

## Investor Update – H1-2008

**EBITDA up 76% PAT up 88%**

### **Overview**

The results for the period ending September 2007 announced by Zodiac Clothing Company Limited (ZCCL) show sustained growth. The consolidated gross revenue for H1-2008 at Rs.14433Lakhs Vs Rs.12027lakhs in H1-2007 shows a growth of 20%.

Every segment of ZCCL's business has grown:

- Branded business in India
- Export business from india
- The business of the fully-owned step-down subsidiary in the UAE.

The scenario of the distress the industry is facing in the export segment, resulting in several thousand workmen from the industry becoming redundant due to the sharp appreciation of the Rupee against the U.S. Dollar (approximately 12% during the current financial year alone) puts the company's results in true perspective.

Against this backdrop, the performance of the company is extremely healthy. When one considers that India's total exports have risen 17 to 18% in terms of US Dollars, after eliminating the export of petroleum products, non-oil exports have probably grown no more than 11% to 12% in dollar terms, which would mean stagnation in Rupee terms. The clothing Industry in India has probably fared even worse. The company's exports from India in US Dollar terms have increased by 27%and in Rupee terms by 9%.

Sales in the branded business continue to grow in healthy mid-double digits. The company's focus on aggressively growing its own retail stores continues, with five new stores being opened in H1-2008 and three existing stores being renovated. The strategy of investing in design, cost control and achieving higher value addition, have begun to yield significant gains for the company.

### **Revenue Analysis**

1. Consolidated Turnover Rs. 13,302 lakhs Q1-08 Vs Rs. 11,437 lakhs Q1-07
2. Standalone Turnover Rs. 10,598 lakhs Q1-08 Vs Rs. 8,778 lakhs Q1-07
3. UAE Turnover AED 284Lakhs (Rs 3138Lakhs) H1-08 Vs. AED 245 lakhs (Rs.3090 Lakhs) H1-07

The growth in the UAE turnover is of special note, given the appreciation of The Rupee Vs. the AED of 14% in the comparative period.

These results can be attributed to:

1. Aggressive growth in each segment of the branded business, i.e., company managed stores, large organised retail chains and independent retailers.
2. Balanced diversification of markets in India and overseas.
3. Growing the premium segment in the branded business in India, supplemented with higher value added business in the international market.

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Profitability has accelerated sharply with sustained growth, including on a sequential basis, despite the back-breaking challenge posed by the sudden and sharp appreciation of the Rupee for the company's international business. Financial discipline consistent strategy of global sourcing and de-risking of the business continues to stand the company in good stead. The company has used a permutation of tools to achieve these results, which are far better than that of the industry.

**Analysis: H1 ended 30.09.2007 Vs H1 ended 30.09.2006**

- **SALES** : Standalone Up 21%; Consolidated Up 16%
- **EBITDA** : Standalone Up 70%; Consolidated Up 76%
  - EBITDA Margin : Standalone 15.11% vs. 10.72%, Consolidated 18.62% Vs 12.28%
- **PBT** : Standalone Up 91%; Consolidated Up 91%
  - PBT Margin : Standalone 12.85% vs. 8.13%, Consolidated 15.37% Vs 9.36%
- **PAT** : Standalone Up 80%; Consolidated Up 88%
  - PAT Margin : Standalone 8.12% vs. 5.43%, Consolidated 12.28% Vs 6.98%
- **EPS** : Standalone Rs.10.30/- Vs Rs.5.71/-; Consolidated Rs.17.94/- Vs Rs 9.55/- (per share)(not annualised)

**Outlook**

With the Government of India having announced an increase in the rate of duty drawback (partial reimbursement of taxes paid on inputs) from 7% to 10% of FOB value of Export, with a corresponding increase in the cap of the Rupee drawback per unit, the effect of the appreciation of the Rupee has been partially blunted.

The Government of India has announced the rationalisation of service tax on some services taxed on export activities (services are not taxed anywhere in our competitor countries) and is looking at further rationalisation of service tax on the remaining taxable services. While the company lauds this as a step in the right direction, the cost disabilities in India have crippled a large segment of our industry, which the company has fortunately insulated itself from to a considerable extent.

The free trade negotiations with the EU, by both India as well as the GCC (including the UAE), holds exciting possibilities.

The sudden, sharp and rapid appreciation of the Rupee is a reality to live with, the impact of which on the company has been blunted, but not extinguished, despite which the performance of the company speaks for itself.

The concerns referred to in the past, i.e., the service tax on some services in the export business and on store rentals besides high rentals per se for stores, continue to pose a challenge.

With the commencement of consumer spending for the festive season, the future seems exciting as well as challenging.

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**Resource Mobilisation:**

To augment the long term resources of the company (to partly finance the funds requirement of Rs. 250 crore for capital expenditure, working capital and general corporate purposes including, but not limited to, investments), the Board of Directors of the Company, in their meeting of 29.10.2007, have recommended, subject to shareholder approval:

1. An increase in the authorised share capital from Rs. 10 crore to Rs. 20 crore, i.e. from 10 million equity shares to 20 million equity shares of Rs.10/- each.
2. To issue and allot shares and/or other securities of the company to domestic/foreign institutions, non-resident Indians, Indian public companies, corporate bodies, mutual funds, banks, insurance companies, pension funds, individuals, qualified institutional buyers or other persons or entities, upto an aggregate of 1,500,000 equity shares of face value of Rs.10/- per share by such means as the Board or Committee of the Board set up for this purpose shall deem fit.
3. The issue and allotment of 4,40,000 warrants on a preferential allotment basis to promoters of the company. The proposed allottees have expressed that they will exercise the right of converting of warrants into equity shares, provided it is within the limit of holding permissible for promoters under SEBI (Substantial Acquisition of Shares and Takeovers) Regulation 1997, including any amendment/re-enactment thereof, the idea being to minimise the dilution of their controlling interest.

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