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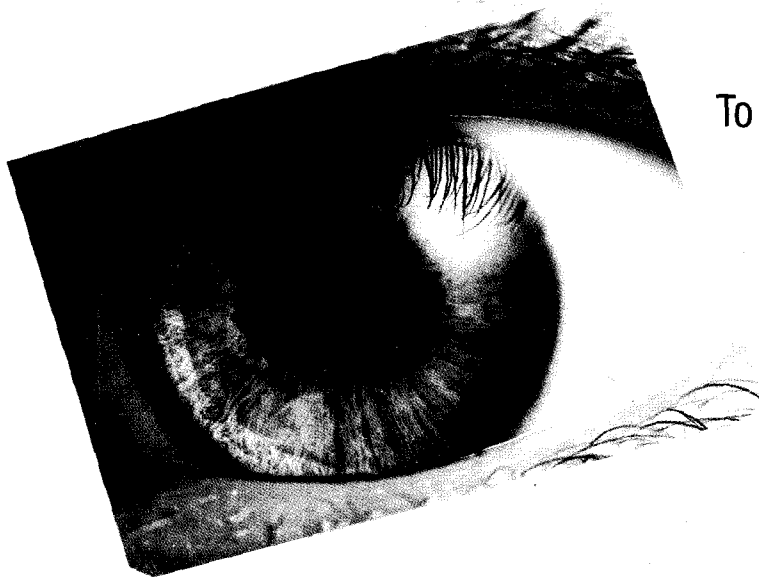
22nd Annual Report

2007-08

Bell Ceramics Limited



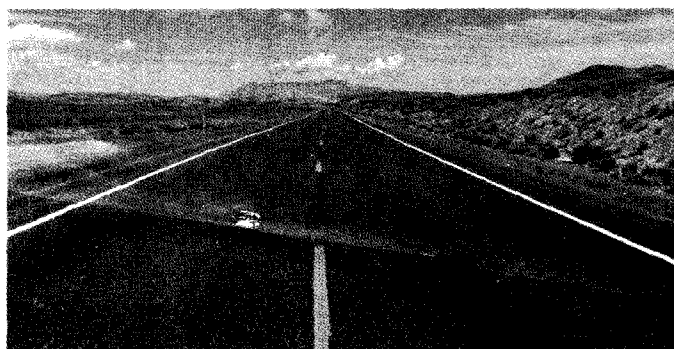
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VISION

To become the most preferred provider
of tiling solutions.

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MISSION

To delight every individual associated with Bell by providing innovative & quality
products & services on an ongoing basis.



BOARD OF DIRECTORS

| | |
|------------------------------|--------------------|
| Mr. K.M. Pai | Managing Director |
| Mr. S.R. Vyas | Executive Director |
| Mr. Narottam Sharma | |
| Mr. S. Ramaswamy Puthanmadon | |
| Mr. V.M. Kalambi | Nominee Director |

COMPANY SECRETARY

Mr. S.R. Vyas

BANKERS

Bank of India
Bank of Bahrain and Kuwait
Hongkong and Shanghai Banking Corporation
Punjab National Bank

AUDITORS

M/s. R.P. Malhan & Co.
Chartered Accountants
IA & C, Vandhana Building,
11, Tolstoy Marg,
New Delhi - 110 001

REGISTERED OFFICE

Village Dora, Taluka Amod,
Dist. Bharuch - 392 230, Gujarat (INDIA).

WORKS

1. Village Dora, Taluka Amod,
Dist. Bharuch, Gujarat.
2. Village Chokkahalli,
Taluka Hoskote, Bangalore (Rural) - 562 114
Karnataka (INDIA).

REGISTRAR & SHARE TRANSFER AGENT

M/s. MCS Limited
Neelam Apartment, 88, Sampatrao Colony,
Above Chappan Bhog Sweets,
Alkapuri, Vadodara - 390 007
Tel. 0265 - 2339397 Fax. 0265 - 2341639
Email: mcsbaroda@yahoo.com

MANAGEMENT TEAM

| | |
|------------------------|-------------------------------|
| Mr. A.N. Rangaswamy | - President (Marketing) |
| Mr. C.S. Murthy | - G.M. (Production) |
| Mr. G.P. Zala | - D.G.M. (Finance & Accounts) |
| Mr. Krishnakumar T.V. | - D.G.M. (Operation) |
| Mr. Govindraj Kemtur | - D.G.M. (Marketing) |
| Mr. S.V.S. Revankar | - A.G.M. (Production) |
| Mr. B. Ramalinga Reddy | - A.G.M. (Production) |
| Mr. Rakesh Desai | - A.G.M. (Marketing) |
| Mr. R.R. Jadeja | - A.G.M. (Sales) |
| Mr. G. Vaidyanthan | - A.G.M. (Materials) |

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NOTICE

NOTICE is hereby given that the Twenty Second Annual General Meeting of the Members of Bell Ceramics Limited will be held on Tuesday, the 30th September 2008 at 12.00 noon at the Registered Office of the Company at Village Dora, Taluka Amod, District Bharuch - 392230, Gujarat, to transact the following business.

ORDINARY BUSINESS

1. To receive, consider, approve and adopt the Audited Balance Sheet as at 31st March 2008, the Profit and Loss Account for the year ended on that date and the Directors' and Auditors' Report thereon.
2. To appoint a Director in place of Mr. Narottam Sharma who retires by rotation but not willing to be reappointed as a Director.
3. To appoint a Director in place of Mr. Subramanian Ramaswamy Puthanmadon who retires by rotation but not willing to be reappointed as a Director.
4. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions with or without modifications.

Item No. 5 – ORDINARY RESOLUTION

"RESOLVED THAT Mr. Rameshwar Maheshwari in respect of whom notice under section 257 of the Companies Act, 1956 has been received from a member signifying his intention to propose Mr. Rameshwar Maheshwari as a candidate for the office of Director of the Company liable to retire by rotation, be and is hereby appointed as a Director of the Company".

Item No. 6 – ORDINARY RESOLUTION

"RESOLVED THAT Ms. Anita Thapar in respect of whom notice under section 257 of the Companies Act, 1956 has been received from a member signifying his intention to propose Ms. Anita Thapar as a candidate for the office of Director of the Company liable to retire by rotation, be and is hereby appointed as a Director of the Company".

Item No. 7 – ORDINARY RESOLUTION

"RESOLVED THAT in accordance with the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 and further subject to such other approvals as may be necessary, the consent of the Company, be and is hereby accorded to the Board of Directors of the Company to mortgage and / or charge all the immovable and movable properties of the Company, wherever situate, both present and future or the whole or substantially the whole of the undertaking or undertakings of the Company:

On the First Charge basis in favor of:

- IDBI Bank Ltd. (Industrial Development Bank of India Ltd.) for the Rupee Term Loan of Rs. 5922 lakhs and

On the Second Charge basis in favor of:

- Small Industrial Development Bank of India (SIDBI) for the additional bills discounting facilities of Rs 50 lakhs and;
- Yes Bank, New Delhi, for the short term working capital assistance of Rs. 300.00 lacs (Rupees three hundred lakhs only).

together with interest, commission, costs, charges, expenses and any other money payable by the Company to the Banks / Financial Institutions as above towards the financial assistance granted / to be granted by them to the Company.

"RESOLVED FURTHER THAT the mortgage and / or charge so created on the First and Second charge basis as above shall rank pari-passu with the existing respective First and Second charge created in favour of Banks / Financial Institutions".

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board of Directors of the Company, be and is hereby authorized to make and / or agree to any modifications in the terms and conditions and to settle or resolve any questions or difficulty or matter of interpretation of whatsoever nature as they consider necessary, expedient, usual or proper or otherwise in the best interest of the Company".

Item No. 8 – SPECIAL RESOLUTION

"RESOLVED THAT approval of the shareholders, be and is hereby accorded to vary the rights attached to the Company's 12.5%, 1,50,00,000 Cumulative Redeemable Preference Shares ('the said shares') of Rs. 10/- each aggregating Rs. 1500 lakhs issued to JBS Investment Pte. Ltd, Singapore (earlier an Overseas Corporate Body- now a foreign company - wholly owned by Shri R. K. Jatia, the promoter Director of the company) by

- (a) extending the term of redemption from the 9th, 10th and 11th year from the date of allotment of the said shares to the 10th, 11th and 12th year from the date of allotment of the said preference shares and
- (b) reduction of the dividend rate from 12.5% to 8% effective from 01.04.2008, the other terms and conditions of the issue of the said preference shares shall remain unchanged".

"RESOLVED FURTHER THAT pursuant to section 106 of the Companies Act, 1956 ('the Act'), the holders of the said shares be approached on the basis of the draft letter and be requested to consent to vary the rights attached to the said



shares held by them on the basis of the draft consent and the Company Secretary be authorized to circulate the same to the said class of members and to obtain the consent from all but not less than those having three-fourth of the value of the preference shares".

Regd. Office:
Village Dora, Taluka Amod
District Bharuch, Gujarat
Date: 30.06.2008

By Order of the Board
S.R. Vyas
Executive Director
& Company Secretary

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The instrument appointing a Proxy must be deposited with the Company at its Registered Office not less than 48 hours before the time of holding the meeting.
3. The Register of Members and Share Transfer Books of the Company shall remain closed from Wednesday, the 24th September, 2008 to Tuesday, the 30th September, 2008 (both days inclusive).
4. The shareholders are requested to: -
 - a) intimate the change in their address for shares held in physical mode to the Registrar and Transfer Agent, viz, MCS Limited, Vadodara and to the concerned Depository Participants for shares held in electronic mode.
 - b) quote Ledger Folio/client ID numbers in all their correspondence.
 - c) bring copy of the Annual Report and Attendance slip with them at the AGM.
5. Members desirous of getting any information about accounts and operations of the Company are requested to address their communication well in advance so that the same reaches to the Company at least 10 days before the meeting to enable the management of the Company to keep the information required readily available.

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956:

Item No. 5

The Company has received a notice from a member under Section 257 of the Act, with requisite deposit proposing the name of Mr. Rameshwar Maheshwari as candidate for the office of Director of the Company.

Mr. Rameshwar Maheshwari age 66 years having more than 45 years of experience in the various fields of management. His association with the Company would be in the interest of the Company.

None of the Directors on the Board are in any way concerned / interested in this resolution.

Your directors recommend the resolution at Item No. 5 for your approval.

Item No. 6

The Company has received a notice from a member under Section 257 of the Act, with requisite deposit proposing the name of Ms. Anita Thapar as candidate for the office of Director of the Company.

Ms. Anita Thapar age 36 years is a graduate and having more than 15 years of experience in the various fields of management. Her association with the Company would be in the interest of the Company.

None of the Directors on the Board are in any way concerned / interested in this resolution.

Your directors recommend the resolution at Item No. 6 for your approval.

Item No. 7

The Company has been sanctioned the following financial assistance by the Banks/ financial institutions for the business of the Company.

- (a) Rupee Term Loan Aggregating Rs. 5922 lakhs from IDBI Bank Limited being the aggregate of the outstanding amount of Non Convertible Debentures - I Rs. 3469 lakhs, Non Convertible Debentures-II Rs. 321 lakhs, Rupee Term Loan of Rs. 1589 lakhs, overdue interest of Rs. 543 lakhs as at 31-03-2008 (on restructuring of the said liability converted into a Rupee Term Loan effective 01-04-2008.)
- (b) Additional Bills discounting facility - Rs. 50.00 lacs from Small Industrial Development Bank of India, Vadodara.
- (c) Short Term Working Capital Loan - Rs. 300.00 lacs from YES Bank, New Delhi.

As per the terms of sanction granted, financial assistance from IDBI Bank Ltd is required to be secured by way of First Charge and from SIDBI and Yes Bank on a Second Charge basis on the present and future current and fixed assets of the Company ranking pari-passu with the First and Second charges respectively created / to be created in favour of the other Banks / financial institutions.

Creation of charge / mortgage on the assets of the Company tantamount to disposal of the undertaking and requires approval of the shareholders under the provisions of Section 293(1)(a) of the Companies Act, 1956.

The Board recommend the resolution at Item No. 7 for your approval.

None of the Directors are in any way concerned or interested in this resolution.

**Item No. 8**

Your Company had issued 12.5%, 1,50,00,000 Cumulative Redeemable Preference Shares of Rs. 10/- each aggregating owned by 'Shri R.K. Jata, the promoter Director of the Company). The details of allotment of the shares are as under:

| Date of Allotment | Amount Rs. in lakhs |
|-------------------|---------------------|
| 04.02.99 | 500.00 |
| 15.02.99 | 500.00 |
| 16.03.99 | 200.00 |
| 23.04.99 | 100.00 |
| 28.07.99 | 200.00 |
| Total | 1500.00 |

a) At the previous AGM of the company extension in redemption was granted for a period of one year. Accordingly the Redemption of the Preference capital became due as under:

| Date of Redemption | Amount Rs. in lakhs |
|--------------------|---------------------|
| Feb - 08 | 400.00 |
| Mar - 08 | 80.00 |
| Apr - 08 | 40.00 |
| Jul - 08 | 80.00 |
| Feb - 09 | 300.00 |
| Mar - 09 | 60.00 |
| Apr - 09 | 30.00 |
| Jul - 09 | 60.00 |
| Feb - 10 | 300.00 |
| Mar - 10 | 60.00 |
| Apr - 10 | 30.00 |
| Jul - 10 | 60.00 |
| Total: | 1500.00 |

c) On account of inadequacy of profit there is arrears of Dividend on these Preference Shares as per details hereunder:

| For the Year | Amount Rs. in lakhs |
|-------------------------------------|---------------------|
| 1998-99 | 58.15 |
| 1999-00 | 186.16 |
| 2000-01 | 187.50 |
| 2001-02 | 187.50 |
| 2002-03 | 140.75 |
| 2003-04 | 187.50 |
| 2004-05 | 187.50 |
| 2005-06 | 187.50 |
| 2006-07 | 187.50 |
| 2007-08 | 187.50 |
| Total | 1697.56 |
| Paid in 2004-05 | -118.15 |
| Total of Arrears of dividend | 1579.41 |

Your company is passing through a very difficult period. The profitability of the company has been affected adversely mainly due to exorbitant increase in the prices of power and fuel and other inputs without corresponding increase in the intense competition.

Under the circumstances, based on the projections of future profitability, the company has worked out proposal to vary the rights attached to Preference Shares in terms of extension in redemption period which has been approved by the Board of directors at its meeting held on 30.06.2008.

The existing term of redemption of the preference shares at the end of the 9th, 10th and 11th year from the date of allotment of the said shares shall be extended to the 10th, 11th and 12th year from the date of allotment of the said shares. IDBI Bank Ltd while considering the restructuring of its liabilities stipulated one of the conditions for reduction in the dividend rate from 12.5% to 8%. The other terms and conditions of the issue of the said preference shares shall remain unchanged.

Necessary approval to vary the rights attached to preference shares shall be obtained from Preference Shareholder by their consent in writing or by way of special resolution passed at their meeting.

In view of above, your directors recommend the resolution for your approval.

None of the Directors of the company are in any way concerned or interested in the proposed resolution.

Documents for inspection

Copy of documents mentioned in the notice as above is available for inspection by the members on any working day at the Registered Office of the Company during office hours.

Regd. Office:
Village Dora, Taluka Amod,
District Bharuch, Gujarat
Date: 30.06.2008

By Order of the Board
S.R. Vyas
Executive Director
& Company Secretary



DIRECTORS' REPORT

Your Directors submit herewith the Twenty Second Annual Report and the Audited Accounts of the Company for the financial year ended 31 March 2008.

FINANCIAL RESULTS

(Rs. in lacs)

| | Current Year 2007-08 | Previous Year 2006-07 |
|--|-------------------------|--------------------------|
| Sales & Other Income | 17371.64 | 18181.64 |
| Operating Profit | 596.41 | 1724.36 |
| Interest | 1295.48 | 1250.05 |
| Profit Before Depreciation & Amortization | -699.07 | 474.32 |
| Depreciation & Amortization & Misc. Expenses | 1156.13 | 1154.18 |
| Profit/(Loss) before extra ordinary items and tax | -1855.20 | -679.86 |
| Add : Prior Period Adjustments | -6.21 | 26.58 |
| Add/(Less) : Extra Ordinary Items | -411.25 | 0.00 |
| Profit/(Loss) Before Tax | -2272.66 | -653.28 |
| Less : Provision for Tax | | |
| - Current Year | 0.00 | 0.00 |
| - Earlier Year | -1.55 | -33.56 |
| - FBT | -29.06 | -31.43 |
| - Deferred Income Tax | 120.84 | 50.60 |
| Profit/(Loss) after Tax | -2182.43 | -667.67 |
| Profit/(Loss) b/f from previous year | -655.77 | 11.88 |
| Profit/(Loss) carried to Balance Sheet | -2838.20 | -655.77 |

DIVIDENDS

In view of the losses for the year, your Directors do not recommend any dividend on the Preference and Equity Share Capital.

MANAGEMENT DISCUSSIONS & ANALYSIS

Management discussion and analysis report annexed herewith is forming part of this report inter alia adequately deals with the operation and the current and the future outlook of the Company.

CORPORATE GOVERNANCE

As required under clause 49 of the Listing Agreement with the Stock Exchanges, the Report on "Corporate Governance" together with Auditors' Certificate regarding compliance of the code of Corporate Governance is annexed herewith.

REDEMPTION OF PREFERENCE SHARES

The company had issued 12.5%, 1,50,00,000 Cumulative Redeemable Preference Shares ("the preference shares") of Rs. 10/- each aggregating Rs. 1500 lakhs to JBS Investment Pte Ltd, Singapore (earlier an Overseas Corporate Body - now a foreign company - wholly owned by Mr. R K Jatia, the promoter Director of the company).

As per the terms of the issue and extension granted at the previous Annual General Meeting, the said Preference shares (first installment @ Rs. 4/-) have become due for redemption during this financial year starting from February 2008. Also, on account of inadequacy of profit, there are arrears of Dividend on these Preference Shares of Rs. 1564.51 lacs as on March 31, 2008.

Considering the financial difficulties experienced by the Company it was not possible to either redeem the Preference share capital on due dates or to pay the arrears of dividend thereon and hence the Company has once again requested JBS Investment Pte. Ltd. Singapore, to grant its approval for extension of term for redemption of preference shares to 10th, 11th and 12th year from the date of allotment of preference shares instead of the existing 9th, 10th and 11th year from the date of allotment. IDBI Bank Ltd while approving the restructuring of its financial assistance granted to the Company stipulated one of the conditions to reduce the rate of dividend from 12.5% to 8%. Consent from the preference shareholders to the said change in the terms of issue is awaited.

The resolution to this effect is proposed in the notice of AGM for the approval of the members.

DIRECTORS' RESONSIBILITY STATEMENT

Pursuant to provisions of Section 217(2AA) of the Companies Act, 1956, your directors hereby confirm that:

- in the preparation of Annual Accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- the accounting policies selected had been applied consistently and judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 31 March 2008 and of the loss for that period;
- proper and sufficient care had been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and



for preventing and detecting fraud and other irregularities; and

- d) the annual accounts had been prepared on a going concern basis.

AUDITORS' REPORT

Referring to the remarks printed in italic in the para (vii) (A), (B) & (C) of the Auditors Report, the Directors would like to refer to Notes 8, 11, 2 & 4 of the Schedule 18 of the Accounts which are self explanatory.

PUBLIC DEPOSITS

The Company has not accepted any deposits from the Public during the financial year ended 31 March 2008.

DIRECTORS

Due to the financial difficulties experienced by the Company there was a continuous default in repayment of the installments of NCDs placed by IDBI to the company. This default continued for more than a year as at 31.03.2008. By virtue of the provisions of Section 274(1) (g) of the Companies Act 1956, all the members on the Board as at 31.03.2008 became disqualified from becoming Directors of this company as also for their appointment on the Board of other Public limited companies for a period of five years.

The following Directors having their varied interest of business in other concerns had resigned from the Board of Directors of the Company effective 30.03.08.

1. Shri Lalit Bhasin, Chairman of the company
2. Shri S K Jatia, Vice chairman
3. Shri R K Jatia
4. Shri Ramesh Jatia, Executive Vice Chairman
5. Shri Gautam Divan
6. Shri Dineshchandra Kothari

In order to strengthen the Board, Shri Narottam Sharma and Shri Subramanian Ramaswamy were appointed on the Board as additional directors. Both of them are having very wide experience in the field of management of public limited companies.

By virtue of provisions of section 260 of the Companies Act, 1956 ('the Act'), these Additional Directors hold office upto the date of forthcoming Annual General Meeting of the Company. They have intimated their intention of retirement at the next AGM.

The Board places on record its appreciation for the valuable services provided by Shri Lalit Bhasin, Shri S K Jatia, Shri RK Jatia, Shri Ramesh Jatia, Shri G R Divan and Shri Dineshchandra Kothari during their association on the Board of the Company.

Notice under section 257 of the Companies Act, 1956 have been received for appointment of Mr. Rameshwar Maheshwari and Ms. Anita Thapar for their appointment on the Board liable to retire by rotation.

PARTICULARS OF EMPLOYEES

The information required under section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, forms part of this Report.

However, as per the provisions of Section 219(1)(b) of the Companies Act, 1956, the Report and Accounts are being circulated to the shareholders do not include the Statement of Particulars of Employees under Section 217(2A) of the Act. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office.

PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY ETC.

Information as per Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosures of Particulars in respect of the Board of Directors) Rules, 1988 and forming part of this report is annexed to and forming part of this report.

AUDITORS

The Auditors of the Company M/s. R. P. Malhan & Company, Chartered Accountants, New Delhi, shall retire at the ensuing Annual General Meeting and being eligible, offers themselves for reappointment. A confirmation has been received from them that if reappointed, their reappointment shall be within the limits prescribed under section 224(1B) of the Companies Act, 1956.

ACKNOWLEDGEMENT

Yours Directors place on record their sincere appreciation of the continued co-operation and support extended by financial institutions, banks, suppliers, dealers, C&F Agents, customers, employees and various Central and State Government Agencies. The Directors also take this opportunity to thank the shareholders for their continued confidence reposed in the Management of the Company.

Date : 30.06.2008
Place : New Delhi

For and on behalf of the Board
K M Pai
Managing Director



ANNEXURE TO THE DIRECTOR'S REPORT

Conservation of Energy:

A Energy Conservation measure taken:

During the year the operation of 1 MW Turbo Generation remained satisfactory for generation of electricity and for operation of Spray Dryer with its exhaust gasses resulting into substantial conservation of energy.

B Technology absorption:

By optimizing the capacity utilization at the Bangalore plant the per unit consumption of LPG could be controlled by effectively managing the process parameter.

C Research and Development (R&D):

No major R & D activities were carried out. However efforts continued to improve the process parameters for better quality of the products.

a) Production Development:

- development of wall tiles & floor tiles with new tones/ hues in popular designs, new textures as per the requirement of the market.
- indigenous development of Frits for both the plants and outsourcing its production facilities resulted into considerable saving of foreign exchange outgo.
- development of local sources for spares for the imported machines to reduce dependence on import.

b) Cost Reduction:

- Efforts made to source alternative raw materials for reduction in the cost as also flexibility in the input materials.

c) Benefits derived as a result of the above R&D:

- Better quality of the product helps in reducing the finished goods inventory level.
- The Company has developed local substitutes for some of the imported components.
- Established quality assurance by adopting procedures to ensure international quality.

d) Future Plan of Action:

- Efforts to continue to increase the production level and to concentrate on quality products.

e) Expenditure on R&D:

- During the year Company has spent nominal amount on R&D.

f) Foreign Exchange Earnings & Outgo:

- The information of foreign exchange earnings & outgo are contained in para 17, 18 and 19 of the notes to accounts in Schedule 18.

Management Discussion and Analysis

Industrial Scenario

During the year 2007-08, the Indian economy has witnessed the problem of high inflationary trend prevailed due to unreliable increase in the prices of Crude in the international market. Our country largely dependent on import for the fuel, it has become extremely difficult for the country to meet the gap in the balance of trade. The Central Government is facing the problem of financing the increasing deficit of all the oil companies in the public sector who are not permitted to increase the prices of their products in line with the market prices. High volatility in the international market due to recession in the economies of developed countries like USA and Europe coupled with increase in the prices of major minerals, there is uncertainty prevailed in the economies of the developing countries like India. In the circumstances, it would be difficult to sustain the Industrial growth at the desired rate.

Outlook of the Industry

During the year, the Ceramic tiles industry in India has witnessed a change in its product profile. There is a shift in demand from the smaller format tiles to larger format tiles. The demand has shifted to higher segment tile like Vitrified tiles etc. There has been enhancement in the manufacturing capacities in that segment. The industry growth rate at 15% continued. This has lead to building of additional capacity during the year. The overcapacity situation continued in the domestic market. The organised sector had to face competition from semi-organised and unorganised sectors and from cheap imports. There was a pressure in the selling price of the product. On the cost aspect the industry being the fuel intensive industry has been adversely affected due to a very high increase in the international prices of the crude. Power & fuel cost is the major component (approx. 30-35%) of production cost. Declining per unit sales realisations coupled with increase in the cost of production have kept a pressure on profit margins for most of the players in the industry.



grow as the real estate sector witnessed significant transformation in recent years. Growing demands from various prospering industries like IT/ITeS, Telecom, Auto/ Auto Ancillary, Bio-technology, Pharma, retail, replacement of cusotmised market by big malls etc leads to increase in demand for space requirements. The other major demand driver for tile industry is housing sector which is growing rapidly due to overall increase in purchasing power of the working class people.

Review of Company's operation

During the year, due to negative margin from the operation of the company the problem of shortage in the working capital assistance continued. This leads to under utilization of the plant capacity. The production in terms of quantity was reduced by 5%. This has been reflected directly by reduction in sales quantity by 3% and sale value by 4% over the previous year performance. However, with the efficient outbound logistic system, the sales in terms of quantity reflected increase over the production for the year. Increase in the cost of production, reduction in the per unit sales price and lower utilization of the plant capacity have resulted into financial losses for the year ended 31.03.2008.

DORA (Baroda) Unit

During the year this plant of the company was operated at 68% of the installed capacity. This was mainly due to shortage in the availability of the working capital from the company's bankers. Efforts were made to produce value added products at this unit by introducing new designs and structures as per market requirements. Efforts are being made to optimize the plant capacity to reduce the operational losses during the year.

HOSKOTE (Bangalore) Unit

Again on account of shortage in working capital assistance, the production and sales at this unit reduced by 3% and 2% respectively over the previous year. This unit was operated at 90% of the installed capacity. Steep increase in the prices of LPG and HSD both used as power & fuel, the operating margin has reduced considerably. The first phase of the proposal to establish facilities to receive cheaper electricity from the state owned electricity Board has been completed and the second phase of the same is in the advance stage of implementation. It is likely to be operational by August 2008. This would reduce the cost of power in a big way. The use of LPG (a costly fuel) would be replaced by availability of natural gas in years to come through proposed pipe line from ONGCL / Reliance. With improvement in the bottom

working capital fund to optimise the production and sales.

Risks and Concerns

- (a) On account of the gradual depletion in the availability of natural gas from the domestic sources, GAIL has now been supplying imported LNG (Liquefied Natural Gas) along with the gas from the domestic supply. The prices of the natural gas supplied from the domestic source have been revised upward during the year. This has increased the cost of fuel at the Gujarat plant of the Company. The gap in the demand supply position of natural gas (including the imported gas) is widening and this is adversely affecting the supply of gas on a continuous basis.
- (b) The currency in Euro/ US vis-a-vis Indian rupee remained unfavorable through out the year. The ceramic industry is more dependent on the countries which have been dealing in Euro. This has impacted the cost of imported parts, raw materials and the capital equipments.
- (c) With reduction in the custom duty on import of ceramic tiles from China to a level of 6.5% the industry has been facing a big threat from cheaper imports from that country.
- (d) In the international market the crude prices continued to be on the upward trend. Frequent increase in the prices of crude in the international market results into increase in the diesel and petrol prices in the Indian market. This has direct impact on the freight cost for both the incoming and outgoing materials. Power and fuel cost at the Hoskote plant of the Company will also likely to be affected due to frequent increase in the prices of HSD and LPG. The position on the supply price of crude is not likely to improve in the near future.

Internal Control System and their adequacy

The various internal control system prevalent in the Company includes:

- (a) Implementation of an ERP System for out bound logistic (sales & marketing), Company's accounting systems and for manufacturing activities have strengthened the Management information system.
- (b) Periodical verification of assets at both the plants of the Company and stocks of finished goods at warehouses as well as at the depots through out the country were carried out at a regular interval both internally as well as through independent firms of Chartered Accountants.