shares in physical form and desirous of making nominations are requested to send their requests in Form No. 2B in duplicate (which will be made available on request).
10. In respect of shareholders' holding shares in electronic form, members are requested to notify any change of address and change in bank details to their Depositories Participants.
11. The communication address of our Registrar and Share Transfer Agent (RTA) Link Intime India Private Limited, A-40, 2nd floor, Naraina Industrial Area, Phase-II, Near Batra Banquet Hall, New Delhi-110028.
12. Details of Ms. Uma Agarwal who is proposed to be reappointed at the ensuing Annual General Meeting, as required under Clause 49 of the Listing Agreement, are as under:-

Name of Director	: Ms. Uma Agarwal
Date of Birth	: **15.11.1975**
Brief Resume	: **Bachelor in Arts**

Date of Appointment : **23.07.2001**

Expertise in specific Functional Area : **Holds eight years of experience in retail industry**

Qualifications :

Directorship held in other public Companies : **VRL fashions Limited**
VRL Consumer Goods Limited
VRL Knowledge Process Limited
VRL Retail Ventures Limited
VRL Foods Limited
VRL Movers Limited
VRL Infrastructure Limited

Membership/chairmanship of other public companies : **None**

Shareholding in the Compan : **344000 equity shares as on 31st March 2010**

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

ITEM NO. 4

Mr. Jay Prakash Shukla was appointed as Additional Director of the Company and consent has been accorded in this meeting to regularize the appointment. He was appointed as Additional Director at the Board of Directors Meeting held on 30th September 2009 and he was simultaneously appointed as the Whole time Director for a period of 5 years with effect from 30.09.2009 and is liable to retire by rotation as a director. The provisions of the section 198, 269, 309 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956 and/or any statutory modification or re-enactment requires the appointment of Whole time Director to be approved by the Shareholders of the Company. The re-appointment of Mr. Shukha has been made as per the terms approved by the Board and the Remuneration Committee as per the applicable legal provisions, The remuneration will be paid to him after there is improvement in financial condition of the company.

His office as the Additional Director expires at the forthcoming Annual General Meeting of the Company. A notice has been received from a member seeking his appointment as a regular director of the Company. The requisite details for the purpose of reappointment are given below:-

Name of Director : **Jay Prakash Shukla**

Date of Birth : **11.02.1976**

Brief Resume : **Overcome complex business challenges and make high-stakes decisions using experience-backed judgment, strong work ethic and irreproachable integrity. Respected as a proponent of empowerment and accountability.**

Date of Appointment : **30.09.2009**

Expertise in specific Functional Area : **Holds expertise in retail industry for the approx period of 17 years**

Qualifications : **B Com, Pursuing MBA**

Directorship held in other public Companies: **None**

Membership/chairmanship of other public companies : **None**

Shareholding in the Company : **1 Equity shares as on March 31, 2010**

The above mentioned resolutions and connected documents are open for inspection at the registered office of the Company on any working day during office hours.

None of the Directors is interested in the aforesaid resolution except Mr. Jay Prakash Shukla.

By the Order of the board of directors
For Vishal Retail Limited

sd/-

Date : 30.09.2010 **Ram Chandra Agarwal**
Place : New Delhi **Chairman & Managing Director**

DIRECTOR'S REPORT

Your Directors have great pleasure in presenting the Ninth Director's Report of the company with the audited statements of accounts for the year ended March 31, 2010.

Financial Highlights *(Rs. in million)*

PARTICULARS	**Year ended 31.03.2010**	**Year ended 31.03.2009**
Income from Operations	11054.59	13232.34
Other Income	130.28	94.84
Total Income	**11184.87**	**13327.18**
Total Expenditure except interest cost	16139.32	13778.09
Interest	894.43	925.03
Profit(+) & Loss(-) before tax (3)-(4+5+6)	(5848.88)	(1375.94)
Provision for Taxation	Nil	Nil
Tax Adjustments	2238.89	458.81
Net Profit (+) & Loss (-) after tax(7-8)	**(3609.99)**	**(917.13)**
Brought forward from Previous year	(121.83)	823.02
Extra Ordinary Item & Prior Period Adjustment	(537.18)	(27.73)
Amount available for appropriation	Nil	Nil
Less: Provision for Preference Dividend	Nil	Nil
Less: Provision for Dividend Distribution Tax	Nil	Nil
Balance carried to Balance Sheet	**(4269.00)**	**(121.84)**
EPS(In Rs for Equity Shares of par value of Rs.10/- each)		
Basic (before extraordinary items)	(162.47)	(42.18)
Basic (after extraordinary items)	(185.15)	(42.18)
Diluted (before extraordinary items)	(162.47)	(42.18)
Diluted (after extraordinary items)	(185.15)	(42.18)

PERFORMANCE REVIEW

Retail industry has faced various challenges due to economic melt down. Most of the companies in the organized retail sector have seen a decline. Similarly it has not been a year of growth for the company. The Company has seen decline in turnover by 16.46%. Due to reduction in sales and consequential rise in expense burden your company has seen increased losses during the year 2009-10 which reached to Rs. 4269 Million.

The Company has attempted to recover from the situation during the current year and several corrective measures have been taken in operational restructuring, cost reduction to sustain in the current situation of the Company.

Continuing the cost control exercise, 15 unviable stores of the Company have been closed and the Company has adopted centralized warehousing system, 22 regional warehouses have been closed down. The operations have been rationalized based on the current size of operations of the company.

The Company has also closed down all manufacturing set-ups.

The company is under process of restructuring its debts through corporate debt restructuring mechanism. During the financial year 2009-2010 company has submitted its proposal under corporate debt restructuring mechanism to CDR cell for restructuring its secured as well as unsecured debts. SBI, HDFC, HSBC, ING Vyasa, UCO bank and BOI are participating banks under the CDR mechanism. CDR empowered group has approved the proposal of the Company

As per market analysis the retail industry in India is expected to grow during the time to come with many retailers maturing in the trade and with new entrants joining the business. The customer base of organized retail is growing rapidly.

The company has made several efforts during the year and will be continuing its efforts to minimize losses and improve profitability during the ensuing year.

OPERATIONS REVIEW

- During the year, the Company closes down 15 unviable stores and 11 new stores have added across various locations. The company has 171 stores and has reduced 0.78 Lakh Sq. Ft. of Retail Space during the financial year ended March 31, 2010.
- The Company has now adopted the centralized warehousing system. The number of warehouses have been reduced to 4 only from the previous 26 warehouses, 22 of the regional warehouses have been closed down during the year.
- Considering all the restructuring measures taken during the year by the company and based on those actions which will follow as per the planned action mechanism instituted, the company is expected to witness the changes/ benefits of all those actions during the following year.

INDUSTRIAL RELATIONS

The relations between the Company and its employees continued to be cordial and harmonious throughout the year under review. However, due to economic meltdown several employees left the Company during the financial year.

MATERIAL CHANGES AFTER BALANCE SHEET DATE

Memorandum of Understanding with strategic Investor

The Company has entered into Memorandum of Understanding (MOU) with Texas Pacific Group (TPG) in accordance with Corporate Debt Restructuring scheme approved by the lenders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis has been dealt extensively in the Annexure I to this Report.

DIVIDEND

In view of the loss for the current financial year, your directors do not propose to declare any dividend for this year.

PUBLIC DEPOSIT

During the year, the Company has not accepted any deposit under Section 58A of the Companies Act, 1956.

DIRECTORS

Ms. Uma Agarwal Whole time Director of the Company retires by rotation and being eligible offers herself for reappointment at the ensuing Annual General Meeting.

Mr. Jai Prakash Shukla, Director of the company liable to retire by rotation, whose term as additional director lapse at the ensuing Annual General Meeting, is proposed to be reappointed in the ensuing Annual General Meeting, pursuant to the receipt of Notice u/s 257 in his favor. Mr. Jai Prakash Shukla was appointed as Additional Director on September 30, 2009 and on the same date appointed as the Whole time Director of the Company for a term of 5 years.

Mr. Surendra Kumar Agarwal, Director, resigned from the company on 30th September 2009.

Mr. Rakesh Agarwal, Director, resigned from the company on 30th October,2009.

Mr. Bharat Jain, Director, resigned from the company on 2nd August 2010.

Mr. Sandeep Kumar, Director, resigned from the company on 1st September, 2010.

SUSIDIARY COMPANIES

The Company has 7 subsidiary Companies namely, VRL Foods Limited, VRL Movers Limited, VRL Consumer Goods Limited, VRL Fashions Limited, VRL Infrastructure Limited, VRL Retail Ventures Limited and VRL Knowledge Process Limited. Out of the same 4 Companies viz. VRL Movers Limited, VRL Infrastructure Limited, VRL Retail Ventures Limited and VRL Knowledge Process Limited are subsidiaries by virtue of control over composition of the Board of Directors. None of the subsidiariescompanies have commenced business operations during the year.

AUDITORS

The existing auditors M/s Haribhakti & Co., Chartered Accountants, retires at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

The Auditor's have put certain qualifications to which the management has put forward the following below mentioned replies;

Qualification and response to Auditor's Report

Para 4 (a) (i) The accumulated losses of Rs.4269 Mn as at March 31, 2010 exceed the net worth of the Company. Para 4 (a) (ii) Certain lenders have filed winding up petition against the Company in High Court. However the accounts have been drawn on going concern assumption as the company has made a proposal under corporate debt restructuring scheme to CDR cell for restructuring of its secured as well as unsecured debts and expects turnaround.

Company's business is supported by lenders/ creditors and working capital is positive. Further company has become EBITDA positive in the first quarter. Considering the above, excess of accumulated losses over net worth of the company will have no negative impact on the operations and running of the company.

Winding up petitions have been filed by certain lenders, but Honorable Courts have not given decision which has any negative impact on running of business. Further we are seeking legal opinions to vacate those orders. We are also approaching our lenders for amicable solution.

From the above, management do not see any event which may lead to a reason wherein company should not be considered as going concern. Based on the same assessment, accounts have been drawn on going concern assumption.

Para 5 (i) (a) Basis and supporting for write off of inventory amounting to Rs.3,41,71,59,919 on account of pilferage, shrinkage, slow moving, non moving, obsolete and damaged goods.

The company started the process of identification of inventory which were slow-moving, non-moving, dead, obsolete and damaged during the year. The company has substantially completed this exercise during the financial year. Now the perpetual controls have been put in place to continuously monitor the inventory.

Para 5 (i) (b) Adequate documentary evidence for display charges included in 'other Income' amounting to Rs. 2,86,02,715 recognized in the Profit & loss Account.

The arrangements of display where company allows vendors/ companies to display their products are seasonal and not regular in nature, though we have adequate control on the collections from all the vendors. The above amounts are not material and significant in size in each arrangement. Though company obtains/ keeps contracts in cases where each arrangement is regular and material in nature.

Para 5 (i) (d) Basis for write off of sundry balances amounting to Rs. 1,40,33,201 included in other expenses in schedule 16.

The company made an assessment and has written off deposits/ advances which were not expected to realize in future.

Para 5 (iv) (a) Accounting Standard 2-"Valuation of Inventories" The cost of valuation of inventories does not include Octroi, mandi tax, entry tax, input VAT, freight inwards and discount received on the purchase. The impact of such valuation from AS2 is currently unascertainable.

Considering the complexity of transaction, movement of stock and number of SKU's, current system is not supportive to charge expenses like octroi, mandi tax, entry tax, input VAT etc on specifically identified inventory, hence we have not taken them in account for valuation of inventory but same have been charged to profit and loss account. Further the quantum of amount involved in not too high.

Para 5 (iv) (b) Accounting Standard 28-"Impairment of Assets": whereby no assessment for impairment of assets if any was carried out during the year by the management.

The company has valued assets at cost less accumulated depreciation and is following the same policy consistently and due to scattered stores, huge asset base and the nature of assets the company has not accounted for loss on account of impairment.

Para 5 (iv)(c) Accounting Standard-22 "Accounting for taxes on income" The company has recognized Deferred Tax Asset amounting to Rs. 2,62,64,99,840 as at 31st March 2010 even though the company has incurred operating loses in the current year and in earlier years and there is no convincing evidence as to virtual certainty of future income.

We have seen economic slowdown in past years due to which company operating profit margins went under pressure and there was some financial imbalance. Now, the company has been witnessing growth in sales and EBITDA margins gradually. All required mark down in the value of slow moving, non moving and obsolete stock has already been provide for. From all these indicator we found that there is virtual certainty that company will be able to make sufficient profits and accordingly Deferred Tax Asset has been recognized.

Para 5 (vi) (a) The balances of unsecured loans amounting to Rs. 1,60,45,87,755 from various banks and financial institutions are subject to confirmation and reconciliation.

We have made full efforts for getting confirmation from unsecured lenders but due to CDR process going on, some of the lenders were unable to given confirmations.

Para 5 (vi) (b) The balance of sundry debtors Rs. 2,91,57,235 and Sundry creditors Rs. 1,23,51,04,887 are subject to confirmation and reconciliation.

The company has taken note of the same and will act upon the same for getting reconciliation/ confirmation. The creditors as at 31st March 2010 have been paid in the months of April, May and June in majority and hence major portion is reconciled. As the numbers of suppliers are more and reconciliation is expected to take time, the company will complete the exercise of reconciliation in due course of time.

Para 5 (i) (c) Adequate documentary evidence to support write off of capital work in progress amounting to Rs. 78,69,388 included in prior period expenses.

The company has identified certain capital assets under progress which were not to be installed due to closing down of respective projects. The identified assets were written off accordingly from the books of accounts.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements of Section 217(2AA) of the Companies Act, 1956, the Directors of the Company hereby confirm:

That in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

That the Directors had selected such accounting policies and applied them consistently and made judgments and estimated that are reasonable and prudent so as to give 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 the period under review;

That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

That the Directors had prepared the annual accounts for the year ended 31st March 2010 on a 'going concern' basis.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

A Statement giving details of Conservation of energy, technology absorption and foreign exchange earnings and outgo as required u/s 217(1)(e) of the Companies Act 1956 read with the Companies (Disclosure of particulars in the Report of Directors) Rules 1988, has been enclosed as Annexure- II to this report

REPORT ON CORPORATE GOVERNANCE

The Report on Corporate Governance along with Auditors Certificate on the same has been enclosed as an Annexure III to this Report.

OTHER INFORMATION

Information as per section 217 (2A) of Companies Act, 1956, read with companies (particular of employees) Rules, 1975 forms part of this report. However, as per the provisions of section 219 (b) (iv) of Companies Act, 1956, the reports and the accounts are being sent to all members of the Company, excluding the information required under sec 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended. Any member interested in obtaining such information may write to the Company Secretary at the registered office. The said information is also available for inspection at the corporate office during working hours up to the date of Annual General Meeting.

ACKNOWLEDGEMENT

The Directors wish to thank and deeply acknowledge the co-operation, assistance and support extended by the Central Government, the State Governments, the Company's Bankers, the Shareholders, the dealers, vendors of the company in the success and growth of the Company. The Directors also wish to place on record appreciation for the co-operation and contribution made by the employees at all levels.

On behalf of the Board of Directors

sd/-

Date : 30.09.10 **Ram Chandra Agarwal**
Place : New Delhi **Chairman**
Din:-00491885

Annexure – I

Management Discussion and Analysis

INDUSTRY STRUCTURE AND DEVELOPMENT

According to the estimates by the Ministry of Statistics and Programme Implementation, the Indian economy has registered a growth of 7.4% in 2009-10, with 8.6% year on year growth in its fourth quarter. The growth is driven by robust performance of manufacturing sector on the back of government and consumer spending. GDP growth rate of 7.4% in 2009-10 exceeded the government forecast of 7.2% for the full year.

The Indian retail market, which is the fifth largest retail destination globally, has been ranked third most attractive market for investment after China and Kuwait by AT Kearney's Annual Global Retail Development Index (GRDI), in 2010. India's GDP dipped to 6.7% in 2008-09 but is expected to reach 7.2% in 2009-10 and between 8-8.5% beyond that. The retail market is worth about $410 billion, but only 5% of sales are through organized retail, meaning that the opportunity in India remain immense. Retail should continue to grow rapidly-up to $535 billion in 2013, with 10% coming from organized retail, reflecting a fast growing middle class demanding higher quality shopping environments and stronger brands.

India continues to be among the most attractive countries for global retailers. Foreign direct investment (FDI) inflows as on July 2010, in single-brand retail trading, stood at approx. US$ 196.13 million (FDI inflows since April 2000), according to the Department of Industrial Policy and Promotion (DIPP). (Source: DIPP, Ministry of Commerce and Industry)

The Indian Retail sector has caught the world's imagination in the last few years. Retail sales In India are estimated at US $ 405 billion and organized retailing still accounts for 5% only. As per estimates by Crisil, the Indian retail industry is poised to grow at a rate of 19 per cent over the next five years. The organized retail segment is expected to grow from 5 per cent to about 7 to 8 per cent by 2012–13.

According to report titled "India Organised Retail Market-2010" published by Knight Frank India in 2010, During 2010-12, around 55 million square feet of retail space will be ready in Mumbai, NCR, Bangaluru, Chennai, Hyderabad and Pune. Besides, between 2010-12, the organized retail estate stock will grow from existing 41 million sq. ft to 95 million sq. ft.

The year gone by was packed with several significant developments for the Indian retail industry, including the entry of many global players, growing acceptance of the modern formats, the success of many specialty retail formats, and the rising competition in the regional markets beyond the metros and Tier 1 cities. On the other hand, the after effects of the global economic turmoil are being felt in India as well, and the economy is expected to grow at a significantly lower rate over the next 2 years (between 5 to 7 percent according to various estimates*). Consequently, overall consumption levels, particularly discretionary spend and impulse purchases have been affected, which, in turn, has resulted in a lower growth rate for the industry for the current year. Moreover, the trend is expected to continue.

Given the industry's changing landscape and emerging challenges, the focus of industry players too is changing; with a strong emphasis on profitable growth in the current scenario. Hence, retail companies are increasingly concentrating on strengthening existing operations and assessing options for growth through consolidation, while continuing to innovate. Looking at the changing contours of the *industry, there are certain drivers which are likely to have an impact* across retail categories.

Factors like renegotiating rentals, store rationalization, working capital management, regionalization, cost optimization and manpower resizing are some of the key issues for retailers in the current context of the downturn.

A large number of retailers have experienced a drop in footfalls which is mirrored by slowing Same Store Sales (SSS) growth figures. This also adversely impacts the time taken to break-even for new stores. SSS at some of India's biggest retail groups have become negative for the first time in six years

The slowing sales are resulting in lower inventory turnover and increasing working capital requirements for retailers. This in turn has resulted in liquidity pressures for many retailers.

Retailers have been trying to compensate for falling sales by curtailing expenses. This has countered the effect of the top line on operating margins leaving it largely unaffected. However, with working capital requirements and expansion capital being financed through sizeable debt, interest costs have significantly affected the bottom line.

KEY GROWTH DRIVERS OF RETAIL INDUSTRY

India is third most emerging retail markets of A.T. Kearney's Global Retail Development Index. As compared to other emerging markets, India has a more stable and stronger economy and the penetration levels are low. Due to these reasons, India is still the most attractive destination for international retailers looking at expanding into emerging markets. The Key drivers for Growth of the Industry are as follows:-

Growing Economy: - India recorded a gross domestic product (GDP) growth rate of 7.2 per cent in rupee terms during the year 2009-10 The fast pace of GDP growth is, in turn, driving Indian consumerism, with Indian consumers today more confident and willing to splurge.

Maturing Metros and Cities: - While India's top 20 cities account for just 10 per cent of the country's population, they earn more than 30 per cent of the country's income and spend 21 per cent of the country's total income, and your Company mainly focusing development in Tier I and Tier II Cities, which may have a positive impact on the growth of your Company.

Mall Space Availability: The number of malls in the top seven cities (Delhi NCR, Mumbai, Hyderabad, Pune, Bangalore, Kolkata and Chennai) is expected to go up to 600 by 2010 from present situation. From the setting up of India's first mall in 1999, there has been a steady migration of retail from the traditional to the organized format, the trend being more pronounced in urban areas.

Changing Face of Indian Consumerism: Lifestyle patterns of India's middle class are being redefined with the adoption of western values and growing brand consciousness. Retail revenues are soaring with increased consumer exposure, driven by the mass media, to latest trends and brands.

Integrated Retailing Formats:-Modern Retailing Formats, Malls, Department Stores, Discounters, Cash and Carry are rapidly integrating and diversifying store formats to cater to emerging trends in consumer behavior. These formats are expanding into emerging cities with modest store formats as opposed to the glitzy mall formats adopted in metros.

Higher Disposable Incomes: Disposable incomes are on the rise with the economy providing new avenues of employment in IT/ITeS and other sunrise sectors such as biotech, hospitality, etc. Indians have an ability to spend over US$ 30,000 a year (PPP terms) on conspicuous consumption. Disposable incomes are expected to rise at an average of 8.5 per cent per annum until 2015.

Easy Credit: Banks and financial institutions have increased their range and volume of retail credit and service offerings. The growing acceptance of plastic money across small and medium retail outlets has been observed which is a good sign for the future of Retail Industry and your Company.

OPPORTUNITIES

Rationalization of Costs: The Company would be rationalizing/optimizing its operational costs. The Company is already in the process of renegotiation of rentals, rationalizing operational expenses etc. Further, the Company is standardizing the Manpower requirements at each store level and for each process. The Company would be initiating more steps to optimize rational costs in future.

Increasing Technology Adoption: With modern retail store formats growing in size, players are increasingly deploying advanced IT tools for managing supply chain, warehousing and logistics requirements. Apart from industry giants, small-scale retailers are also embracing IT solutions to spruce up their operations. These technologies have driven the Companies to grow much faster then at its existing pace.

Planning for product mix- The Company will be using IT system and reports effectively in planning the product mix at the store level.

Improvement in logistics and supply chain system- The Company plans to improve supply chain, logistics and delivery system to ensure product reaches destination timely.

Further growth through Franchising- The Company intend to close loss making owned/ leased stores and increase further stores through franchisee route. There is potential of franchising in the country and many retailers have already forayed in similar manner and have succeeded in expansion to Tier-II to Tier-III cities.

STRENGTHS

Transition from Traditional to Modern Retailing: The Company has focused mainly on Tier I and Tier II cities which is expected to be mostly affected from the transition of traditional retailing to modern retailing. This transition would allow the focus of consumers which would be beneficial for your Company.

Regional Merchandising- The Company has focused on merchandising suitable as per regional needs and that has fetched benefits for the company.

Strong network base- The Company has strong network/ presence pan India with 170 stores. It becomes easier to penetrate products all across.

Human Resources- The Company has well trained and efficient staff who understand needs of the business, regional strengths. They have capability, knowledge and ability to implement things as desired by the company.

Future Outlook and Strategies

- Effective utilization of IT system
- Productively employing staff at all location
- Reducing manpower wherever possible.
- Improvement of labeling system of the product.
- Reduce the Debt burden and interest rates of the Company through Corporate Debt Restructuring.
- Increasing Private Label
- Expansion of the business of the Company through Franchisee and Revenue Sharing Model.
- Increased focus on Shop in Shop Format i.e. excess space renting Arrangements.
- Focus on Core competencies of the Company i.e. retailing.
- Consolidation/Closure of non viable business lines/units.

RISKS AND CONCERNS

Debt Burden

The Company debts have risen from Rs. 7508.07 Mn to 7662.33 Mn thereby recording an increase of 154.26 Mn as on March 31, 2010.

The rise in the debt burden is on account of interest accruals during the year.

To overcome, the company is in mode of implementing the decisions of the Corporate Debt Restructuring (CDR) scheme entered into with its Bankers.

Increase in Competition to Impact Margins

With the entry of big players in retail Industry the competition will become intense. Increase in competition is expected to alter the dynamics of business and further sustaining/ acquiring space and manpower resources.

Opening of FDI in Retail

The Government of India has come up with a proposal to allow 100% foreign direct investment in the retail business. Thus many foreign players may be entering India. The market dynamics will see a major change by this move wherein a lot of organized players will be competing for retail space, percentage share of the market, trained manpower from other players of the trade.

Higher rentals

Despite economic meltdown and recessionary phase there has been very little change in the rentals. The market is still on a high rental level, leaving very little margin for the retailers to sustain in the market. The balancing/ correction of rentals to the right proportion as per industry standards abroad has yet to take place in India.

Internal Control Systems and Their Adequacy

We believe that Internal Control is a necessary concomitant to the principle of Governance that freedom of Management should be exercised within a framework of appropriate checks and balances. We are committed to ensuring an effective internal control environment that provides assurance on the efficiency of operations and security of assets.

The Company has Internal Auditor(s) at each store to monitor and strengthen the Internal Control of its stores. The Company also appoints consultants, advisors, professionals from time to time to guide the company to improve its operations.

HUMAN RESOURCE MANAGEMENT

Your Company has always valued its employees. The Company has developed Human Resource Management system and process, which aim to create a responsive, customer centric and market focused culture that enhances organizational capability and vitality. These systems and processes are operating in an enabling and empowering work environment, which supports winning performance.

COMPANY PERFORMANCE REVIEW

This year witnessed downturn in terms of sales growth. Few stores have been opened up in the normal course of business alongside closures.

Your Company has reported a loss of Rs. 4147 Millions during the financial year ended March 31, 2010.

The Company has shelved out its expansion plans and also closed down its non viable stores this year.

The turnover from operations of the company during the financial year ended March 31, 2010 was Rs. 11055 Mn as compared to Rs. 13232 Mn during the previous year ended March 31, 2009. The turnover of the company decreased by 16.46% from the previous year.

During the year the company added 11 and closed 15 stores. The Company also focused only on retail business and closed down all its manufacturing set-ups.

The Company has entered into Shop in Shop arrangements with the third parties at the store, wherever it has excess area to utilise the area effectively and provide better portfolio of its products to the customers and at the same time generate additional revenues.

The contribution from private labels decreased during the year as company closed down all its manufacturing facilities. The company also registered increase in private labeling in FMCG by 1.40% during the year.

Cost of Goods sold

Cost of goods sold increased by 37.74% to Rs 12585.19 Mn FY'10 from Rs 9136.81Mn Fy'09.

The increase is on account of write off for an amount of Rs. 3417.15 Mn which has been identified as non-moving, slow moving, obsolete, damaged, shortages due to pilferage in all the categories.

The Company also accounted a loss of inventory of Rs. 507.89 Mn due to fire at the warehouse in Gurgaon.

Administrative & Other Expenses

Administrative & Other Expenses declined by Rs. 636.33 Mn i.e 26.98% in FY'10. The decline in the cost is mainly on account of renegotiation of the stores rentals. The other expenses were also pruned.

Personnel Expenses

The personnel expenses decreased by 27.66% to Rs. 885 mn in FY'10 from 1224 Mn in FY'09. The decrease in personnel expenses is mainly on account of rationalization of salary/ staff.

Depreciation

The Company provided for depreciation of Rs. 465 Mn during FY' 10 compared to Rs 488 Mn in FY'09. For the year under consideration, cumulative depreciation was 39.09% of gross block, from 27.39% in the previous year. Your Company uses the Written down Value (WDV) method to compute depreciation charges.

Finance Charges

Interest expense reduced by 6.81% to Rs 898 Mn during FY' 10 compared to 963 Mn during FY'09. The Company has also filed proposal under CDR for debt restructuring and expect the same to benefit company in the ensuing year.

Provision for Taxation

Being in losses, the company has not made any provisions for taxation.

EPS

EPS has decreased by 285.15% reporting a negative EPS of Rs. (162.47) compared to previous year EPS of Rs. (42.18). The Diluted Earnings per Share (DPS) was Rs (185.15) in FY'10 compared to Rs 42.18 in Fy'09.

Balance Sheet Position

Share Capital

Your Company has an authorised equity share capital of Rs. 300mn comprising 30mn equity shares of Rs 10 each and an authorised preference share capital of Rs 58.4 mn divided into 400,000 preference shares of Rs 146 each.

The Company has made preferential allotment of 3,910,000 convertible warrants to the promoters.

Reserves & Surpluses

The reserves and surplus as on March 31, 2010 is Rs. 1713 Mn as compared to Rs. 1665 Mn as on March 31, 2009 due to the addition of premium of Share Warrants.

Profit and Loss Account

Your Company incurred a loss of Rs. 4147 Mn during the financial year ended March 31, 2010. Resultantly the balance in P&L as on March 31, 2010 was Rs. (4269) Mn compared to Rs 122 mn as on March 31, 2009.

Debt

The total amount of the debt has remained stagnant at Rs. 7662 mn from the previous year Rs. 7508 mn.

Resultantly, the Debt-equity ratio has slightly decreased to 3.93:1 in FY'10 compared to 3.97: 1 in Fy'09.

The Company has submitted its proposal under CDR mechanism for the restructuring of its secured as well as unsecured debts and the same has been considered by the CDR empowered Group.

Deferred Tax

Deferred tax assets/liabilities represent impact of timing differences in the financial and tax books. Your Company incurred a net loss of Rs. 4147 Mn. The deferred tax asset as on March 31, 2010 was Rs. 2626 Mn.

Investments

Your Company has made net additions of Rs 1.3 Mn to gross investment amounting at Rs. 3.8 Mn compared to Rs. 2.6 Mn in the previous financial year.

Cash & Bank Balances

As on March 31, 2010, your Company is having a cash balance of Rs. 110 Mn compared to Rs 1499 Mn as on March 31, 2009.

Inventories

Inventories decreased by 67.02% to Rs. 2199.61Mn during FY'10 from 6670.81 Mn during FY'09. The decrease in inventories is mainly on account of rationalization of inventory at store level/ decreased operations by the Company. The company also wrote down non-moving, slow moving, obsolete, damaged, shortages due to pilferage in all the categories. The exercise was done by the company for the first time since inception of operations.

Loans and Advances

Loans and Advances as on March 31, 2010 was Rs. 597 Mn compared to Rs. 715 Mn compared as on March 31, 2009. The change is on account of reduction in security deposits for the stores closed by the company during the year.

Current Liabilities & Provisions

Current liabilities increased by 38.58% to Rs 2398.73 Mn compared to Rs. 1473.16 Mn during FY'09. The creditors increased during the year as company negotiated for better credit terms and utilized suppliers credit.

On behalf of the Board of Directors

sd/-

Date 30.09.10 | **Ram Chandra Agarwal**

Place : New Delhi | **Chairman**