

**Rs.  
16.76**  
EPS

**54%**  
Net Profit

**52%**  
Operating Profit

**33%**  
Net Sales

Achieving Milestones...  
by Design

**CERTIFIED TRUE COPY**  
For, CERA SANITARYWARE LIMITED

Sr. Executive  
(Secretarial)

Annual Report 2006-07

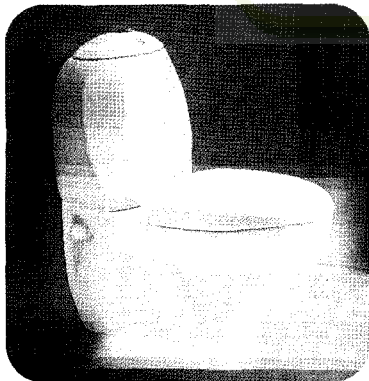


Cera Sanitaryware Limited

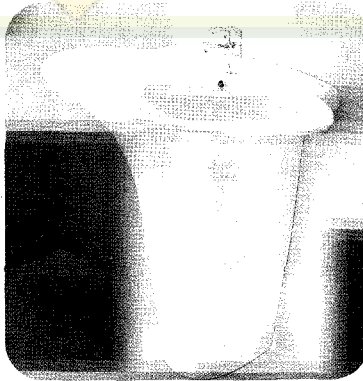


WHIRLPOOLS

Report  junction.com



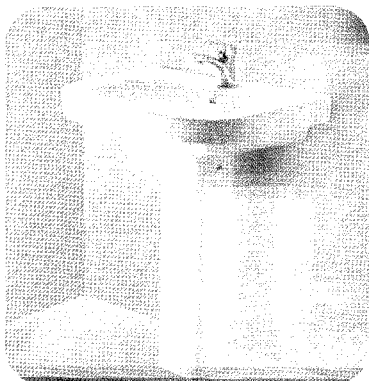
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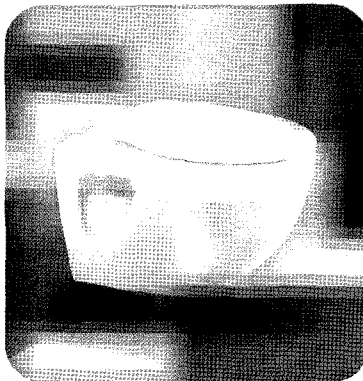
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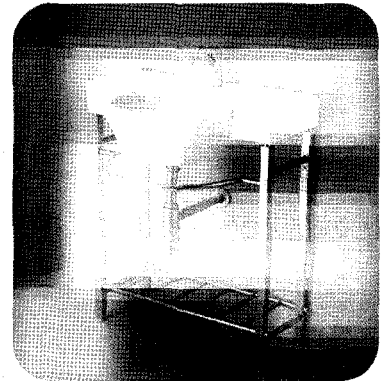
CALIDA



CRUSE



COUPE



CAESER

**Cera Sanitaryware Limited****Board of Directors**

|                           |                                  |
|---------------------------|----------------------------------|
| Shri Vikram Somany        | - Chairman-cum-Managing Director |
| Shri Sajan Kumar Pasari   |                                  |
| Shri O. P. Bhandari       |                                  |
| Shri D. P. Goyal          |                                  |
| Shri Shree Narayan Mohata |                                  |
| Shri Vidush Somany        | - Executive Director             |
| Shri S. C. Kothari        | - Wholetime Director             |

**Bankers**

State Bank of Saurashtra  
ICICI Bank Ltd.

**Auditors**

M/s. H. V. Vasa & Co.,  
Chartered Accountants,  
B-2, "Usha Kiran", Opp. Khanpur Gate,  
Ahmedabad - 380 001.

**Registered Office**

9, GIDC Industrial Estate, Kadi-382 715,  
Dist. Mehsana, Gujarat, India.

**Works**

- 1) 9, GIDC Industrial Estate, Kadi-382 715, Dist. Mehsana, Gujarat.
- 2) Vill. Lamba & Patelka, Tal. Kalyanpur, Dist. Jamnagar, Gujarat.
- 3) Vill. & Tal. Kalyanpur, Dist. Jamnagar, Gujarat.

**Corporate Office**

"Madhusudan House", Opp. Navrangpura Telephone Exchange, Ahmedabad - 380 006.

**Registrar & Share Transfer Agent**

MCS Limited,  
101, Shatdal Complex, 1st Floor,  
Opp. Bata Show Room, Ashram Road,  
Ahmedabad - 380 009.

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**Annual General Meeting at 11.30 a.m. on Wednesday,  
the 26th day of September, 2007 at the Registered Office.**

**Annual Report 2006-2007****NOTICE**

Notice is hereby given that the Ninth Annual General Meeting of the Members of **CERA SANITARYWARE LIMITED** will be held at 11.30 a.m. on Wednesday, the 26th day of September, 2007 at the Registered Office of the Company at 9, GIDC Industrial Estate, Kadi - 382 715, Dist. Mehsana, to transact the following business:

**ORDINARY BUSINESS**

1. To consider and adopt Audited Profit and Loss Account for the year ended 31st March, 2007 and Balance Sheet as at that date and the Directors' and Auditors' Reports thereon.
2. To declare dividend on Equity Shares.
3. To appoint a director in place of Shri O. P. Bhandari, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a director in place of Shri S. N. Mohata, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint a director in place of Shri S. C. Kothari, who retires by rotation and being eligible, offers himself for reappointment.
6. To appoint Auditors to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

**SPECIAL BUSINESS**

7. To consider and, if thought fit, to pass with or without modification the following resolution as a special resolution.

"RESOLVED THAT approval of the members be and is hereby accorded in terms of Sections 198, 269, 309, 311, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 for the re-appointment of and for the remuneration payable to Shri Vidush Somany as Executive Director of the Company for a period of three years w.e.f. 15.06.2007 in terms of agreement entered into by the Board of Directors of the Company with Shri Vidush Somany.

RESOLVED FURTHER THAT Shri Vidush Somany, Executive Director will not be liable to retire by rotation.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to alter and vary the terms and conditions of the said appointment and / or agreement in such a manner in terms of sections 198, 269, 309, 311 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 being in force as may be agreed between the Board of Directors and Executive Director.

RESOLVED FURTHER THAT the Executive Director is also entitled to the benefits as per the rules of the Company, which the other employees of the Company are entitled to.

RESOLVED FURTHER THAT if in any financial year the Company has no profits or its profits are inadequate, Shri Vidush Somany shall be entitled to receive the same remuneration, perquisites and benefits as stated in explanatory statement, subject to compliance with the applicable provisions of schedule XIII to the Act, if and to the extent with necessary approvals".

8. To consider and, if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution:

"RESOLVED THAT pursuant to the provisions of section 293 (1) (d) of the Companies Act, 1956 the Company hereby

approves and gives consent to the Board of Directors for borrowing money from time to time in excess of paid up capital and free reserves, if any, however that the amount borrowed / to be borrowed and outstanding at any time shall not exceed the sum of Rs.75,00,00,000 (Rupees Seventy Five Crores Only) exclusive of the temporary loans obtained from the Company's bankers in the ordinary course of business of the Company".

By Order of the Board of Directors

Kadi - 382 715  
16th May, 2007

**Narendra N. Patel**  
G. M. & Company Secretary

**NOTES**

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT PROXY TO ATTEND AND VOTE INSTEAD OF HIM SELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. Members are requested to notify immediately the change of address, if any, to the Company or MCS Limited, Registrar and Share Transfer Agent.
3. The Register of Members and Share transfer book of the Company will remain closed from 16.09.2007 to 26.09.2007 (both days inclusive).
4. The Board of Directors has recommended 22% dividend on fully paid Equity Shares of Rs. 5/- each for the year ended 31.03.2007.
5. Members / Proxies should bring the attendance slip sent herewith duly filled in for attending the meeting.
6. Members are requested to send their queries atleast ten days before the date of the meeting so that the information can be made available at the meeting.
7. As per the provisions of Section 205 of the Companies Act, 1956 the dividend can be paid to the bankers of the Shareholder or any other authorized person. The Shareholders who want to make the Payment of dividend to any other person or banker may send the authority to the Company on or before 16.09.2007 with details of number of shares held, amount of dividend, L.F. No. / DPID and name of the person / bank to whom the payment is to be made.
8. Shareholders holding shares in electronic form may note that their bank account details as furnished by their depositories to the Company will be printed on their dividend warrants as per the applicable regulations of the depositories and the Company will not entertain any direct request from such shareholders for deletion of / change in such bank details. Shareholders who wish to change such Bank Account details are, therefore, requested to advise their Depository Participants about such change, with complete details of bank account.
9. All the documents referred to in this notice and explanatory statement are available for inspection of the members at the registered office of the Company on any working day except Saturday, between 11:00 a.m. to 1:00 p.m. up to the conclusion of this meeting.
10. Brief resume of directors, who are proposed to be appointed / reappointed at this meeting are given below:

**Cera Sanitaryware Limited**

| Name of Director  | Shri O.P. Bhandari                          | Shri Shree Narayan Mohata                                    | Shri S. C. Kothari  | Shri Vidush Somany |
|---|---|--|---|--------------------|
| Date of Birth   | 01.01.49                                    | 03.12.44   | 23.10.43  | 09.03.1981         |
| Date of Appointment   | 13.08.02                                    | 07.05.05   | 17.07.98  | 15.06.04           |
| Expertise in Specific Functional Areas                              | Industrial Consultant & Consulting Engineer | Administration / Commercial                                  | Chartered Accountant having expertise in Finance, Commercial & Administration | Industrialist      |
| List of other Directorships   | Madhusudan Cybernetic Pvt. Ltd.             | Madhusudan Industries Limited<br>Madhusudan Holdings Limited | Madhusudan Fiscal Limited   | —                  |
| Chairman / Member of the Committees of the Board of other Companies | —   | —  | —   | —                  |
| Shareholding in the Company   | 100   | 50   | 2   | 6,83,260           |

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

#### Item No. 7

Shri Vidush Somany was appointed as Executive Director of the Company for period of three years with effect from 15.06.2004. His office comes to end on 15.06.2007.

Shri Vidush Somany has been re-appointed as Executive Director of the Company for a period of three years with effect from 15.06.2007 by the Board of Directors at their meeting held on 16.05.2007, subject to approval of members of the Company at the General Meeting. Shri Vidush Somany as Executive Director shall discharge every duty and function subject to the superintendence, direction and control of the Board of Directors of the Company. The terms and conditions of the appointment are in conformity with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956. The Company has entered into agreement on 24.05.2007 with Shri Vidush Somany for his re-appointment as Executive Director.

Shri Vidush Somany, Executive Director will not be liable to retire by rotation.

However, Shri Vidush Somany shall not exercise the following powers as Executive Director:

- make calls on shareholders in respect of moneys unpaid on the shares of the Company;
- issue debentures, and
- except as may be specifically delegated by the Board under Section 292 of the Companies Act, 1956, invest the funds of the Company or make loans and borrow moneys.

The agreement between the Company and Shri Vidush Somany contains the following main terms and conditions.

- Period of Agreement : 3 years w.e.f. 15.06.2007
- Remuneration**

- Salary : In the range of Rs. 1,10,000/- - Rs.2,25,000/- per month. Rs.1,10,000/- p.m. w.e.f. 15.06.2007. However, it is subject to revision within the maximum limit prescribed under Schedule XIII of the Companies Act, 1956 and any amendment thereof from time to time.

The next increment of salary will be due w.e.f. 01.04.2008.

The Board or Committee thereof, in its absolute discretion will fix within the range stated above the salary payable to the Executive Director depending on the performance of the company and Executive Director, size of operations, profitability and other relevant factors annually.

- Performance Linked Bonus :

Such amount as may be determined by the Board for each financial year of the Company or part thereof.

- Perquisites :

#### Category - A

- Accommodation : Free furnished housing accommodation or house rent allowance not exceeding 50% of the basic salary.
- Facilities of gas, electricity, water and furnishings : The expenditure incurred by the company on gas, electricity, water and furnishings shall be valued as per Income-tax Rules, 1962. This shall, however, be subject to a ceiling of 10% of the salary of the appointee.
- Medical benefit : Medical reimbursement including Mediclaim for self and family subject to one month's salary in a year or three months' salary over a period of three years.
- Leave Travel Concession : For self and family once in a year to and fro any place in India in accordance with the Rules of the company.
- Club Fees : Annual fees of club subject to a maximum of two clubs. This will not include admission and life membership fee.
- Insurance : Personal Accident Insurance of an amount annual premium of which does not exceed Rs.6,000/-.
- Bonus : As per rules of the Company as applicable to other executives/ employees of the Company.

#### Category - B

- Contribution to Provident Fund or Annuity Fund: These will not be included in the computation of the ceiling of the perquisites to the extent these either singly or put together are not taxable under Income-tax Act, 1961.
- Gratuity: Gratuity payable in accordance with the company's scheme thereof as applicable to other executives / employees of the company.

**Annual Report 2006-2007****Category - C**

- a) Free telephone facility at residence and a mobile telephone. Personal long distance calls on telephone will be billed by the company to the appointee.
- b) Free use of Car with driver for company's work only. The use of car for private purpose shall be billed by the company to the appointee.

**Others**

- a) The Executive Director is also entitled to the benefits as per the rules of the Company, which the other executives / employees of the Company are entitled to.
  - b) He will not be entitled to Sitting Fee for attending the meetings of the Board of Directors or Committee(s) thereof.
3. The terms and conditions of the said appointment and / or agreement may be altered and varied from time to time by the Board as it may, in its discretion deem fit, including the maximum remuneration payable to the Executive Director in accordance with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 or any amendments made thereafter in this regard from time to time.
  4. If in any financial year the Company has no profits or its profits are inadequate, Shri Vidush Somany shall be entitled to receive the same remuneration, perquisites and benefits as above, subject to compliance with the applicable provisions of Schedule XIII to the Act, if and to the extent with necessary approvals.
  5. If at any time Shri Vidush Somany ceases to be a Director of the Company for any cause whatsoever, he will cease to be the Executive Director.
  6. This may be treated as an abstract of the agreement between the Company and Shri Vidush Somany u/s. 302 of the Companies Act, 1956.
  7. Statement as required under schedule XIII of the Companies Act, 1956.

**I. General Information :**

- (1) Nature of Industry: Manufacturing and trading of Sanitaryware, trading of Bathware and Captive Non-conventional Energy.
- (2) The commercial production began 26 years ago.
- (3) The Company is not a new Company.
- (4) Financial Performance:

| PARTICULARS                              | (Rs. in lacs)<br>Audited for<br>the year<br>ended<br>31.03.2007 |
|--|---|
| Gross Sales                              | 11670.79  |
| Less : Excise Duty                       | 1004.05   |
| Net Sales                                | 10666.74  |
| Other Income                             | 91.51   |
| Total Expenditure                        | 8778.18   |
| a) Increase / decrease in stock in trade | -296.76   |
| b) Consumption of raw materials          | 1114.64   |
| c) Purchases (outsourcing)               | 3171.39   |

| PARTICULARS  | (Rs. in lacs)<br>Audited for<br>the year<br>ended<br>31.03.2007 |
|--|---|
| d) Power & Fuel  | 441.52  |
| e) Staff Cost  | 1515.84   |
| f) Other expenditure   | 2831.55   |
| Operating Profit   | 1980.07   |
| Interest   | 227.64  |
| Gross Profit   | 1752.43   |
| Depreciation   | 354.10  |
| Profit (+)/Loss (-) before tax                                   | 1398.33   |
| Provision for taxation   |   |
| - Current  | 390.12  |
| - Deferred   | 82.06   |
| - Fringe Benefit Tax   | 19.50   |
| Net Profit (+)/Loss (-)  | 906.65  |
| Paid-up equity share capital<br>(Face Value Rs. 5/- each)        | 303.75  |
| Reserves excluding revaluation<br>reserve (as per balance sheet) | 4771.43   |
| a) Basic EPS (in Rs.)  | 16.76   |
| b) Diluted EPS (in Rs.)  | 16.63   |
| c) Cash EPS (in Rs.)   | 24.83   |
| Aggregate of Non-promoter<br>Shareholding                        |   |
| - No. of shares  | 2787034   |
| - Percentage of shareholding                                     | 45.88   |

**Note :**

The Board of Directors has recommended dividend of Rs. 1.10 per fully paid Equity Share of Rs. 5/- each for the year 2006-07.

- (5) Exports of Goods on F.O.B. basis during the financial year 2006-07 of the Company was Rs.256.42 lacs.
- (6) The Company has issued 5,50,000 equity shares at Rs. 155/- per share (Rs. 5/- Face Value + 150/- Premium) to a Mauritius based strategic investor aggregating to Rs. 852.50 Lacs. The proceeds is used to meet part of on going expansion project. Total foreign investment in the company is 9.05% of the total equity of the company.

**II. Information about the appointee:****(1) Background Details :**

Shri Vidush Somany is a young entrepreneur having Bachelors Degree in Management Studies from Franklin & Marshal College, Pennsylvania, U. S. A. He is executive Director of the company w.e.f. 15.06.2004.

**(2) Past Remuneration :**

In the year 2006-07 Shri Vidush Somany was paid a remuneration of Rs. 14,65,997/- by the company.

**(3) Recognition or awards : Nil**



## Cera Sanitaryware Limited

### (4) Job profile and his suitability :

Executive Director is responsible for managing the affairs of the Company subject to the superintendence, control and direction of the Board of Directors and Chairman-cum-Managing Director. His educational background coupled with managerial / executive experience and very positive approach is very helpful to the company.

- (5) Remuneration proposed : As per the terms of the Agreement dated 24.05.2007, the Company proposes to pay remuneration in the basic salary scale of Rs. 1,10,000 — Rs. 2,25,000 to Shri Vidush Somany for the next three years, which will also be a minimum remuneration in case of no profit or inadequate profit of the Company.
- (6) The comparative remuneration payable to Executive Director in similar industries is quite higher in comparison to what has been proposed in the present case. The remuneration proposed is quite moderate.
- (7) Shri Vidush Somany being a member of Promoter Group along with Promoter Companies and relatives, holds 32,87,980 Equity Shares of the Company. He is the son of Shri Vikram Somany, Chairman-cum-Managing Director of the company.

### III. Other Information

#### (1) Reasons of loss or inadequate profits :

Managerial remuneration to the whole time Directors is within 10 % of the net profit of the Company. But in future the profit of the company may be inadequate or the company unable to maintain current years profit, due to natural calamity or adverse government policies.

#### (2) Steps taken or proposed to be taken for improvement :

The Company is taking services of foreign ceramic consultants to further improve productivity of critical wares, which should improve profitability.

#### (3) Expected increase in productivity & profits in measurable terms :

The productivity of the company increased resulting in 9% higher production and low production cost.

### IV. Disclosures:

#### (1) Remuneration Package:

It is as stated in Explanatory Statement of this notice of Annual General Meeting.

- (2) The Company has made all necessary disclosures in the Directors' Report under a separate Corporate Governance Report, which is attached with the Annual Report for the year 2006-07.

The copy of agreement entered into with Shri Vidush Somany is open for inspection at the registered office of the Company between 11.00 a.m. to 1.00 p.m. on any working day except Saturday upto the date of ensuing Annual General Meeting.

Appointment and remuneration payable to Shri Vidush Somany is approved by the remuneration committee by resolution at the meeting held on 16.05.2007.

Your directors commend the resolution as per item no. 7 of the notice for passing by the members.

Except, Shri Vikram Somany and Shri Vidush Somany, none of your directors is concerned or interested in the said resolution. Shri Vikram Somany is the father of Shri Vidush Somany, Executive Director of the company.

#### Item No. 8

The consent of the members is sought to authorise the Board to borrow money in excess of the Company's paid up capital and free reserves. Pursuant to the provisions of section 293 (1) (d) of the Companies Act, 1956 the permission from members, to borrow in excess of the said limit is required by passing a resolution in this behalf. Keeping in view the company's requirement of funds for working capital and other purposes, your directors think it proper to acquire the borrowing power up to Rupees Seventy Five Crores Only.

Your directors commend the resolution as per item no. 8 of the notice for passing by the members.

None of your directors is in any way concerned or interested in the said resolution.

By Order of the Board of Directors

Kadi - 382 715  
16th May, 2007

**Narendra N. Patel**  
G. M. & Company Secretary

**Annual Report 2006-2007****Directors' Report**

To  
The Members,

The Directors have pleasure in submitting the Annual Report together with the Statement of Accounts of your Company for the year ended 31st March, 2007.

**Performance**

The summary of your Company's financial performance is given below:

|   | (Rs. in lacs)                |                              |
|---|------------------------------|------------------------------|
|   | Year ended<br>March 31, 2007 | Year ended<br>March 31, 2006 |
| Profit before Depreciation and Taxes            | 1752.43                      | 1164.81                      |
| Deducting therefrom Depreciation of             | 354.10                       | 268.22                       |
| Profit before tax                               | 1398.33                      | 896.59                       |
| Deducting therefrom taxes of:                   |                              |                              |
| - Current Tax                                   | 390.12                       | 183.11                       |
| - Fringe Benefit Tax                            | 19.50                        | 14.00                        |
| - Deferred Tax                                  | 82.06                        | 109.54                       |
| Profit after Tax                                | 906.65                       | 589.94                       |
| Add: Balance brought forward from previous year | 400.00                       | 150.00                       |
| Amount available for Appropriations             | 1306.65                      | 739.94                       |
| The proposed appropriations are:                |                              |                              |
| 1. Proposed Dividend                            | 66.83                        | 48.37                        |
| 2. Tax on Proposed Dividend                     | 11.35                        | 6.79                         |
| 3. General Reserve                              | 728.47                       | 284.78                       |
| 4. Balance carried forward                      | 500.00                       | 400.00                       |
| <b>Total :</b>                                  | <b>1306.65</b>               | <b>739.94</b>                |

**Sanitaryware Unit**

The company continues to make efforts in improving the productivity at the Plant which has resulted in higher production by 9%. The turnover of the Company in the year under review increased by 33%.

**Expansion and up gradation :**

Looking to the growth of the market, the company has undertaken an expansion, which will increase the installed capacity to 24,000 MTPA from existing 16,500 MTPA. The expansion is expected to be completed by end July, 2007.

**Power Unit**

The non-conventional wind power generation in the year was 40,31,005 KWH against 21,86,320 KWH in the previous year. The company added 10 WTGs (2.5 M.W.) at Patelka, during the previous year which had increased the installed capacity of power unit to 3.725 M.W.

**Management Discussion and Analysis Report****(a) Industry Structure and Developments**

Triggered by the real-estate boom, sanitaryware industry is growing at a robust rate of around 12 to 15%. Your company's growth was higher at 19% in sanitaryware. With the changing times, your company has been launching newer products related to bathroom category in the past. This has paid off, by taking the company's total growth to around 33%. Soon, the company also plans to launch kitchenware. Stainless steel kitchen sinks are already ready for launching in select markets.

**(b) Opportunities and Threats**

The continuing growth in the construction industry throughout the country is a opportunity for the company. Also, the strong

brand image of the company among influencers like architects, interior designers, institutional buyers, etc. too has helped CERA in gaining market share and growth. The continuous advertising and brand promotion are being undertaken to bring CERA to the top-of-mind recall amongst the target audience.

The near future will see certain foreign brands commencing production in India, apart from imported brands already available. The strong brand image of CERA will ensure that its turf is well-insulated from such foreign onslaught.

Opening of CERA Bath Studios (company display centres) has helped company in giving an opportunity to customers to see, touch and feel its full range. Seven such CBS's are already in operation at Ahmedabad, Chandigarh, Kolkata, Kochi, Bangalore, Hyderabad and Lucknow. The CBS in Bombay will soon be opened.

**(c) Outlook**

The healthy growth rate of construction industry, more so in the housing and commercial space, points to a bright future for CERA. Institutionalisation of construction industry over the last few years means more and more builders now prefer branded products to unbranded ones. International exposure through media and travel has raised the bar of expectations by architects, builders and consumers in terms of design, quality and service. CERA is continuously upgrading its production capabilities and quality and after-sales parameters to be in harmony with the changing customer aspirations.

CERA is not only planning to increase its own production of sanitaryware, it is also planning to establish itself as bathroom solutions provider, by offering all durables that go into a bathroom. The next logical step is total home solutions, to capitalize on the brand equity of CERA and also to get quantum leap in its top and bottom lines.

Registering on the lower-end, the small scale manufacturers in sanitaryware segment continue to be exempted from government levies like excise duty, though such exemption has already been withdrawn in the ceramic tiles segment. However, the emerging trend of brand consciousness of consumers is helping CERA thwart such competition.

**(d) Risks and Concerns**

Any drastic change in the Government Policy may affect the sanitaryware manufacturers.

**(e) Internal Control Systems and their adequacy**

The Company has adequate system of internal control relating to the purchase of stores, raw materials, plant & machineries, equipments and various components and for the sale of goods commensurate with the size of the Company and the nature of business.

The system of internal control of the Company is adequate keeping in mind the size and complexity of your Company's business. Systems are regularly reviewed to ensure effectiveness.

**(f) Financial performance with respect to operational performance is discussed in the main part of the Report.****(g) Material Developments in Human Resources / Industrial Relations**

The Company continues to invest in training and education of its employees and has been organizing various training programme from time to time. It had also availed the services of "Leadership Management International (LMI)", Waco, Texas through their Indian associate Unnati Institute of Leadership in training to senior and middle level executives of the company.



## Cera Sanitaryware Limited

The Company continued focus on productivity & quality linked incentives and maintained cordial relations with labour.

### (h) Private Placement

During the year, the company issued 6,00,000 preferential warrants to the promoters group to be converted in to equal number of equity shares @ Rs.123/- (F.V. Rs.5/-) each within a period of 18 months from the date of issue of warrants. Till the end of the year they have been allotted 1,50,000 shares on conversion of preferential warrants.

The Company has also issued 5,50,000 Equity shares to a Mauritius based strategic investor at a price of Rs. 155/- per share. (F.V. Rs.5/-) aggregating to Rs. 8.52 Crores on a private placement basis.

Proceeds from the private placement of warrants and shares is to be utilized to part finance the on-going expansion programme and long term working capital requirement of the Company.

### (i) Employees Stock Option Scheme

Pursuant to the authority of the members granted at the Extra Ordinary General Meeting of your Company held on 6th January, 2007, compensation committee of the Board of Directors "the committee" has formulated Employees Stock Option scheme 2007 (ESOS - 2007). Accordingly, 2,24,001 options were granted to the eligible employees of your company. 43,999 options are still available with the committee to grant to eligible employees of the Company. The shares are to be issued at Rs. 61/- per Share (F.V. Rs.5/-). During the year no option is exercised and hence, no equity shares are issued under the scheme.

Details required to be provided pursuant to clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are set out in Annexure to this Report.

### Corporate Governance

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, Report on Corporate Governance along with the Auditors' statement on its compliance has been included in this Annual Report as a separate section.

### Directors' Responsibility Statement

In compliance of Section 217 (2AA) of the Companies Act, 1956, the Directors of your Company confirm:

- v that the applicable accounting standards have been followed in the preparation of final accounts and that there are no material departures;
- v that such accounting policies have been selected and applied consistently, and such judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2007, and of the profit of the Company for the year ended on that date;
- v that proper and sufficient care has 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;
- v that the annual accounts have been prepared on a going concern basis.

### Dividend

Your Directors recommend a dividend of Rs. 1.10 per share (previous year Re.0.90) on 60,75,014 (Previous year 53,75,014) Equity Shares of Rs.5/- each fully paid for the year ended 31.03.2007, to be paid subject to approval by the members at the ensuing Annual General Meeting.

### Energy Conservation, Technology Absorption, R & D Cell and Foreign Exchange Earnings & Outgo

The details required under the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 are annexed to this report.

### Excise

The Company has contributed Rs.24.24 Crores to the excise by way of excise duty, customs duty, income tax, VAT, sales tax, and other fiscal levies.

### Fixed Deposit

Fixed deposits from the Public, outstanding as on 31.03.2007 was Rs.131.24 lacs. There were 28 Fixed Deposit holders with Rs 7.16 Lacs of unclaimed / unrenewed deposits as on 31.03.2007. The Company, on the basis of the working results during the year under review can accept deposits from the Public as well as from the shareholders to the extent of Rs. 1,670 lacs.

### Finance

During the year under review, the Company repaid loans of Rs.220.00 Lacs to Financial Institutions and the Government of Gujarat.

### Employees

Information as per sub-section (2A) of Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 forming part of the Directors' Report for the year ended 31st March, 2007 is annexed.

### Directors

Shri N. K. Maheshwari has resigned as Director w.e.f. 1st September, 2006. Your Board of Directors places on record its appreciation for the contribution made by him to the company.

Shri O. P. Bhandari, Shri Shree Narayan Mohata and Shri S. C. Kothari are due to retire at the end of ensuing Annual General Meeting and being eligible offer themselves for re-appointment. The brief resume of Shri O. P. Bhandari, Shri Shree Narayan Mohata and Shri S. C. Kothari, directors as required by Clause 49 of the Listing agreement with the Stock Exchanges, is provided in the notice convening the Annual General Meeting of the Company.

### Auditors

M/s H.V. Vasa & Co., Statutory Auditors of the company retire at the end of forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. The Board recommends their re-appointment at the ensuing Annual General Meeting.

### Insurance

The Company has adequately insured all its properties including Plant and Machinery, Buildings and Stocks.

### Industrial Relations

The Company's relations with its employees remained cordial throughout the year. The directors wish to place on record their deep appreciation for the services rendered by workers, staff members and executives of the Company.

The Company has taken adequate steps for the health and safety of its employees, as required under the Gujarat Factories Rules, 1963.

### Appreciation

Your Directors thank the Financial Institutions and Bankers for extending timely assistance in meeting the financial requirements of the Company. They would also like to place on record their gratitude for the co-operation and assistance given by State Bank of Saurashtra, ICICI Bank Limited, Yes Bank Ltd., HDFC Bank Ltd., Bank of Baroda and various departments of both State and Central Governments.

For and on behalf of the Board of Directors,

Ahmedabad  
16th May, 2007

**Vikram Somany**  
Chairman-cum-Managing Director

**Annual Report 2006-2007****Annexure to the Directors' Report**

Information to be disclosed under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

|   |   |
|---|---|
| (a) Options Granted   | 2,68,000  |
| (b) The Pricing Formula   | The First tranche of the stock options granted during the year under review were priced at Rs. 61/- per Share   |
| (c) Options Vested  | Nil   |
| (d) Options Exercised   | Nil   |
| (e) The total number of shares arising as a result of exercise of options   | 2,68,000 equity shares of Rs. 5/- each will arise on exercise of options  |
| (f) Options lapsed  | Nil   |
| (g) Variation of terms of options   | Nil   |
| (h) Money realized by exercise of options   | Nil   |
| (i) Total number of options in force  | 2,24,001  |
| (j) Employee wise details of options granted to :<br>i) Senior managerial personnel<br>ii) Any other employee who received a grant in any one year of options amounting to 5% or more of options granted during that year.<br>iii) Identified employees who were granted options, the issued during any one year, equal to or exceeding 1% of capital (excluding outstanding warrants and conversions) of the Company at the time of grant. | As per statement attached<br>Shri S. C. Kothari – 15,000 options.<br><br>Nil  |
| (k) Diluted Earning Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 "Earnings Per Share"  | Rs. 16.63   |
| (l) Where the Company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options. The impact of this difference on profits and on EPS of the company.  | The Company has calculated the employee compensation cost using the intrinsic value of stock options. Had the fair value method been used, in respect of stock options granted, the employee compensation cost would have been lower by Rs. 106.51 lacs, Profit after tax higher by Rs. 70.65 Lacs and the basic and diluted earning per share would have been higher by Rs. 1.30 and Rs.1.29 respectively. |
| (m) Weighted – average exercise prices and weighted - average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.   | Not Applicable  |
| (n) A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information:<br>i) risk free interest rate<br>ii) expected life<br>iii) expected Volatility<br>iv) expected dividend<br>v) The price of the underlying share in market at the time of option grant  | Black-Scholes Model<br><br>8%<br>36 Months<br>32%<br>18 %<br>Rs. 140.80   |

**Statement attached to Annexure to the Directors' Report**

| Name of senior Managerial Persons to whom Stock Options have been granted | Number of option granted |
|---|--------------------------|
| Shri S. C. Kothari  | 15,000                   |
| Shri M. K. Bhandari   | 10,815                   |
| Shri S. K. Ghatak   | 10,185                   |
| Shri Atul Sanghvi   | 10,500                   |
| Shri Parthiv Dave   | 8,325                    |
| Shri P. K. Shashidharan   | 8,550                    |
| Shri Rajesh B. Shah   | 6,675                    |
| Shri Narendra N. Patel  | 6,675                    |
| Shri V. K. Jain   | 7,500                    |