POISED

Visaka Industries Limited

Annual report 2011-12

Forward-looking statements

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral –that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans' 'believes' and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Contents

There is opportunity in difficulty.

Both our businesses – building products and textiles – passed through challenging times in the last two years.

Rather than merely wait for the good times to return, we strengthened these businesses. To emerge better during the downtrend and bigger during the rebound.

There is one word that captures the spirit and positioning of our company.

POISED

THE BUSINESS MODEL OF VISAKA INDUSTRIES IS WOVEN AROUND TWO SIMPLE UNDERSTANDINGS.

- THAT PEOPLE WILL NEED TO STAY OR WORK IN BETTER SPACES AND DRESS BETTER.
- THAT EACH ONE WILL CONTINUE TO ASPIRE A SUPERIOR QUALITY OF LIFE.

PROFILE

Visaka Industries Limited was started in 1985. The Company is engaged in two businesses – building products (cement asbestos products, and fibre cement flat products like V-Boards and V-Panels) and textiles.

The equity shares of Visaka Industries Limited are listed on the Bombay and National Stock Exchanges. The promoters hold a 37.65% stake in the Company's equity share capital.

PRESENCE

Headquartered in Hyderabad (Andhra Pradesh), with manufacturing plants across ten regional locations.

PRODUCTS

Products	Manufacturing locations	Installed capacity, 31 March 2012
Cement asbestos products	■ Patancheru (Andhra Pradesh) ■ Paramathi (Tamil Nadu) ■ Midnapur (West Bengal) ■ Vijayawada (Andhra Pradesh) ■ Tumkur (Karnataka) ■ Rae Bareli (Uttar Pradesh) ■ Pune (Maharashtra) ■ Sambalpur (Odisha)	7,52,000 MT
Flat products	Miryalguda (Andhra Pradesh)	48,000 MT
Textiles	Nagpur (Maharashtra)	28 MTS M/CS

THIS IS WHAT WE ACHIEVED, 2011-12

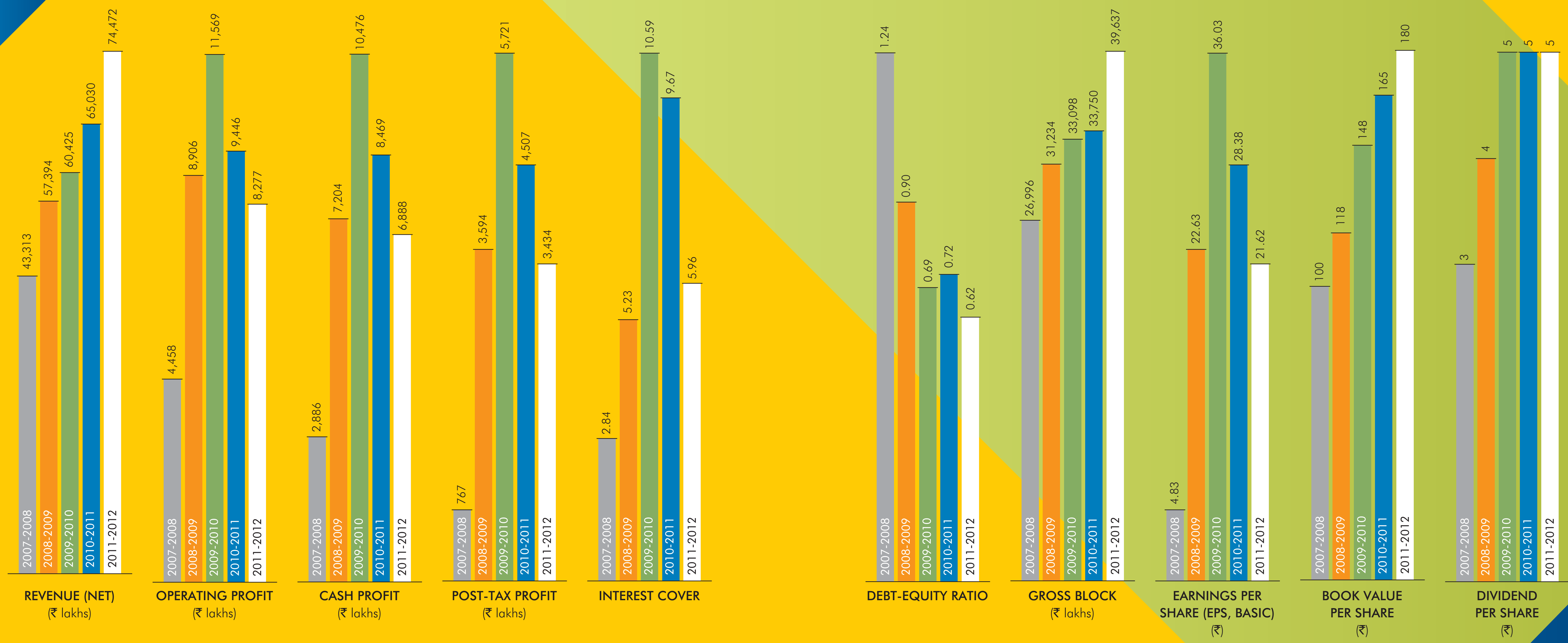
Building products business

- The Company produced 6,54,198 MT of cement asbestos products against 5,89,444 MT in 2010-11. The division reported an overall capacity utilisation of 94% as against 90% in 2010-11
- Sales increased 12% from 5,83,691 MT in 2010-11 to 6,54,439 MT,
- The Company's market share in the industry grew from 16% in 2010-11 to 18% in 2011-12
- The Sambalpur unit (100,000 TPA) was commissioned in the last quarter of 2011-12
- The V-Boards unit was turned around to profits

Textile business

- Domestic sales declined from 6,387 MT in 2010-11 to 5,301 MT
- Export sales increased from 2,363 MT in 2010-11 to 2,416 MT
- Yarn was exported to Germany, Egypt, Turkey, the US, the UK, Europe and Australia. Exports accounted for 31 per cent of total yarn sales
- 8,030 MT of yarn was produced (8,733 MT in 2010-11)
- Average yarn realisation increased from ₹164 per kg in 2010-11 to ₹178 per kg
- Our yarn export to the US increased from 75 MT to 161 MT during 2011-12. Yarn export to Egypt increased from 102 MT to 207 MT
- The overall export quantity grew from 2,363 MT to 2,416 MT despite a global slowdown and political crisis in the Middle East countries.

HOW WE HAVE GROWN OVER THE YEARS



SOME REASONS WHY OUR BUSINESS MODEL CONTINUES TO BE ROBUST AND SUSTAINABLE.

BUILDING PRODUCTS BUSINESS

Drive: The Company was the seventh-largest cement asbestos product manufacturer in India in 1996; it is the second largest today.

Scale: The Company possesses the second-largest production capacity of cement asbestos products in India.

Operational excellence: The Company's manufacturing plants consume the lowest electricity per tonne in the sectors of its presence.

Fabrication capability: The Company's rich engineering competence is reflected in an ability to design and fabricate cement asbestos manufacturing equipment (for five of its eight plants), reducing the overall cost when compared with the industry benchmarks by 20% and shrinking commissioning time. The Company demonstrated the commissioning of cement asbestos product capacity (100,000 TPA) within nine months of ground breaking, leading to rated capacity utilisation within four months of start-up

Competitive: The Company's 752,000 TPA production capacity of cement asbestos products corresponds to ₹251 crore of gross block investment at a historical cost of about ₹3,330 per MT as against a prevailing commissioning cost of ₹4,715 per MT.

Intellectual capital: The Company's 3,818 employees represent the best industry talent in the areas of engineering, finance, production, marketing, commercial, regulatory and quality management capabilities.

National: The Company's cement asbestos product manufacturing facilities are located nationally to address regional needs – four in South India, one in North India, two in East India and one in West India.

Product mix: The Company's building products division also comprises fibre cement boards (non- asbestos) used in urban and semi-urban interiors.

Distribution: The Company generally markets directly to retailers as opposed to the conventional company-distributor-retailer model, resulting in a better knowledge of marketplace realities.

Market share: The Company's Visaka and Shakti brands account for a 18% market share.

TEXTILES BUSINESS

Margins: The Company manufactures value-added products, enjoying the highest margins in its segment.

Engineering excellence: The Company successfully produced dyed yarn at speeds higher than the equipment manufacturer's recommendation.

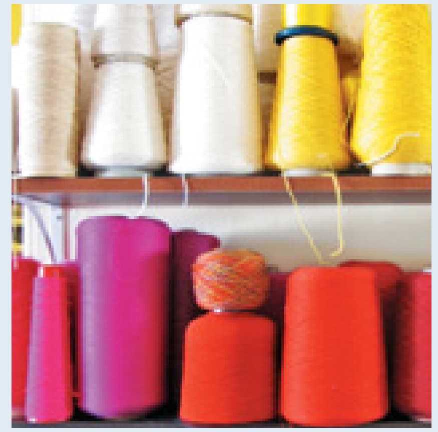
Scale: The Company enjoys attractive scale; it possesses the single largest twin airjet equipment installation in India and one of the highest such installations in the world.

Standard: The Company's products figure in the top five percentile of Uster standards in the world.

Niche: The Company selected to specialise in the niche segment of a commodity business (polyester spun yarns as well as products from 30s to 76s counts - double yarn).

Productivity: The Company's twin air-jet productivity is quoted as the benchmark by machinery manufactures (Murata of Japan).

Clientele: The Company's domestic textiles clients comprise brand-enhancing names like Siyaram's, Pantaloons, Harry's Collection, Grasim, Donear, and Raymond, among others.



CORPORATE

Business mix: The Company's business mix – textiles and building products – is generally counter-cyclical. The Company's products cater to a wide market, the product mix ranging from roofing to interior solutions.

Gearing: The Company is relatively under-borrowed; its gearing of 0.62 at the end of 2011-12 coupled with an interest cover of 6 represent adequate fiscal comfort.

Low attrition: The Company enjoys rich experience and stability in its senior management (in excess of 15 years).

Technology: The Company's high-tech fibre cement plant is fully automated comprising sophisticated technology; the yarn manufacturing unit comprises state-of-the-art twin air-jet spinning technology from Murata, Japan.

Standards: The Company's fibre cement plant is certified by the ISI. The V-Board division possesses HPSC technology conforming to IS 14862-2000. Visaka's yarns are environment-friendly and ÖEKO-TEX certified. The Company has been certified for ISO.

VICE-CHAIRMAN'S OVERVIEW

VISAKA IS POISED TO CAPITALISE ON ANY NATIONAL OR SECTORAL UPTURN

AT VISAKA, WE RECOGNISE THAT WE ARE IN BUSINESS TO ENHANCE ORGANISATIONAL VALUE. WHATEVER INITIATIVE WE UNDERTAKE MUST PASS THIS STRINGENT FILTER: WILL IT ENHANCE OUR COMPETITIVE ADVANTAGE AND ENRICH ORGANISATIONAL VALUE? IF IT DOES, WE EMBARK ON THE INITIATIVE; IF IT DOES NOT, WE DON'T.

I am pleased to report that despite a challenging 2011-12, Visaka enhanced its organisational value in various ways. From an evident perspective, the Company reported a profit after tax of ₹34.34 crore, which strengthened its book value to ₹180 towards the close of the year under review.

There were a number of positive achievements below the surface as well.

For instance, even in a challenging year, the Company reduced its indebtedness from a gearing of 0.72 to 0.62. In fact, in the last three years, our Company repaid an aggregate ₹71 crore to lenders and lightened its balance sheet to the point that term loans have been virtually repaid.

The quantum of working capital on the Company's books is fully covered by inventories with adequate margin. As a result, the Company reported a comfortable interest cover of 6 in 2011-12, which is creditable for a company engaged in businesses as broad-based as cement asbestos sheets, V-Boards and textiles.

Over the years, we built assets with an attractive depreciation cover, which funded our capital expenditure. In 2011-12, we touched a sweet spot in our business: even after we invested in an entirely new ₹47 crore asbestos cement sheet plant in Sambalpur (100,000 TPA) through accruals, we had cash left over.

As it is, our plant will start with a lower break-even point and stay viable even in challenging industry periods and report attractive profits during industry rebounds. The equipment is special; the 8 metre machine length makes it the largest of its kind in India, translating into a superior product mix, economies of scale and the ability to generate a higher output than rated capacity without any additional capital expenditure. More than that, from this point onwards we expect to generate adequate cash than we can immediately consume in our ongoing capital expenditure. With our term debt repayment complete, we see ourselves emerging as a cash-positive company in a cash-intensive business with any additional debt coming at a low gearing ratio.

Sincerely,

Dr G. Vivekanand

Q&A WITH MD

"IN A CHALLENGING 2011-12, WE SUCCESSFULLY RESTRICTED A DECLINE IN EBIDTA MARGIN 340 BPS"

SMT. G. SAROJA VIVEKANAND, MANAGING DIRECTOR, REVIEWS THE COMPANY'S PERFORMANCE IN 2011-12

Q Were you satisfied with your Company's working in the last financial year?

A We were not satisfied for a good reason. We had targeted net revenues of ₹790 crore for 2011-12 but ended with ₹745 crore, which is a deviation of 5% between what we had budgeted and what we delivered. The reasons for this mismatch are many: the economy went through a downturn, there was a volatile movement in India's exchange rate, along with an increase in our raw material costs (especially asbestos fibre). These costs could not be passed on and there was a decline in revenues at one end and margins at the other, drawing down our profit after tax for the year under review by 2.16%. Besides, there was a significant decline in the profit of our textiles division – one of the lowest in years - on account of the global slowdown. The bright spot was the performance of our V-Board division, which turned around by nearly ₹1.30 crore and contributed to the Company's bottomline.

In hindsight, one must add that the Company did well in arresting the decline in its margins to only around 340 bps to about 11%, which in reality could have been worse given the magnitude of the challenges. Besides, the Company succeeded in protecting its asbestos cement sheet market share at around 18% and number two position in the industry.

Q How did the asbestos cement sheet industry perform during the last financial year?

A The asbestos cement sheet segment is the largest in the Company, accounting for more than 75% of its total revenue. As a result, any decline in the performance of this division has an inevitable impact on the Company's performance. The asbestos cement sheet industry staged an interesting rebound:

Q&A WITH MD

> It was creditable that despite the slowdown and consumer sentiment being affected, the Company could report a higher production by 11% and higher sales by 12%.

in 2009-10, the asbestos industry de-grew 5%, then in 2010-11 the industry grew 3.5% and then during the last financial year it grew 7-7.5%. While this may not be a patch on the good old days when the industry would consistently grow 12-15% a year, this rebound is reassuring.

A number of shareholders would like to know the reason behind the dip and rebound: when food inflation peaked for a period of 18 months, there was a decline in disposal surpluses in rural India (where food accounts for a significant part of the rural income). However, when food prices started trailing off, there was a marginal rebound in industry demand. This was pronounced during the last quarter of 2011-12 when volumes and realisations increased, partly on account of pre-emptive buying to beat the rise in product prices as well as the incidence of excise.

Q What was creditable about the Company's working during 2011-12?

A It was creditable that despite the slowdown and consumer sentiment being affected, the Company could report a higher production by 11% and higher sales by 12%. Besides, even in the most challenging quarter (the second coinciding with the monsoons), the asbestos cement business continued to be profitable. Then in the last quarter of the financial year under review, the Company commissioned its eighth cement asbestos plant in Sambalpur (Odisha) with an installed capacity of 100,000 TPA (taking the Company's cumulative capacity to 752,000 TPA). This demonstrates the Company's commitment to grow its capacities even during unfavourable industry periods, the benefit of which will be felt when the economy revives.

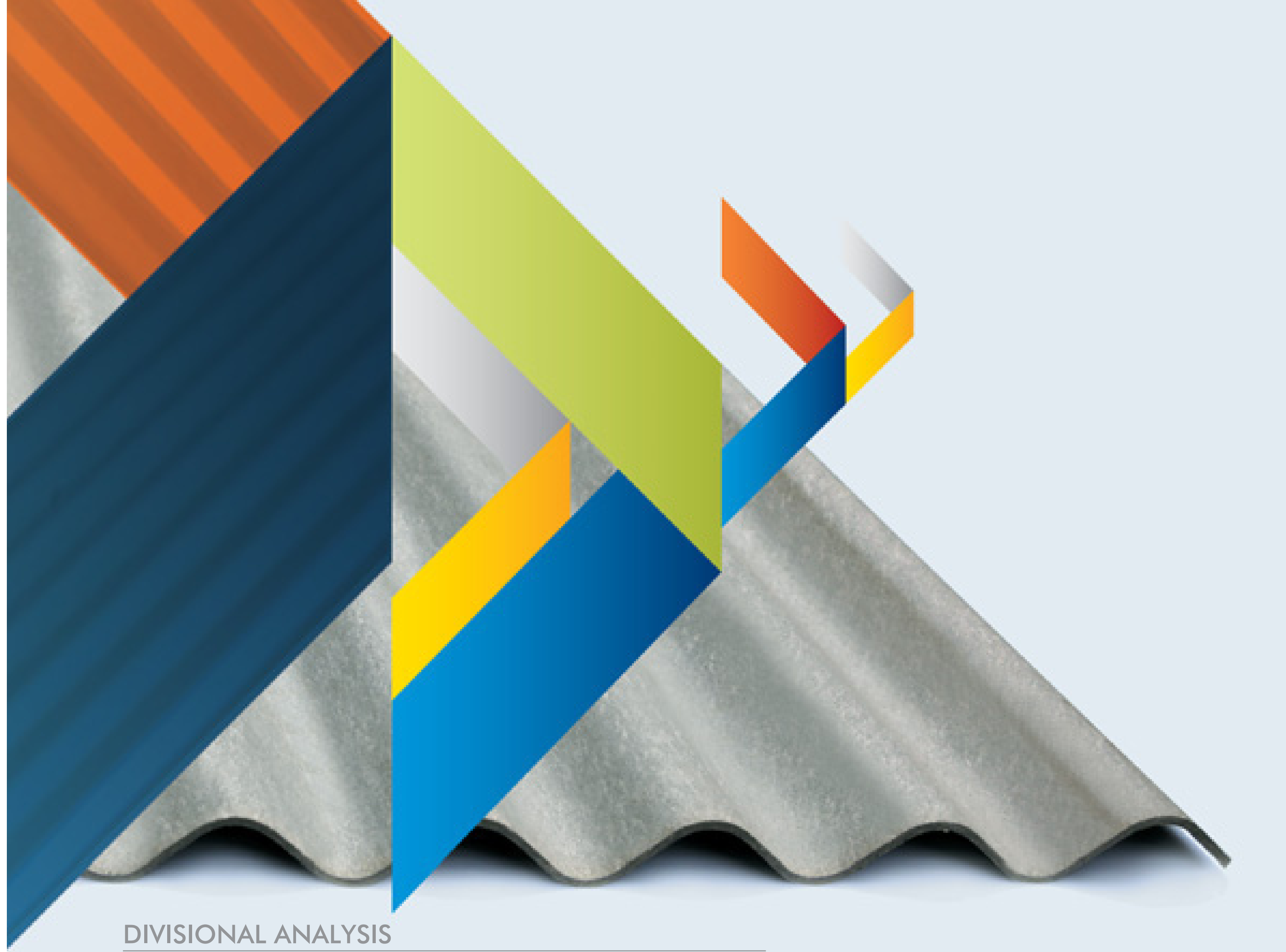
Q What can shareholders expect from the Company during 2012-13?

A We expect to report a 10% growth in the production of asbestos cement sheets to about 725,000 tonnes per annum, though it would be a bit premature to indicate how this will translate into margins as asbestos fibre prices increased 23% in April 2012, in addition to excise and service tax implications. As a result, we will be required to increase our selling price by more than 20% through the year to be able to merely cover this cost increase.

The textiles industry continues to be weak and if we retain our profits in the spinning division, we will be satisfied. We expect to do better in our V-Boards segment and if all goes well we will expand to more than double our installed capacity effective from 2013-14.

So while we do expect a growth in our business during the current financial year, it would be early to guess on how this will translate into profits. Our surplus will be influenced by FDI, rupee strength, oil prices and interest rates, each of which has a complex economic influence.

However, we would like to leave this thought with our shareholders that the Company strengthened its fundamentals through an increase in capacity, reduction in operating costs, reduction of the debt and gradation to niche ends leading to a more viable business mix on the overall. As a result, our Company is poised to capitalise with attractive fundamentals in the event of an economic rebound.



DIVISIONAL ANALYSIS

BUILDING PRODUCTS DIVISION

Net turnover: ₹607 crore, 2011-12

Proportion of the Company's turnover: 82%

1. CEMENT ASBESTOS PRODUCTS

Net turnover: ₹557 crore, 2011-12

Proportion of the division's revenue: 92%

The Company's presence in the building products segment is dominated by cement asbestos products (92% of revenues), the other segments comprising flat products like V-Boards and V-Panels.

In India, the offtake of cement asbestos products is largely influenced by a growth in rural incomes and how they compare with alternative materials. For instance, the 24 gauge galvanised iron roofing material (generally considered the superior product) used to be considerably more expensive earlier, justifying the use of cement asbestos products. But over the last few years, the pricing difference has narrowed and yet consumers prefer the latter on account of its superior features. As a result, the industry grew 7.5% in 2011-12. India's four leading manufacturers accounted for 65% of the market during the year under review.

Market: Cement asbestos products represent a convenient intermediate roofing product in rural and semi-urban India. The product caters to the bottom of the country's economic pyramid where household incomes are placed at around ₹4,000. The scope of the cement asbestos sector is highlighted by the fact that nearly half the country's rural population lives in *kutcha* or semi-*pucca* dwellings, which would inevitably need to be transformed into organised homes as incomes increase. Since thatched roofs need regular maintenance, users move from thatched roofs to red clay tile roofs to cement asbestos products and concrete slab roofing as soon as they can afford it.

The attractiveness of the space is indicated by its size and sustainable scope: 70% of India's population is rural translating into a market of around 80 crore consumers, possibly the second largest such population type in the world. Besides, this population segment is extensively under-consumed. Rural housing shortage has been estimated at 14.6 mn units (11.4 mn on account of replacement and additional 3.2 mn of new units) according to NABARD. Besides, investment in a dwelling unit ranks next only to food in India's rural priority (~42% of the rural population).

More importantly, the under-consumption is positioned to correct itself with speed following the successful implementation of government programmes like Indira Awas Yojna (allocation was increased 10.75% to ₹11,075 crore in Budget 2012-13) and Rural Housing Fund (allocation of ₹4,000 crore in Budget 2012-13), placing a larger income in the hands of the rural Indian. India's rural income – estimated at ~ 56-60% of India's income – is also influenced by harvests, yields, realisations, irrigation, monsoons, credit and support prices.

Portfolio diversification: In a price-sensitive business where the realisation of the end product is largely influenced by the price of competing products, the Company recognised that growth could be derived through a linear increase in the capacity of its principal product (cement asbestos) or a lateral extension into allied (urban-focused) and non-allied (industry-focused) segments.

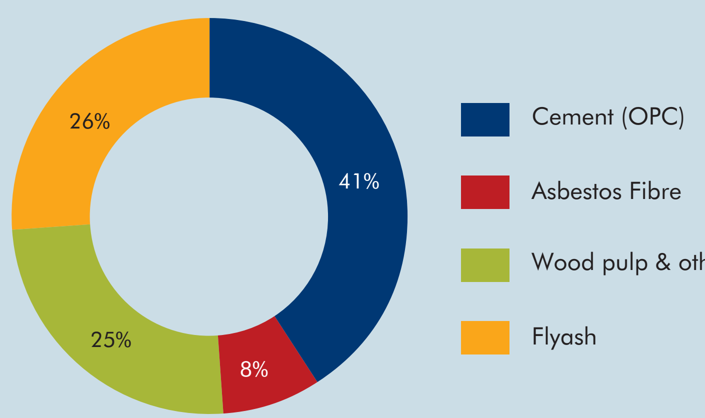
In view of this, the Company diversified into allied products (fibre cement boards, panels, among others used in cladding solutions, roofing, falls ceiling, patricians, among others), extending from a complete dependence on roofing products to building solutions. Besides, the Company graduated its personality from a rural consumer focus to urban and semi-urban marketing to architects, interior decorators, among others following its extension into the manufacture of sandwich panels, and fibre cement boards with the brand name V-Panel and V-Board.

Industry barrier: Even as cement asbestos products appear to be relatively low, entry into this space is restricted by technology, scale, branding and distribution. The conduct of manufacturers is cleared periodically by the Pollution Control Board and Central Environmental Ministry, followed by employee health and safety audits as well as the submission of reports. Over time, the ability of the large manufacturers with their strong balance sheets as well as their ability to create large capacities around a low capital cost per tonne may be considered as deterrents to fresh industry entrants.

Raw materials: The raw materials used in the manufacture of cement asbestos products comprise cement (OPC), white asbestos fibre (chrysotile), wood pulp and fly-ash. Chrysotile is imported from Canada, Brazil, Russia, and Kazakhstan while flyash is available as waste from thermal power plants. Given that the demand for the products remains relatively robust across rural India, profitability is linked to cement and asbestos fibre costs. Imported raw materials (asbestos fibre and wood pulp) account for 60% of the total cost.

Location: Freight accounts for 10-12% of cement asbestos sales. Over 90% of India's asbestos fibre imports are used in corresponding roofing sheet and pipe production. On the one hand, there is freight related to the inward transportation of raw materials and on the other, there is the outward transportation of finished goods. In view of this, the closer that a manufacturer is to ports, raw material producers or buyers, the better is the profitability.

Cement Asbestos Sheet composition (Volume)



Branding and distribution: There is a need to enhance a trust-based visibility considering that the product needs to be purchased across large stretches and accounts for a high proportion of rural income. This makes it imperative for manufacturers to appoint dealers right down to village levels, making it possible to capture every demand upturn.

Seasonality: It has been observed that the April–June quarter is usually the best for the sale of cement asbestos products (followed by the January-March quarter). On the other hand, the July-September quarter is usually the weakest as construction is generally deferred to after the monsoons.

Corporate review

The Company possessed 7,52,000 TPA in installed capacity of cement asbestos products. The Company's revenues from this product accounted for 75% of its total revenue for 2011-12 (73% in 2010-11). The Company retained its position as the second-largest cement asbestos product manufacturer in India with a 18% market share.

The division set a production target of 7,00,000 MT for 2011-12 and produced 6,54,198 MT as against 5,89,444 MT in 2010-11. The division achieved a capacity utilisation of 94%. Sales increased 12% from 5,83,691 MT in 2010-11 to 6,54,439 MT in 2011-12; market share grew from 16% to 18%.

Strengths

The division continued to deliver superior load bearing capacity over the recommended standard; it exceeded the ISI requirement of 525 kgs per centimetre square with a performance of 650-700 kgs per centimetre square. The division's production was supported by a field force of about 120 members servicing the needs of 6,000 plus pan-Indian retailers. The Company's products were available even in 5,000-member villages.

The Company did not just market products; it provided material in small quantities with a quicker frequency. This made it possible for retailers to store less and enhance their working capital efficiency. The division strengthened its outdoors advertising, influenced decision makers, marketed the 'perfect shelter' concept and ensured that retailers had ready material at all times. The division engaged periodically with customers, architects, government engineers and farmers.

Outlook

The division expects to increase production to 7,25,000 TPA in 2012-13.

THE GOVERNMENT'S RURAL HOUSING PUSH

Rural Infrastructure Development Fund: The government enhanced the allocation under Rural Infrastructure Development Fund (RIDF) to ₹20,000 crore for 2012-13. Further, an amount of ₹5,000 crore from the allocation will be kept aside to create warehousing facilities.

Affordable housing: The government strengthened its focus on affordable housing, allowing overseas borrowings for low cost housing, extension of interest subvention for one more year for loans up to ₹15 lakh on property cost up to ₹25 lakh, service tax exemption on low cost mass housing up to 60 sq mt and ₹4,000 crore fund for rural housing (3,000 crore in last fiscal). These initiatives will strengthen affordable housing.

Pradhan Mantri Gram Sadak Yojna: Under this flagship scheme, the government provided an allocation of ₹240 billion (increase of 20% over the previous year) to provide and enhance rural connectivity.

Mahatma Gandhi Naional Rural Employment Guarantee Scheme: MGNREGS created legal entitlements for an individual's right to work in the rural economy. The previous year's budget allocation was ₹400 billion, ₹1 billion less than what was allocated in Budget 2010-11. Of the allocated amount, only ₹310 billion was utilised. Keeping in view the underutilisation of the allocated funds, Budget 2012-13 allocated ₹330 billion to MGNREGS.

Indira Awas Yojana: The allocation for rural housing scheme Indira Awas Yojana was primarily to provide housing for SC/STs below the poverty line. This was ₹11,075 crore in the Budget 2012-13. Each BPL family got ₹45,000 as assistance in the plains and ₹48,500 in the hilly areas.

Jawaharlal Nehru National Urban Renewal Mission: The government almost trebled spending on JNNURM in 2012-13 to address urban infrastructure gaps.

Rural development: For 2012-13, India's finance minister allocated ₹736.8 billion to the Ministry of Rural Development to undertake rural development projects.

2. FIBRE CEMENT SHEETS (NON-ASBESTOS) – V-BOARDS AND V-PANELS

Net turnover: ₹50 crore, 2011-12

Proportion of the division's revenue: 8%

Overview

In the last few years, the use of flat products (V-Panels and V-Boards) increased on account of their superior price-value over alternatives.

For instance, the market for particle boards and medium density fibre boards in India is estimated at 6,00,000 tonnes per annum in the onward fabrication of interiors, partitions, panelling, door panels, mezzanine flooring, among others. A shift in application from plywood, particle boards and MDF boards to cement fibre sheets will enhance demand.

The Company's building products division manufactures flat products like V-Boards and V-Panels. These products are cement fibre sheets used wherever particle board and plywood are used in internal structures as well as external prefab applications. The Company possesses an installed capacity of 48,000 TPA, the second company in India to manufacture these emerging products.

Highlights, 2011-12

The Company possesses an all-India network of 130 distributors and intends to appoint 50 new distributors in 2012-13.

V-Boards: The production of this non-asbestos product (4000 TPM) went on stream in 2008. The raw material of this product comprises cement, fly ash and cellulose fibre. The offtake of cement bonded boards grew following enhanced product awareness, shift from timber products (due to advantages of fire, water and termite resistance over plywood and particle boards), higher affordability, maintenance-free, a low erection cost, functional use by carpenters, easy transportability (rather than be mixed on site) and safety in seismic zones.

This division reported its most impressive year in existence. Production increased from 32,254 MT in 2010-11 to 40,047 MT in 2011-12, sales increased from 28,985 MT to 36,377 MT during the period. EBIDTA increased quarter-on-quarter and the division transformed from a loss of ₹343 lakhs in 2010-11 to a profit before tax of ₹129 lakhs in 2011-12. This turnaround was achieved on account of value engineering, access to new markets, significant increase in exports and an increase in realisations even as raw material costs steadied.

Following this performance, the Company decided to establish a second unit of 72,000 TPA near Pune, which is expected to be commissioned in April 2013, reinforcing the Company's position as one the largest producers of the product in India.

V-Panels: This non-asbestos product is ideal for use in interiors as it is created from cement, fly ash and polystyrene beads and positioned as dry wall substitute. The product is ideal for disaster-prone areas, is low on maintenance, enhances interior living area on account of its thinness and is ideal where real estate is expensive. Its weight is lower than bricks, quicker to erect, matches wall strength and axial load. The product is preferred on account of its weight ratio and dry wall concept. It is labour-efficient as it can be erected by a few of individuals. It can be reused at different locations. The Company possesses an installed capacity of 500 panels a day. Its customers comprise GMR, Punj Loyd, Shapoorji Pallonji, Soma Enterprises, TCS, Gujarat Ambuja Port, Eenadu Group, Coastal Projects, Uranium Corporation and Larsen & Toubro, among others. This division reported a modest net revenue of around ₹7.4 crore with a negligible loss in 2011-12.

Strengths

1. The Company's products are resistant to water, fire and termites

2. The products enjoy a price advantage over particle board and plywood

3. The products possess superior strength and sound absorption properties

Weakness

1 The product is heavy due to a high cement component

2. There is a low product awareness which makes it necessary to market products better

Opportunities

1. Consumers are shifting from timber and wood-based products.

2. There is a growing demand from the prefab sector, rural door applications and industrial false ceilings.

3. There is a growing market for exports.

Threats

1. The competition from low-cost products (sheets with bamboo and gypsum components) is growing

2. There are no industry entry barriers

3. Imports are cost-effective against domestic products (low thickness boards)

DIVISIONAL ANALYSIS

TEXTILE PRODUCTS DIVISION

Net turnover: ₹138 crore, 2011-12

Proportion of the Company's turnover: 18%

Overview

During 2010-11, the cost of cotton fibre reached unprecedented levels due to scarcity. This had a cascading effect on the prices of all textile fibres and prompted a temporary switch to synthetic fibres.

In April 2011, the cotton fibre price crashed, influencing realisations for our synthetic yarns. Buyers held back, prices continued to drop throughout 2011-12 and this affected viability.

Following a 7.4% increase in the global end use demand for textile fibres in 2010, there was virtually no demand growth in 2011.

Besides, the weakness in the European markets affected the business.

Corporate review

The division's revenues and profits declined during the year under review on account of a slowdown in the international markets. The fact that the division reported a reasonable profit is an index of its niche products, quality, efficiency and customer mix. The Company's revenues from this division accounted for 18% of the total revenue for 2011-12 (22% in 2010-11).

The Company invested in state-of-the-art twin air-jet spinning technology from Murata (Japan) with 28 MTS machines equivalent to 50,000 spindles. The Company produces about 8,000 tonnes of yarn a year (melange yarns, grandrelle yarns, high twist yarn and specialty yarns with different blend styles).

The Company has the distinction of being the largest global unit with Murata equipment, reporting one of the highest efficiencies. A high process control translated into ISO certification in 1995, Star Export House status in 2008. Yarns are environment-friendly and were certified as per demanding OEKO·TEX standards from July 2008 onwards.

The Company's yarn products are used to manufacture a range of fabrics including shirting, suiting, fashion fabrics, upholstery and embroidery laces. Its products are marketed to customers in Italy, the U.K., U.S.A., Germany, Australia, Egypt and Turkey, among others.

The Company's air-jet yarns enjoy the advantages of low pilling, no singeing, excellent dye pick up, low picks per inch, low weaving cost, low value loss/fresher piece length, perspiration absorption, low shrinkage and smooth appearance value.

Highlights, 2011-12

- Average realisations across production increased from ₹164 per kg in 2010-11 to ₹178 per kg in 2011-12
- The division marketed products to brand-enhancing institutional clients like Siyaram, Pantaloons, Harry's Collection, Grasim Industries Donear Suitings and Raymond Suitings; the Company also marketed products to weavers manufacturing apparel, suiting, shirting, industrial fabrics, upholstery and curtains
- The division enhanced the polyester content in its yarn over expensive fibres like wool, cotton and silk
- Nearly 31% of the division's production was exported to customers who converted the yarn into value-added fabrics used in sun umbrellas, Venetian blinds, table linen and automotive fabrics
- The division exported to countries including the USA and Taiwan
- The division manufactured nep-free black yarn for the first time in India, leading to the production of smooth fabric
- The division reported an increase in machine speed, quality and efficiency- a rare combination

Outlook, 2012-13

The global demand for textile fibres is forecast to grow by 3.4% per annum over the 10 years to 2020 to a size of 98.6 million tonnes. Within the total, cotton demand is expected to grow by 2% per annum but non-cotton fibre demand is expected to grow at over twice that rate – by 4.1% per annum. The share of synthetic fibres will grow from 63.4% to 68.7%.

The global textile and clothing trade is expected to grow at a CAGR of 6.6% and reach USD 1 trillion by 2020.

While the export of textiles and clothing from China was USD 207 billion, India's share was only USD 25 billion in 2010 *(Source: Textiles Intelligence)*. While the cost of labour is increasing in China due to an agitative labour force and stronger Yuan, in India, a weakening Rupee will help us contain costs despite the inflation. As a result, India's share in the global textile and clothing sector is expected to increase from 4% to 8% by 2020.

The decline in cotton prices stopped and cotton fibre is stable. With the current forecast for a good cotton crop, the cotton fibre fluctuation is expected to moderate, which is expected to stabilise the yarn markets.

More importantly, the changing demographics with a rising share of adult users in affluent developing countries are strengthening the demand for textiles. The division expects to increase the customer base and enhance its presence in the technical textile segment, launch new products and enhance value addition with a corresponding increase in realisations.

Visaka's Cotton-Touch Airjet Spun Polyester yarns	Advantages
Successfully replaced cotton yarns for table napkins in the U.K. and the U.S.A.	Superior cotton-touch, premium matt look, easily washable/stain removable and pilling proof.
Replaced cotton yarns and twisted filament yarns for upholstery fabrics in Belgium.	Premium matt look, passes the Martindale abrasion pilling test. Easy stain removal.
Matt-look yarns are used for exclusive high-end shirting and feather light suiting for customers in Italy, France and the U.S.A.	Comfort to the wearer, premium look, unique feel, fabric that breathes.
Replaced twisted filament yarns and cotton yarns for curtain fabrics in Italy and France.	Superior cotton touch, wrinkle-free, premium matt look, easily washable, pilling proof.
Hair-free, matt-look, spliced Airjet Spun Yarns are used for manufacturing exclusive banners and awnings in Germany.	99% loom efficiency, reduced defects, sticks well to polymers around and forms perfect windows.

FINANCE REVIEW

Performance review, 2011-12 vs 2010-11

- Net income registered a 15 percent increase from ₹650 crore in 2010-11 to ₹745 crore in 2011-12.
- Pre-tax profit (PBT) stood at ₹51.23 crore in 2011-12 against ₹68.29 crore in 2010-11.
- Post-tax profit (PAT) declined 24% from ₹45.07 crore in 2010-11 to ₹34.34 crore in 2011-12.

Margins

- EBITDA margin declined 342 basis points from 14.53% in 2010-11 to 11.11% in 2011-12.
- Net profit margin declined 232 basis points from 6.93% in 2010-11 to 4.61% in 2011-12.

Income accounting method

The accounts of the Company were prepared under historical cost convention as per revised schedule VI and with applicable accounting assumption of a going concern in compliance with the accounting standards referred to in section 211 (3C) of the Companies Act, 1956. The Company followed the mercantile system of accounting and recognised income and expenditure on an accrual basis. Accounting policies not specifically referred otherwise were consistent and in consonance with generally accepted accounting principles. As a conservative accounting policy, trade discounts and rebates were not included in the gross sales, a practice which enabled the Company to provide a fair report of its topline.

Expenses

Total expenses (pre-interest, depreciation and tax) increased 19% from ₹566 crore in 2010-11 to ₹672 crore in 2011-12. As a proportion of turnover, expenses increased 300 basis points from 87% in 2010-11 to 90% in 2011-12.

Raw material: Raw material expenses as a proportion of total sales increased 300 basis points from 57% in 2010-11 to 60% in 2011-12. Visaka's raw material expenses increased 21% from ₹371 crore in 2010-11 to ₹448 crore in 2011-12.

Revenue

Net income increased 15% from ₹650 crore in 2010-11 to ₹745 crore in 2011-12. The Company's net sales revenue break-up is indicated below:

Segment-wise results (₹ in crore)

Business segment	Net sales revenue derived in 2011-12	Capital employed (as on 31 March 2012)	Operating profit, 2011-12	Net profit before tax 2011-12
Building products	607	404	72.52	46.46
Synthetic yarn	138	66	10.25	4.78

Exports: ₹63.35 crore in 2011-12.