TTK Prestige
LIMITED

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CERT
ISO 9001

Corporate Office: 11th Floor, Brigade Towers, 135, Brigade Road, Bangalore – 560 025. INDIA
Phone: 91-80-22217438/39, Fax: 91-80-22277446, E-mail: ttkcorp@ttkprestige.com
www.ttkprestige.com CIN : L85110TZ1955PLC015049

May 28, 2015

Bombay Stock Exchange

National Stock Exchange

Dear Sir,

Sub: Extracts of Directors' Report

Kindly find enclosed the extracts of Directors' Report approved by the Board of Directors for your records.

Thanking you,

Yours faithfully,
For TTK Prestige Limited,

K. Shankaran
Director & Secretary

Encl: a/a

TTK PRESTIGE LIMITED
DIRECTORS' REPORT
(Including Managements' Discussion and Analysis Report)

Your Directors have pleasure in presenting their Fifty Ninth Annual Report, together with the Audited Accounts of the Company, for the year ended 31st March 2015 as follows:

FINANCIAL RESULTS

(Rupees in Lakhs)

	2014-15	2013-14
Sales (inclusive of excise duty)	**142142**	**132338**
Other income	**510**	**788**
Exceptional Income	**244**	**696**
EBIDTA (before net Exceptional Income)	**15434**	**16810**
EBIDTA (Including net Exceptional Income)	**15678**	**17506**
Profit/(Loss) before tax	**13330**	**15175**
Tax Provision	**4098**	**3996**
Net Profit/(Loss) after Tax	**9232**	**11179**
Transfer to General Reserve	**1000**	**1200**
Proposed Dividend (including tax)	**3083**	**2724**
Surplus carried to balance sheet	**5149**	**7255**

REVIEW OF PERFORMANCE:

a. Your Company's current year performance has to be judged from the background of continuing sluggish economy coupled with weak consumer demand and most importantly from the point of view of investments being made even during this sluggish phase keeping in view the long-term health of your Company. The investments have been not only in the nature of capital assets creating capacity for the long-term but also revenue expenses in building brand, distribution and human capital for the future. Therefore these measures do have a transient impact on margins which can improve over a period of time once the investments start fuelling growth.

b. Shareholders are also aware that your Company does not follow a standalone margin-led policy but is focussed on growth with a fair long-term return on capital employed.

c. Your Company is back to growth path, albeit at a lower rate of 7.4% after a decline of 4% in the previous financial year. This growth is in line with the overall economic growth notwithstanding specific factors affecting the growth in appliances segment in general. It is to be noted that the channel conflict on account of entry of on- line channels had some adverse impact on primary sales for the year especially the period between August 2014 and February 2015.

d. While there has been recovery in business growth, the EBIDTA prior to exceptional items declined by about 8% from Rs. 168.10 crores to Rs.154.34 crores after providing for CSR contributions of about Rs.3.38 crores. The operating EBIDTA margin was around 11% as compared to 12.7% in the previous year. The background for this decline is stated in para 'a' above. The capacity building initiatives coupled with soft investments in brand building, distribution, service network and human resources resulted in transient under absorption of overheads. There was also some lag in passing on input costs on account of pipeline inventory. The product mixes in certain appliance categories while contributing to volume growth resulted in a lower absolute value in top line and thus lower absolute margins.

e. Net profits declined by about 17% from Rs.111.79 crores to Rs.92.34 crores due to higher provision for depreciation on account of the changes brought about by Companies Act 2013 and also higher provision for taxation as the 100% benefits from Uttarakhand units are reduced to 30% from 2014-15 onwards. As a result the Earnings per Share stood at Rs.79.30 (PY Rs. 96.78).

f. Your company became debt-free as at the end of 31st March 2015 and is carrying significant net free cash.

g. In spite of substantial additions to manufacturing asset base and lower capacity utilisation the ROCE was healthy at 24.2%.

h. Your Board has recommended a higher dividend of Rs.22/- per share (PY Rs20/- per share) a gross pay-out ratio (including dividend distribution tax) in excess of 30% of net profits.

Your Board of Directors is of the view that the current year performance is commendable taking into account the general sluggish economy both domestic and global. The market share of the key product categories was maintained or improved across geographies which are key-factors to note.

A detailed analysis is provided under the section ‘Management’s Discussion and Analysis’ forming part of this Director’s Report.

MANAGEMENTS’ DISCUSSION AND ANALYSIS

A. ECONOMY /INDUSTRY SCENARIO

The macroeconomic environment continued to pose challenges in the Fiscal Year 2014-15, compounded by erratic monsoon behaviour and unseasonal rains affecting Agricultural Sector. Though there has been a marginal growth in GDP, the consumer sentiment continued to be weak even during festive seasons. Despite the rate of inflation being on the lower side, years of high inflation in the past have left continuing impact on disposable income and Final Private Consumption Expenditure. Every geography has been seeing ups and downs in short spells making it difficult to forecast and work on a stable marketing plan.

While certain macro factors like fiscal deficit, inflation, foreign investor interest etc., show improvement besides structural correction initiatives by the New Government, these are yet to have any impact on the consumer demand and employment generation. It is expected that if reforms like land acquisition, recodification of labour laws, GST., and initiatives like infrastructure development, power generation and development of smart cities are kick started India can get back to growth rates in excess of 7% in the coming years, Your Company operates in the kitchen appliances segment with a wide range of product categories. The product categories consist of Pressure Cookers, Non-stick Cookware, Gas Stoves and Domestic Kitchen Electrical Appliances. The market for Pressure Cookers is shared amongst organized national branded players, regional players and unorganized players. Over the years, the share of the unorganized players has been gradually coming down as there has been a shift in the consumer preference to reliable branded players. The market for organized brands is estimated at about60% of the total market. The share of unorganized players is greater for Non-stick cookware as compared to pressure cookers. For the rest of the product categories, the market structure is fragmented and the share and the role of regional brands and unorganized players continue to be significant.

The momentum of shift from unorganised players to organised branded players has slowed down in the last couple of years due to sluggish consumer demand and lower growth in GDP. The reversal of this trend depends on several reform initiatives and development agenda kicking in as mentioned earlier.

The appliance category is also witnessing entry of quite a few players - regional, national as well as global players who have brand strength mostly in non-kitchen appliance business or brands outside India but not exposed to India.

B. OPPORTUNITIES, THREATS AND COMPANY'S RESPONSE

Your Company will continue to operate out of its core strengths of brand, innovation, design, manufacturing, distribution, sourcing and service capabilities; the core vision of 'A Prestige in every Indian Kitchen'; and the core mission of 'Quality products at affordable prices'.

The above stated strengths and vision have helped your Company to broad base its product category, consumer base and geographical coverage. Continuous interaction with the ultimate user of the product has been helping your Company in identifying the pain points and offering solutions in the form of innovative products, concepts and consumer offer of bundled products for a holistic use. This focus helps your Company to create opportunities even in the face of depressed consumer sentiment.

Your Company sees sufficient headroom for growth in its traditional product categories - pressure cookers and cookware driven by introduction of several new models with value added features. Similarly your Company sees greater opportunity in value added gas stoves and induction cook tops. As always a whole range of innovative assorted products relevant to kitchen provides scope for significant value addition to topline as well as profits.

Your Company is slated to launch around 50 new SKUs in the financial year 2015-16. Your Company sees a significant opportunity to increase its share of business in the non-south markets.

Your Company believes in continuous brand building and is running a campaign roping in India's leading celebrity couples Mr. Abishek Bacchhan and Mrs. Aishwarya Rai as brand ambassadors. This campaign has been well received throughout the length and breadth of the country. This campaign backed by launch of innovative products has been designed to evince and sustain the consumer interest in your Company's products and this objective has largely been achieved. This brand building strategy has a clear long-term outlook to deal with competition effectively.

Your Company will continue to focus on various ways of reaching the consumer through every channel and especially by strengthening the Prestige Smart Kitchen network. Focus will be on quality of the network rather than the quantity. Given the emergence of on - line trade, expansion of the network will be evaluated location wise. Your Company is well seized of the channel conflicts and is taking various measures to minimize the conflict and restore confidence in the traditional retail channel. Simultaneously your Company is developing direct relationships with the on- line channels and this channel will be well leveraged.

Your Company is continuing the process of establishing a dedicated Service Network under the name and style "Prestige Service Centre'' with modern and customer friendly ambience. Already 210 centres have been opened and further additions will be made across the country. In the continuous journey in the direction of "Best in class" After sales service, your Company has further strengthened its Call Centre operations, with considerable investment. This will enable us to speed up our servicing process, gather information on product problems which will go a long way to improve our quality and bring new variants on a continuous basis. A strong network of Service Centres can aid growth in sale of spares.

Your Company sees reasonable opportunity in export markets based on its modern facilities established in Gujarat. The shareholders will be kept informed of further developments in this regard

The various initiatives proposed /announced by the Government in the areas of infrastructure, smart cities,' Make in India' etc., if becomes fruitful can open up multifold opportunities for your Company both in domestic and foreign markets.

While there are vast opportunities, threats can continue in the form of unorganized sector and irrational discounting by regional brands. As the entry barriers are low, any lag in innovation can impact growth.

C. ANALYSIS OF PERFORMANCE:

1. Kitchen Appliances:

The products include Pressure Cookers, Non-stick Cookware, Kitchen Electrical Appliances and Gas Stoves. The turnover of these product categories is given in the following table:

(In Rupees Lakhs)

	2014-15			**2013-14**		
	Domestic	Export	Total	Domestic	Export	Total
Pressure Cookers (including microwave pressure cookers)	47841	5072	52913	44193	5161	49354
Non-stick Cookware	26152	126	26278	22489	169	22658
Kitchen Electric Appliances	38366		38366	38989	80	39069
Gas Stoves	17464		17464	16689		16689
Others	7039	82	7121	4494	74	4568
Total	**136862**	**5280**	**142142**	**126854**	**5484**	**132338**

a. Domestic Sales grew by about 8% while exports sales decreased by 3.72%. New microwave pressure cooker was launched in Japan towards the end of FY 2014-15.

b. The Pressure Cooker and Nonstick cookware category registered a growth of 7.2% and 16% respectively. Growth in Cookware category was aided by introduction of new range of Granite cookware.

c. Kitchen Electrical appliances contribution to sales dropped marginally. It is estimated that the industry itself registered a decline in the product lines your Company deals in. While the volume in Induction cook-tops improved, the overall value turnover was less due product mix leaning more towards entry level SKUs. Notwithstanding the subsidized regime continuing to exist, this product line has become a staple category for the Company holding the market leadership. Your Company introduced more variants in the Electric Rice Cooker line towards the end of the financial year and the response has been encouraging.

d. Gas stoves witnessed a growth of around 5% largely due to introduction of more differentiated models. Towards the end of the financial year, a high-end Hob top aided by tie-up with German Component suppliers was launched. The response from the market has been encouraging.

e. Introduction of slew new products/models in the miscellaneous kitchen requisites contributed to the growth in the “others” category.

f. Your company made a test-entry in to the domestic water filter category. The results are being analysed and your Company is exploring several alternatives and opportunities to make a meaningful commercial scale entry at a later stage.

g. The operating EBIDTA margin for the year was 11% as compared to 12.7% in the previous year. This is mainly due to under-absorption of certain overheads in our new plants. Further the growth in top-line was lower than the increase in pay-roll. Moreover there was some lag in passing of increase in input costs due to pipe line inventory. Your Company ensured that all other elements of cost were managed tightly.
h. Given the fact that your Company did not compromise on its brand promotion activities and engaged India’s top celebrity couple for endorsing the brand, the EBIDTA margin is quite healthy.
i. It may be noted that various operating ratios are unique to your Company and are not strictly comparable to other players whose composition of business may not be similar to your Company. Further based on category mix and seasonal brand/sales promotion activities, the margins may vary from quarter to quarter. As a policy your Company passes increase in input costs to the market save for the lag involved due to pipe line inventory and other related factors.
j. The interest cost during the year was Rs.4.47 crores (PY Rs.8.54 crores). The Company was able to reduce the borrowing completely through application of free cash flows.

k. Your company has over the last two years substantially reduced its dependence on imports which has a positive impact on margins and cash- flows. This import substitution continued during the current financial year.

l. During the year under report your Company introduced around 87 new SKUs covering Pressure Cookers, Induction Cook Tops, Mixer Grinders, Rice Cookers, Gas Stoves and other small electric/non-electric appliances/kitchen requisites. All these introductions received good response.

m. Your company continues to consolidate and expand Prestige Smart Kitchen retail network. Your company extended its coverage to another 19 towns. The net addition to the number of stores was35. The number of outlets as at 31.3.2015 was 571. The network now covers 26 States and 294 towns. The spread of the network is also evenly distributed between Metros, Mini-Metros, Tier 1, Tier 2 and Tier 3 cities. About 65% of the Stores are located in South and the balance in Non-South.

2. Properties & Investment:

The shareholders are aware that pursuant to shifting of factory operations to other places, the land at Dooravaninagar Bangalore became surplus and it was decided to develop the same instead of selling it outright. Your company has handed over the development to Rajmata Realtors (Salarpuria) for developing an office cum residential complex. The Developers have informed that the portions of developed property allocated to your Company would be ready for handing over by second half of the current financial year. Shareholders will be kept informed of progress in this respect.

D.OUTLOOK

Forecasts on the GDP Growth of over 7% and the growth in Private consumption expenditure of 12% augur well for your company. If this expectation materializes it can aid your Company can look for improved growth rates .Various industry friendly measures announced by the Government would lay a strong foundation for the future of your Company. Your Company is banking on its new brand strategy and new product strategy including tapping some export opportunities to get back to the improved growth trajectory and any revival in the economy in general and consumer sentiment in particular will add strength to your Company's plans.

E. RISKS AND CONCERNS

The various general economic risks and concerns which can impact your Company have already been outlined in the preceding sections. The concerns largely center on external factors. Your Company is continuously improving its efficiencies and is hopeful of dealing with the various challenges described in the preceding sections. Your company will not compromise on the objective of growth and improving market share for the sake of short-term profits.

F. RISK MANAGEMENT

Your Company has a risk identification and management frame work appropriate to the size of your Company and the environment under which it operates.

Risks are being continuously identified in relation to business strategy, operations and transactions, statutory/legal compliance, financial reporting, information technology system and overall internal control frame work.

Your company has engaged the services of independent professional management auditors for advising the company on a continuous basis on contemporary risk management framework appropriate to the size and operations of the Company. They are also carrying out risk audit on a periodical basis.

G. FINANCES:

Your Company continues to generate substantial post-tax operating free cash flows and the same has been applied to meet capital expenditure besides other uses including retirement of debt.

Your Company became debt free at the end of the year and carried cash and cash equivalents of Rs. 25.13 crores.

H. INVESTMENTS

There are no changes in the investments of the company apart from changes in liquid investments in mutual funds as part of normal treasury operations.

I. INTERNAL CONTROL SYSTEMS

Your Company is continuously making improvements in internal control systems commensurate with the increasing operations. Independent team of Internal Auditors/Management Auditors are carrying out internal audits and advising the management on strengthening of internal control systems including risk management.

J. DEVELOPMENTS IN HUMAN RESOURCES

Having due regard to the long-range plan, your Company has implemented strategic HR initiatives and have strengthened the in house Human Resource Department. Many people development programs are put in place on a continuous basis.

The direct employment strength stood at 1267 as compared to 1276 in the previous year.

Your Company continues to have cordial industrial relations in all its manufacturing units. The long-term settlement with the Union in the Hosur Unit is due for negotiation during the current financial year. Negotiations have started and the shareholders will be kept informed of the progress in this respect.

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