

Rethinking our strategy



Kajaria
Create Grow Innovate...

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Kajaria Ceramics Limited | Annual Report 2007-08

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements that we periodically make contain forward-looking statements that set out anticipated results based on the management’s plans and assumptions. We have tried wherever possible to identify such statements by using words such as ‘anticipate’, ‘estimate’, ‘expects’, ‘projects’, ‘intends’, ‘plans’, ‘believes’, and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realized, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and estimates taken as assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.



Contents

What we achieved in 2007-08	2	Corporate identity	4	Highlights 2007-08	6
Strategic review by the management	14	Management discussion and analysis	16		
5-year highlights	26	Value-added statement	27	De-risking at Kajaria	28
Directors’ report	30	Corporate Governance report	36	Financial section	45
Corporate information	63				

Change.

The one predictable reality in an otherwise unpredictable world.

Consumers need tiles of different colours, sizes and textures all the time. Competitors enhance capacities, widen ranges and expand retail locations continuously. The government proposes new tariffs, makes economic changes and liberalises trade periodically.

In such a challenging environment, only one approach works.

Re-strategising. Re-considering. Re-thinking.
Re-drawing.

Continuously.

With consistent results.

Rejuvenating. Restoring. Refreshing.



At Kajaria,

this is what we achieved in 2007-08.

Diversified our focus from the shopfloor to the marketplace.

Extended our vision from products to solutions.


Graduated our mindset from production to profitability.

This was the result in 2007-08.

- Profit after tax grew 95.72%.
- EBITDA margin improved 274 bps.
- Return on employed capital increased 360 bps.
- Kajaria retained its prized 'Superbrand' status for the third consecutive year.

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Kajaria Ceramics Limited

is the largest ceramic floor and wall tile manufacturer in the second most populous country in the world.

- Promoted by Mr. Ashok Kajaria and Kajaria Export Limited (Group Company) in technical collaboration with Todagres, S.A., Spain.
- Commenced operation in 1988 in Sikandrabad, (Uttar Pradesh) with an annual capacity of 1 MSM of floor tiles.
- Possesses an annual installed capacity of 21 MSM across two facilities at Sikandrabad, (Uttar Pradesh) and Gailpur (Rajasthan).
- Equipped with eight stock points, eight Kajaria World showrooms, 19 offices-cum-display centres and 7,000+ dealers and sub-dealers on a pan-India basis.
- Most prominent Indian ceramic tile brand with a favourable recall. The largest exporter of ceramic tiles in India.
- Unmatched product offering (wall, floor, vitrified, Spanish and Italian tiles).
- Brand-enhancing customers like Unitech, DLF, Parsvnath, Magarpatta, Sobha Developers, DSK, Mantri Group, Prestige Group, Ansals, Hiranandani, Raheja Developers, Omaxe and EMAAR-MGF, among others.

At Kajaria,
our re-think and re-strategy translated into improved
financials in 2007-08.



Operations

- Pioneered the manufacture of chamfered tiles in India.
- Reconfigured manufacturing capacities at Gailpur (wall tile facility) to produce large-format tiles.
- Introduced roto-printing machines to enhance designing capabilities.

Trading

- Marketed more than 3 MSM polished porcelain tiles imported from China.
- Marketed more than 0.6 MSM high-value imported tiles (Spanish and Italian).

Marketing

- Launched large-format rectified wall tiles (30x45 cm and 30x60 cm) with matching floor tiles and highlighters.
- Tied up with major Spanish and Italian brands like aparici, GRES PANIA CERAMICA and SALONI ceramica to offer the best global brands.
- Tie-up with leading Chinese manufacturers to import vitrified tiles and market under the *Kerrogres* brand.
- Strengthened the retail distribution network with a stronger presence in South and West India.

Innovation

- Pioneered the concept of highlighters in India.
- Introduced 85 new products and designs.



Rethinking the customer's aspirations

The rise in real estate prices in India has done something significant for the country's flooring solutions industry: enhanced the affordability of ceramic tiles.

Kajaria responded with a number of initiatives to translate stray consumer interest into a distinctive consumer pull.

- Emerged among the few Indian ceramic tile manufacturers to introduce large-format tiles (30x45 cms and 30x60 cms).
- Tied up with leading Spanish and Italian brands namely 'aparici', 'GRES PANIA CERAMICA' and 'SALONI ceramica' to cater to high-end Indian customers seeking lifestyle solutions.
- Imported vitrified tiles from leading Chinese manufacturers marketed under the 'Kerrogres' brand.
- Extended the product offering from Rs. 20 per sq. ft to Rs. 350 per sq. ft
- Introduced 'interactive and experiential' simulation techniques to enhance customer delight.

Result: superior price-value!



Rethinking the consumer's convenience

The dispersing presence of customers has done something fundamental for the wall-flooring solutions industry in India. It has enhanced the premium for buying varied bathroom and household accessories from a single location.

Kajaria widened its presence through the following initiatives:

- Widened its distribution network to become the largest in the Indian ceramic tile industry across 7,000+ dealers and sub-dealers in 2007-08.
- Created 19 offices-cum-display centres in India.
- Established a firm footing in South India with an increased distribution network.
- Created eight *Kerrogres* stock points across the country.
- Repositioned Kajaria World showrooms as lifestyle centres, displaying high-end imported tiles for the metro and high net worth cities.
- Added five new locations to the Kajaria World network in 2007-08.

Result: our revenues grew by 21% and the Kajaria brand retained its position as the numero uno ceramic tile brand in India.



Rethinking the consumer's value-proposition

A widening choice for consumers has made it imperative for brands to reinvent their corporate cost structure and enhance the consumer's value proposition.

Kajaria undertook the following initiatives to enhance its competitiveness:

- Reconfigured the Gailpur wall tile operations to enrich its product mix.
- Optimised resource consumption parameters.
- Pioneered the introduction of chamfered tiles (Powerline series) on the one hand and highlighters on the other.
- Invested in cutting-edge printing solutions that enhanced colouring capability (six-colour finish).

Result: operating cost as a proportion of total income declined. Even as capital employed grew by 4%, EBIDTA strengthened by more than 46%.



From left to right: Chetan Kajaria, Ashok Kajaria and Rishi Kajaria

“We expect that value-accretive initiatives will strengthen our revenues and profitability translating into enhanced value for our shareholders.”

Dear Shareholders,

Businesses around the globe are coping with energy inflation, demand slowdown, interest rate rebound, economic correction, currency volatility and commodity boom.

When you consider that all these challenges are being faced concurrently, then the inference emerges that we performed well in 2007-08. Our revenues increased by 21%, EBIDTA by 46% and PAT by 96%. More importantly, our EBIDTA margin strengthened by 274 bps and the return on employed capital by 360 bps.

Rebound

I am pleased that just as it got more challenging, we strengthened our business in the following ways:

Realigned our marketing presence: Kajaria Plus, the erstwhile distribution arm of our Company, ceased to market the Company's products. We did so for an important reason: when launched in the

late Nineties, Kajaria Plus was a plush and large-format distribution network that showcased the Company's products as the relatively small dealer establishments were unable to do justice to the Company's product range. However, with most dealers expanding their showrooms and some even extending to 10,000 sq. ft, over the years, the rationale for the independent existence of Kajaria Plus was progressively defeated. Besides, a number of our dealers perceived Kajaria Plus to be competing in nature, and it became imperative to correct this perception and enhance dealer confidence. Lastly, the independent management of two operating structures needed to be made more cost-effective to counter competition.

Minimised our budget tile exposure: When we ventured into the large-scale manufacture of small-format budget tiles a few years ago, it was with the objective of providing flooring material to the lowest market segment, from where one could graduate to value-added tiles without shifting brands. However, something unexpected happened thereafter: real estate prices increased significantly and the cost of the more expensive tiles as a proportion of establishment costs declined. As a result, a number of customers graduated their purchase and moved on to the larger-format tiles. Besides, with dealers graduating from small retail outlets to large showrooms, they needed value-added tiles that would enable them to recover their business investment faster over the low end (priced between Rs. 16-18 per sq. ft). The result was that we progressively replaced the proportion of low value-added material with large-format tiles enjoying higher profitability. We launched the 30x45 cms large-format tiles in July 2007 and 30x60 cms in March 2008 with matching floor tiles and highlighters. The result is we increased revenues from Rs. 1,030 million in the first quarter of 2007-08 to Rs. 1,660 million in the corresponding period of 2008-09, an increase of more than 60%.

Complete solution: We tied up with leading Chinese manufacturers for the import of vitrified tiles marketed under the *Kerrogres* brand in India. We imported high-end Spanish and Italian tiles to cater to the discerning and sophisticated customer segment.

We opened more Kajaria World showrooms for concept-selling and creating a market for imported high-end glazed porcelain tiles. In addition, we pioneered the concept of interactive experiential marketing that emphasised not just selling tiles but inducing customers to buy.

Industry optimism

At Kajaria, some interesting reasons fuel our sectoral optimism. One, as there are signs of a correction in the country's real estate sector, we are optimistic of enhanced tile offtake. Product demand will exist, irrespective of the market conditions; buyers are more likely to move from high-end flooring alternatives like granite and expensive marble to the large mid-segment without compromising on quality or aesthetics.

From a macro perspective, the real estate sector will continue to grow, albeit slightly slow, the retail space demand is likely to grow by 9-10% by 2010; a correction from a high average household size of 5.4 persons per household will continue as economic opportunities increase and populations disperse. Growing urbanisation and hospitality industry growth are expected to drive offtake.

Corporate opportunity

At Kajaria, we expect to ride these realities with the following strategies:

Large-format tiles: The 30x60 cms product was launched in March 2008 and we expect to see a larger proportion of revenues being derived from this segment.

Trading products: We expect to enhance our trading volumes by sourcing products preferred by consumers with the intention to enter the fastest selling segment through direct manufacture. For this, we shut three kilns in Sikandrabad in 2007-08 and expect to dedicate this space to the manufacture of polished porcelain tiles in future.

Cost reduction: We expect to shift from propane at our Gailpur unit in 2009-10 to natural gas, which will significantly reduce our power and fuel costs.

Outlook

These initiatives are representative of our rethink strategy, enabling us to strengthen revenues from Rs. 5,290 million in 2007-08 to a projected Rs. 6,950 million in 2008-09 with a corresponding increase in profitability, translating into enhanced value for our shareholders.

With warm regards,
Management team