ZODIAC CLOTHING COMPANY LIMITED

APTE PROPERTIES, 10/76, OFF DR. E. MOSES ROAD,
WORLI, MUMBAI - 400 018. TEL 66677000 FAX : 56677279

Performance Review – FY 2006-07

P.A.T. up 76.95%; NET SALES up 20.36%

CONSOLIDATED (Rs. in Lacs)

PARTICULARS	CONSOLIDATED YEAR ENDED ON 31.03.07 AUDITED	CONSOLIDATED YEAR ENDED ON 31.03.06 AUDITED	GROWTH
Net Sales	25920	21535	**20.36**
Other Income	1276	1060	
Total	27196	22595	**20.36**
EXPENDITURE			
(Increase) / decrease in stock in trade	(145)	(416)	
Consumption of raw material	8866	8071	
Purchase of Finished Goods	1282	1141	
Staff cost	4142	3733	
Manufacturing and other expenditure	8935	7709	
Total Expenditure	23080	20238	
Profit before Depreciation, Interest &Tax	4116	2357	**74.63**
Interest	179	184	
Depreciation	503	422	
Profit before Tax	3434	1751	**96.12**
Provision for Taxation			
Tax current	863	405	
Deferred	158	(29)	
Fringe Benefit Tax	35	38	
Net profit After Tax	2378	1337	
Tax adjustment in respect of previous years	14	1	
Net Profit After Tax And Adjustment	2364	1336	**76.95**

Performance Review – FY 2006-07

P.A.T. up 56.56%; NET SALES up 21.36%

Standalone

(Rs. In Lacs)

PARTICULARS	NINE MONTHS ENDED ON 31.12.06 UNAUDITED	QUARTER ENDED ON 31.03.07 UNAUDITED	QUARTER ENDED ON 31.03.06 UNAUDITED	GROWTH %	YEAR ENDED ON 31.3.07 AUDITED	YEAR ENDED ON 31.03.06 AUDITED	GROWTH %
Net Sales	**14703**	5621	4791		20324	16766	**21.22**
Other Income	955	406	383		1361	1101	
Total	15658	6027	5174		21685	17867	**21.36**
EXPENDITURE							
(Increase) / decrease in stock in trade	(315)	117	78		(198)	(470)	
Consumption of raw material	4999	1743	1445		6742	6082	
Purchase of Finished Goods	848	292	346		1140	1065	
Staff cost	2289	788	740		3077	2607	
Manufacturing and other expenditure	5848	2226	2017		8074	6903	
Total Expenditure	13669	5166	4626		18835	16187	
Profit before Depreciation, Interest &Tax	1989	861	548		2850	1680	**69.64**
Interest	128	30	42		158	129	
Depreciation	228	94	67		322	230	
Profit before Tax	1633	737	439		2370	1321	**79.4**
Provision for Taxation							
Tax current	551	236	107		787	403	
Deferred	40	100	-28		140	(21)	
Fringe Benefit Tax	31	4	14		35	38	
Net profit After Tax	1011	397	346		1408	901	
Tax adjustment in respect of previous years	-	(1)	-		(1)	1	
Net Profit After Tax And Adjustment	1011	398	346		1409	900	**56.56**

OVERVIEW:

For the year ended March 31st 2007, Zodiac Clothing Company Ltd. [ZCCL] has reported consolidated gross revenues of Rs.272 crores as against Rs. 226 crores in the previous year, registering a growth of 20.36% over the previous year. The consolidated net profit increased from Rs. 13.36 crores in the previous year to Rs. 23.64 crores for F.Y. 2006-07 registering an impressive growth of76.95 % over the previous year. The company has been able to maintain its performance during the fiscal year 2006-07 despite intense competition in the international markets, and negligible growth of clothing exports from the industry in India.

In addition to the interim dividend paid by the company for the year 2006-07, the Board of Directors has recommended a further 10% dividend in its meeting of 30th June 2007, making the final dividend 60% for the year 2006-07. Clothing exports from India have grown a mere 7% during 2006-07, to US$ 9.00 billion from US$ 8.40 billion in 2005-06. When looked at in terms of market share of global trade in clothing, it is a mere 3.25%. When compared with China (integrated with Hong Kong) whose share is 35%, one appreciates the enormity of both the problem as well as the opportunity. One can conclude that the opportunity, post quota elimination, has not been adequately availed of by the clothing industry in India. The appreciation of the Rupee by over 14% since July 2006, the steep increase in interest rates, the fresh burden on account of wider applicability of Service Tax (with no resolution yet of the refund mechanism for the earlier levied Service Tax), among other factors, has created a significant increase in cost disabilities for the industry. Given this scenario, the company's success in increasing its export turnover by 19.5% gains special significance. This has been achieved by the building of new markets, addressing of new segments and building new relationships in existing markets, as well as by sharpening our competitiveness and enhancing our value added services. As far as the domestic market in India is concerned, robust economic growth with its impact on employment, income and consumption, growth of organized retail with its notable penetration into Tier II cities, additional mall space, rising urbanisation and favourable demographics are driving the market to grow, all resulting in sustained increase in demand.

REVENUE ANALYSIS:

The consolidated turnover of the company increased from Rs. 215.35 crores in the previous year to Rs. 259.2 crores in the F.Y. 2005-06, i.e. an increase of20.36 %. On a standalone basis ZCCL reported a turnover of Rs. 203.24 crores versus the previous year's Rs.167.66 crores. i.e. an increase of 21.22%. The company continues to benefit from the balanced diversification of its export markets between USA, the EU and the U.K. as well as a small presence in Latin America and the Middle East. The economic situation in Germany, which is one of our key markets, has improved sharply, but the effect of this upturn is yet to be felt in our industry.

The state-of-the-art manufacturing facility acquired by the company in U.A.E. through a step down subsidiary, recorded gross revenues of AED5.26 crores (Rs. 64.77 crores).

ZCCL has achieved this impressive overall performance primarily due to following factors contributing to growth and profitability:-

1. Approximately 24% growth in branded business. Both ZODIAC & ZOD! have made significant strides due to a focused marketing strategy of ZCCL's design-led product and market segmentation.
2. Expansion & renovation of company's own stores have fuelled the profitability of ZCCL by delivering additional margin. We opened 6 new and renovated 7 stores nationally. Most of the new stores have exceeded targets from the first month of operations and renovated stores are showing more than 70% growth after opening.
3. Continued efforts to refine financial controls have added to efficiency and profitability.
4. De-risking: The company continues to de-risk its operations by virtue of its multiple market policy, multi-currency exposure, aggressive hedging of its currency exposures, multi-country production facilities and the major portion of its production being pre-sold.

OPERATIONAL ANALYSIS:

A] Consolidated:

The consolidated PBIDT margins improved by 494 basis points [15.88 % - FY 2006-07 versus 10.94% for FY 2005-06. PAT margin at over 9% (previous year at 6.2%) shows a notable trend.

B] Standalone:

The standalone PBIDT margins also improved 400 basis points [14.02% for FY 2006-07 versus 10.02% for FY 2005-06]. PAT margin at nearly 6.93% versus 5.37% last year shows a notable trend as well. In the export business the sales grew by 18.92% with a satisfactory increase in contribution due to the company reshuffling its portfolio of customers, eliminating those customers with low contribution. The branded business has continued to grow and has recorded a growth of nearly 24% by virtue of growth in every segment of the Indian business, i.e. MBOs [independent retailers] with a clean track record, large organized retailers, as well as the company's own stores, both existing as well as new.

Substantial amounts have been invested on increasing the company's own stores. During the F.Y. 2006-07 the company opened 6 stores & renovated 7 stores. The company proposes to open approximately 30 stores in F.Y. 2007-08 subject to the readiness of the respective Malls. MOUs have been signed for 69 additional stores to date.

The focus on retail has yielded the company most encouraging results, both in like for like stores, as well as in the new stores. The retail team continues to be further strengthened, to capture the potential for future growth. This, together with expansion in production capacity and the sharp escalation experienced in remuneration across industries nationwide, has resulted in higher personnel cost.

The operational expenses have been contained due to strict financial discipline adopted by the company during the year under review, which has also blunted the impact of the volatility in the forex markets.The provision for depreciation in our standalone results has increased from Rs.2.3 crores to Rs.3.22 crores [in respect of Consolidated results the provision for depreciation increased from Rs.4.22 crores to Rs 5.03 crores.] This is mainly due to the large investments made in expansion and upgradation of the plant and machinery, as well as opening of new stores. This has favourably impacted the free cashflow. However, due to fiscal discipline, better contribution and substantial growth in the domestic business PAT has increased to Rs.14.09 crores for the year ended 31st March 2007, as against Rs. 9.00 crores in the previous year. The consolidated PAT also improved from Rs.13.36 crores in the previous year to Rs.23.64 crores in the F.Y. 2006-07, an increase of approximately 77%!

The wholly owned subsidiary of the company has acquired about 70% of the new corporate office premises and efforts are being made to acquire the balance portion of the premises. We are evaluating the possibility of opening a flagship store of the company in the new building. When the corporate office is moved to the new premises, the company will enjoy the advantage of additional space for its growth. Rent would be paid to the subsidiary [and reflect in the consolidated performance]. There would be a significant saving on rent paid for the existing premises. Meanwhile, the wholly owned subsidiary of the company, which own the building has earned a rental income of Rs.4.58 crs for 2006-07

OUTLOOK:

India is engaged with the European Union in discussion about a free trade agreement, which would be beneficial to the company if it materializes. The US economy has started to pick up in May 2007, and the comments of the Federal Reserve Chairman fuelled market expectations of a vigorous bounce back in the second quarter following very weak first quarter growth.

The EU economy seems to be growing at a healthy pace and the economic situation in Germany has turned positive although the impact of this has yet to be felt in the clothing industry. The temporary restraint on export of some categories of clothing from China to the EU and the US are scheduled to be lifted effective 1st January 2008 and 1st January 2009 respectively. However, ZCCL does not expect an adverse impact in the EU, as our item of export was not under restraint for China.

The Government of India has enhanced the cap on the duty drawback [although further enhancement of the drawback rate as well as the cap correspondingly is under consideration of the Government, with a view to fully reimburse the effect of all taxes on inputs and to encourage higher unit value realization]. This would favourably impact the company once it is implemented, besides providing some relief against the sharp appreciation of the rupee.

The appreciation of the rupee against major currencies has been both sharp and rapid and is a cause of extreme concern for exporters. The company is utilizing several tools such as seeking price revision, hedging of its forex exposures, further sharpening its competitiveness, enhancing its value added services, besides the natural hedge it enjoys due to the import content of its raw material consumed.

The company's branded business in India continues to grow in a healthy manner. Rising urbanisation and the demographic dividend, spurred by robust economic growth with its impact on employment, income and consumption and creation of infrastructure for, and growth of, organised retail, including in Tier II cities, are driving the market to grow, resulting in sustained increase in demand.

India needs to sharpe n its competitiveness to fully harvest the potential offered by virtue of having the entire supply chain from fibre to clothing. Leveraging its raw material base and abundant sustained supply of labour, (whose productivity needs to be sharply increased) is the need of the hour, for which the industry and Government need to act in tandem, especially to address the cost disabilities, to achieve sustainable competitive advantage.

The top line and the bottom line achieved by the company, especially in the branded business, demonstrate potential going forward.

-x-x-