

MANAGEMENT DISCUSSION & ANALYSIS REPORT**(a) INDUSTRY STRUCTURE & DEVELOPMENTS**

Organised retailing is one of the largest sectors in most global economies and is currently in its infancy in India. With the slow emergence of larger stores, specialised in a distinct category of products, on the lines of international formats, organised retailing in India is expected to grow by 20% per year fuelled by a variety of factors such as increased purchasing power, rapid increase in double income households and working women and the growth of the upper middle class. With increasing pressure on time, consumers are seeking the convenience of one-stop shopping whereby they can have better utility of their time, better shopping comforts in a pleasant ambience with efficient service. Organised retailing satisfies the needs of the consumers.

The retail market in India accounts for 10% to 11% of GDP. However, it is highly fragmented and organised retail accounts for only 2% of the total retail market.

Organised retailing industry is becoming a technology intensive industry with online systems linking-up stores to warehouses and head offices enabling the companies to closely control their operations for a smooth flow of goods, and adapt their purchases to reflect customer preferences.

(b) OPPORTUNITIES & THREATS

Research analysis estimates the textile and clothing market at Rs.87,000 Crores, 22% of which comprises of readymade garments with only Rs.4,000 Crores in branded apparel. This indicates that there is a large scope for expanding demand for branded apparels. The key drivers for continued penetration are attractive price points and more innovative marketing, as the bulk of the market still remains very price conscious.

The men's segment currently accounts for 70% of all branded apparel sales. Based on current trends it is expected to grow by 30% a year. This is the strongest and best-established category in stores across the country.

The women's apparel market is growing by 10% per year and the branded women's apparel currently accounts for only 13% of the total

women's apparel market. The crucial factors to be considered for penetration in women's apparel market are the ability to combine variety and style with customisation and to manage sourcing and design, making this the most challenging category to cater to.

The Company's brands, Westside, Trent, Stoneriver Classics, Sassy, Street Blues, Gia, Intima and Westsport have been well accepted and are fast gaining popularity. With the Company's brands creating a place for itself, the Company is confident of achieving a substantial growth in the coming years, as proved by the growth of our customer base.

E-tailing which at one point was considered to be a threat to departmental stores worldwide, has not fared well. Customers need to touch, feel and see the product before they make a purchase decision. E-tailing therefore does not appear to pose a threat to the Company's format of retailing.

(c) OPERATIONS

Catering to the entire spectrum of clothing needs, Westside is positioned as a family store and is aimed at the middle and upper end of the market. The Company's income from retailing for the year ended 31st March, 2001 ended with a growth of 24% over the previous year in a depressed environment when overall growth in consumers' spending started slowing down.

Though delayed by over 5 months, the Company opened a new Store in Pune at the end of August 2000. Due to prolonged delays from builders, the opening of our Kolkata Store had to be postponed to the current year in addition to our first Delhi Store at Karol Bagh, which started in April 2001. Our second Delhi Store is slated to open in the 3rd quarter of the current year. These store openings will increase our existing trading floor space by 75%.

The performance of the new Stores has been encouraging with a positive response from customers. The Company's products have been well accepted and well recognised and are perceived as value for money. The Company has signed an agreement in respect of one additional Store at Mumbai. Taking into

account the encouraging response received at all its stores, the Company plans to continue its expansion in metros and mini metros.

In order to sustain a rapid growth, continuous efforts are being made to develop enhanced sourcing and merchandising systems. The Company is also tracking customer satisfaction. To enhance customer satisfaction, the Company is constantly researching current tastes and needs of its customers with feedback and customer satisfaction surveys being conducted on a regular basis.

The Company has also launched a loyalty programme called "Club West" which offers various benefits to the customer.

The Company is also planning to enter the grocery-retailing segment with plans of opening 100 grocery stores in the western and northern regions of India. The proposal, which was approved by the Company's Board of Directors, will be in self-service supermarket formats, selling food and non-food items including wet groceries.

(d) TREASURY OPERATIONS

The Company will continue to carry on its treasury operations for some further period of time pending utilisation of funds in its retail business.

Given the current economic scenario in the country, interest rates may decline during the next year, which may impact the returns from treasury operations. This is expected to be more than made up by the improved performance of the retailing business.

(e) RISKS & CONCERNS

The excise duty introduced on readymade garments is imposing an unfair burden on the organised retailers. This may impact the industry's growth. Also, the drop in yields of debt instruments will reduce the income from treasury operations.

(f) INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

The system of internal control of the Company is adequate, keeping in mind the size of the

Company's business. Systems and operations are regularly reviewed by the Audit Committee of Directors to ensure their effectiveness and implementation. The Company is also taking necessary steps to enhance the scope of internal audit with regard to its treasury operations.

(g) DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

With effect from 1st May, 2001, excise duty of 16% was introduced on readymade garments. As the entire amount of excise duty cannot be passed on to the consumers, margins will be affected. This unfortunate levy of tax may slow the pace of transition from tailored to readymade garments and from unbranded to branded products.

(h) MATERIAL DEVELOPMENTS IN HUMAN RESOURCES/INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED

The Company pays adequate attention to human resources development. Regular training is imparted to its employees at all the locations. The Company sends a weekly publication to all its stores in order to improve communication and make its employees aware of new products introduction. Employee satisfaction surveys are regularly being conducted and acted upon.

The number of people employed by the Company as of 31st March, 2001 was 349.

(i) CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis Report describing the Company's objectives, projections, estimates, expectations may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors.