

20th Annual Report

2002 - 2003

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 **MURUDESHWAR
CERAMICS LTD.**


NAVJEN
CERAMIC TILES


NAVJEN
DIAMONTILE


NAVJEN
GRANITES

BOARD OF DIRECTORS

Shri R.N. SHETTY

Chairman

Dr. K. SANDIP MALLI

Shri K JEEVAN SHETTY

Dr. B. SUDESH HEGDE

Shri K.P. SURENDRANATH

Shri KOTILINGANGOUD, IAS

Nominee KSIIDC

Shri K. R. RAMAMOORTHY

Nominee - UTI AMC Pvt. Ltd.,

Shri SATISH R SHETTY

Managing Director

Shri SUNIL R SHETTY

Joint Managing Director

Shri NAVEEN R SHETTY

Joint Managing Director

Shri K RANGASWAMY

Company Secretary

Shri P.A. RAVISH

General Manager (Finance)

Shri N.M. HEGDE

Registered Office

Murudeshwar Bhavan

Gokul Road

HUBLI - 580 030

Ph : (0836-2331615-18)

Fax : (0836-2330436)

Plant

Krishnapur Village

HUBLI - 580 024

Ph : (0836-2306741)

Fax : (0836-2306773)

Chalmatti Village

Taluk : Kalghatgi

Dist : Dharwad

Ph : (0836-2723659)

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Auditors

M/s. M.A. NARASIMHAN & CO.

Chartered Accountants

Bangalore

Legal Advisers

M/s. N. JAYARAMAN

Advocates

Bangalore

Bankers

CANARA BANK

STATE BANK OF INDIA

BANK OF BARODA

THE LAKSHMI VILAS BANK LTD.

NOTICE

To,
The Members,
Murudeshwar Ceramics Limited

NOTICE is hereby given that the Twentieth Annual General Meeting of the Company will be held at Shri. R.N. Shetty Kalyana Mantap, Opp. Indira Glass House, Hubli-580 030 on Saturday the 27th day of September, 2003 at 4 p.m.

ORDINARY BUSINESS :

1. To consider, approve and adopt the Audited Balance Sheet of the Company as at 31st day of March, 2003 and the Profit and Loss Account for the year ended on the said date together with the reports of Directors and Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Dr. K. Sandip Malli, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Shri. K.P. Surendranath, who retires by rotation and being eligible offers himself for reappointment.

5. **To consider and if thought fit to pass with or without modification/s the following resolution as a Special Resolution :**

RESOLVED that, pursuant to provisions of Section 224-A of The Companies Act, 1956, M/s. M.A. Narasimhan & Company, Chartered Accountants, Bangalore be and are hereby reappointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company for the year ending 31-3-2004 and the Board of Directors be and is hereby authorised to fix the remuneration and out of pocket expenses to the said Auditors.

SPECIAL BUSINESS :

6. **To consider and if thought fit to pass with or without modification/s the following resolution as an Ordinary Resolution :**

RESOLVED that Shri P. Kotilingangoud whose term of office as an Additional Director is valid upto 27-9-2003 being the date of Annual General Meeting and in respect of whom the Company has received a Notice under Secn. 257 of The Companies Act, 1956 from a member proposing the candidature of Shri P. Kotilingangoud to the office of Director, be and is hereby appointed as a Director on the Board of Directors of the Company with immediate effect.

7. **To consider and if thought fit to pass with or without modification/s the following resolution as a Special Resolution :**

RESOLVED that the Articles of Association of the Company be and is hereby amended in the following manner :

After the existing Article 5(c) of the Articles of Association of the Company, the following Articles be inserted :

NOTICE (Contd.)

"5 (d) (i). The Board of Directors may at its discretion but subject to the applicable provisions of law, increase the subscribed / paid up share capital of the Company from time to time by issue of Redeemable Cumulative Preference Shares either through Public Issue or through Private placement or partly by Public Issue and Partly by Private placement and that such Redeemable Cumulative Preference Shares need not be offered to existing members, ;

5 (d) (ii). The Board of Directors shall be competent to redeem the said Redeemable Cumulative Preference Shares, irrespective of whether such Redeemable Cumulative Preference Shares are due for redemption or not, in one or more of the following manners:

- (a) out of profits of the Company ;
- (b) out of fresh issue of shares made for the purpose of such redemption ;
- (c) by purchasing such Redeemable Cumulative Preference Shares in the open market and redeem the same ;

5 (d) (iii). The said Redeemable Cumulative Preference Shares shall confer on holders thereof right of preferential payment of capital and arrears of cumulative dividend thereon, whether earned, declared or not, in case of winding up of the Company, upto the date of commencement of winding up in preference to the Equity Shares but such right of preferential payment shall not confer any right to participate in the profits of the Company or surplus assets of the Company beyond the said payment of capital and arrears of dividend ;

5 (d) (iv). Board of Directors is authorised to determine, at the time of each issue of such Redeemable Cumulative Preference Shares, the terms and conditions of such issue, inter-alia, the fixed rate of dividend, date of redemption, manner of redemption in one or more installments, date of commencement of entitlement to dividend to be paid as and when declared and other incidental matters relating thereto."

8. To consider and if thought fit to pass with or without modification/s the following resolutions as Ordinary Resolutions :

RESOLVED that pursuant to provisions of Section 94(1)(a) and other applicable provisions of The Companies Act, 1956 the present Authorised Share Capital of the Company of Rs. 24,00,00,000 (Rupees Twenty four crores) divided into 2,40,00,000 equity shares of Rs. 10 each be and is hereby increased to Rs. 40,00,00,000/- (Rupees forty crores) by creation of 16,00,000 (Sixteen lakh only) Redeemable Cumulative Preference Shares of Rs.100/- (Rupees one hundred only) each and that amendments to Clause V of the Memorandum of Association be made accordingly.

RESOLVED FURTHER THAT consequent to the aforesaid modifications in the Authorised Share Capital of the Company, Clause V of the Memorandum of Association of the Company be altered and the said revised Clause V shall henceforth be read as hereunder :

"V. The Authorised Share Capital of the Company is Rs. 40,00,00,000 (Rupees Forty crores only) divided into 2,40,00,000 (Two crore Forty lakh) Equity shares of Rs.10/- (Rupees Ten only) each aggregating to Rs. 24,00,00,000 (Rupees Twenty Four Crores only) and 16,00,000 (Sixteen lakhs) Redeemable Cumulative Preference Shares of Rs. 100/- (Rupees One hundred only) each aggregating to Rs. 16,00,00,000 (Rupees Sixteen crores only)."

NOTICE (Contd.)
9. To consider and if thought fit to pass with or without modification/s the following resolutions as Special Resolutions :

RESOLVED that pursuant to provisions of Sections 80, 81(1A) and other applicable provisions of The Companies Act, 1956 and subject to applicable guidelines in connection with issue of further shares, if any, Board of Directors of the Company be and is hereby authorised to issue Redeemable Cumulative Preference Shares of Rs. 100/- each for cash at par for an aggregate amount not exceeding Rs. 16,00,00,000/- (Rupees Sixteen crores only) on Private Placement basis to any person/s, Bank/s, Financial Institution/s, Promoter/s, Lender/s, Body/ies corporate etc., at it's independent discretion and that the said Redeemable Cumulative Preference Shares need not be offered to the existing shareholders.

RESOLVED FURTHER that the Board of Directors is authorised to decide the terms and conditions, inter-alia, rate of dividend, period and manner of redemption and other incidental matters relating therto in respect of the aforesaid Redeemable Cumulative Preference Shares;

RESOLVED FURTHER THAT the Board of Directors is authorised to do all such acts, deeds and things as are necessary to ensure that all requirements of law are complied with in connection with the aforesaid issue of Preference Shares and also to organise for listing of the aforesaid Redeemable Cumulative Preference Shares on any Stock Exchange/s, if so required, at its independent discretion ;

By order of the Board
for **MURUDESHWAR CERAMICS LIMITED**
P A RAVISH
Company Secretary

Place : Hubli

Date : 19-07-2003

NOTE :

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend the meeting and vote on behalf of such member at such meeting and such a proxy need not be a member of the Company.
2. Proxy forms in the prescribed form signed by, or representations made by, any person for and on behalf of the representing Institution/s, Bank/s, Body/ies Corporate etc., holding shares in the Company, will be valid only if the document specifically authorising such person to sign the Proxy form and/or to represent such Institutions/ Banks/Bodies Corporate etc., at the Annual General Meeting of the Company, duly authenticated by the proper authority, is lodged with the Company in advance.
3. Documents pertaining to items referred to in the Notice are available for inspection by any member/s at the Registered Office of the Company on any working day between 3 p.m. to 6 p.m. upto the date of Annual General Meeting.
4. Brief resume of directors proposed to be appointed / reappointed is furnished in the Corporate Governance Report forming part of this Annual Report.
5. Register of members/Transfer books of the Company will be closed from 17.9.2003 to 27.9.2003 (both days inclusive).
6. Members seeking any information / clarification concerning the Accounts for the year 2002-03 are requested to send their specific request to the Registered Office of the Company atleast seven days before the Annual General Meeting.
7. Members are requested to bring their copies of Annual Reports to the meeting and also to handover their attendance slips signed by the members/valid proxies at the entrance of the meeting hall.
8. Please refer "Share holders' information" in annexure to Corporate Governance Report forming part of this Annual Report.



NOTICE (Contd.)

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item 6 : Appointment of Shri P. Kotilingangoud as a Director :

Shri P. Kotilingangoud, appointed as Nominee of KSIIDC Ltd., holds office as an additional director upto the date of the Annual General Meeting pursuant to provisions of Secn.260 of The Companies Act, 1956. Company has received a Notice from a Member complying with the provisions of Secn. 257 of The Companies Act, 1956, proposing the candidature of Shri P. Kotilingangoud to the office of Director. Brief Resume of Shri P. Kotilingangoud is furnished forming part of Corporate Governance Report.

None of the directors except Mr. P. Kotilingangoud may be deemed as concerned or interested in the Resolution relating to this item.

Item 7 : Alteration to the Articles of Association for issue of Preference Shares :

The Company has undertaken the work of new project at Karaikal for production of Vitrified tiles for the present. The project cost is estimated to be around Rs. 40.36 Crores. While the term lending institutions/banks are willing to finance about Rs. 26 Crores for the project, the Promoters have been required to make up the shortfall by way of share capital. The Promoters have expressed their willingness to invest by way of Redeemable Cumulative Preference Shares. Since the existing provisions in the Articles of Association do not provide for issue of preference shares, the proposed alteration is placed before the members for approval.

Directors Shri R. N. Shetty, Shri Satish R. Shetty, Shri Sunil R. Shetty and Shri Naveen R. Shetty may be deemed as concerned or interested in the Resolution relating to this item of business.

Item 8 : Alteration of Share Capital :

The project cost of Karaikal unit is proposed to be financed partly by term loans from Banks and partly by way of preference share capital from Promoters. Some of the Promoters are willing to invest in the new project by way of Preference Share Capital. Since the said Preference Share Capital, if issued, will be beyond the scope of existing Authorised Share Capital contained in Clause V of the Memorandum of Association, Board of Directors proposed to amend the existing Clause V of the Memorandum of Association by increasing the existing Authorised Share Capital of Rs. 24,00,00,000/- to Rs. 40,00,00,000/- (Rupees forty crores only) by creating Preference Share Capital worth Rs. 16,00,00,000 (Rs. Sixteen Crores) divided into 16,00,000 (Sixteen lakhs) Redeemable Cumulative Preference Shares of Rs. 100/- each. Such increase of share capital requires approval of members by Ordinary Resolution pursuant to Article - 1 of Articles of Association of the Company, read with regulation 44 of Table-A of Schedule - I to The Companies Act, 1956. Consequential amendment to Clause V of the Memorandum of Association also requires approval of members by means of Ordinary Resolution pursuant to provisions of Secn. 94(2) of the said Act.

Directors Shri R. N. Shetty, Shri Satish R Shetty, Shri Sunil R Shetty and Shri Naveen R. Shetty may be deemed as concerned or interested in the Resolution relating to this item of business.

Item 9 : Issue of Preference Shares on Private placement basis :

Members kind attention is invited to explanatory statement in respect of Item.7 above wherein the reasons for issue of Preference Share Capital to Promoters is furnished. Such issue of Redeemable Cumulative Preference Shares on private placement basis to some of the promoters attracts provisions of Secn. 80 and 81(A) of The Companies Act, 1956 requiring approval of members by means of Special Resolution.

Directors Shri R. N. Shetty, Shri Satish R. Shetty, Shri Sunil R. Shetty and Shri Naveen R. Shetty may be deemed as concerned or interested in the Resolution relating to this item of business.

Place : HUBLI

Date : 19-07-2003

By order of the Board
for MURUDESHWAR CERAMICS LIMITED
P A RAVISH
Company Secretary

DIRECTORS' REPORT

To
The Members
Murudeshwar Ceramics Limited

Your Directors are happy to present the 20th Annual Report of the Company for the year ended on 31.03.2003. The financial results are as follows:

FINANCIAL RESULTS

	<u>Rs. in lakhs</u>
Sales and other Income (incl. Stock Adjustment)	13057.70
Expenditure	9858.98
Profit before Interest and Depreciation	3198.72
Less : Interest	1378.68
Depreciation	1309.41
Profit before tax	510.63
Provision for taxation	40.20
Provision for Deferred tax	96.87
Profit after tax	373.56
Add : Profit of previous year brought forward	339.45
Profit available for appropriation	713.01
Proposed Dividend	150.01
Provision for Dividend tax	19.22
Transfer to General Reserve	200.00
Balance carried to Balance Sheet	343.78

For the year under report the Company has made a profit before tax of Rs. 510.63 lakhs against an operational income of Rs. 12802.08 lakhs. Compared to previous year while there is increase of 39.24% in operational income, the profit before tax has increased by 63.62%. This achievement is inspite of increase in interest burden by over 100% and depreciation by about 22%. Steps taken by the Company in (a) economising the operational expenditure at all possible levels (b) captive production of certain inputs and (c) better realisation on Vitrified tiles in the later part of the year have also contributed for better profits.

DIVIDEND

Your Directors recommend dividend at Ten percent on the paid up equity share capital of the Company for the year 2002-03, after taking into account the liquidity situation in the post-expansion situation. The said dividend, subject to approval of members at the ensuing Annual General Meeting, will be paid to members whose names appear on the register of members as on the date of the Annual General Meeting.



DIRECTORS' REPORT (Contd.)

PRODUCTION

During the year under report, the Company has produced 21.02 lakh sq.mtrs. of Vitrified tiles against 13.22 lakh sq.mtrs., for the previous year recording about 59% increase. At the same time considering the low margins and with a view to capitalise on growing trend for Vitrified tiles, the Company has stopped production of Ceramic tiles. On cost considerations the Company is, for the time being, concentrating more on Vitrified tiles of sizes 40 x 40 cm. and above.

SALES

The market for Vitrified tiles continues to be encouraging. With the result the sale of Vitrified tiles, compared to previous year, has increased by about 71.23% by volume at 21.07 lakh sq. meters and by about 58.22% by value at Rs. 11523.67 lakhs. The difference between increase in volume and value is on account of low margins due to competition against cheaper tiles imported from China and UAE in most part of the year. Your directors thank the Government of India for imposition of Anti-dumping duty on Vitrified tiles imported from China and UAE which helped in balancing the market realisation to some extent for domestic Vitrified tiles. The fall in sale of Ceramic tiles by about 42% is mainly due to discontinuing production of Ceramic tiles from Sept. 2002.

EXPORTS

The Company has made a small export realisation of about Rs. 92.74 lakhs from export of tiles. Considering the impact of cheaper tiles from China and UAE dominating in international markets your Company cannot hope for better export realisation on tiles. At the same time Granite division has made an export realisation of Rs. 190.37 lakhs against Rs. 140.44 lakhs during the previous year. The said realisation is against 41.44% less of sales by volume compared to previous year. The better margin in granite sales is an impact of the granite division becoming a 100% EOU.

BUSINESS PROMOTION

Efforts are being continued to expand the market net-work. Serious efforts are being made to expand the retail net-work of the Company, alongside the dealers net-work. In order to penetrate deeper into semi-urban centers, show - rooms are being opened in B and C class cities. As on the date of this report the Company has 50 show-rooms and 35 depots operating in different parts of the Country. This enables the Company for better presentation of our product and better customer proximity. Manpower training and motivation is being given due prominence. In order to ensure better customer satisfaction for Vitrified tiles which is a value added product, Company is taking steps to educate the customers about the laying and maintenance of Vitrified tiles besides maintaining its own skilled labour force for tiles laying. Customers can make use of this facility for mutual advantage.

NEW PROJECT AT KARAIKAL

After successful expansion scheme for Vitrified tiles of larger size in Hubli unit, the Company has taken up project expansion by setting up new plant at Karaikal in Pondicherry in about 33 acres of land. The new unit has been projected to manufacture 50,000 tonnes or about 9000 sq. meters of Vitrified tiles per day. Initially the new unit will be started with a capacity to produce 4500 sq. meters of Vitrified tiles per day. A new project of similar capacity would cost about Rs. 70 crores.

DIRECTORS' REPORT (Contd.)

But by utilising the plant and machinery becoming redundant on account of stoppage of production of Ceramic tiles and also Vitrified tiles of smaller size at Hubli unit and reinstalling the same at Karaikal unit with necessary technical modifications, your directors hope to prune the said project cost to around Rs. 40.36 crores. The major advantage of setting up manufacturing unit at Karaikal will be reduction in cost of production on account of savings in cost of power and fuel and also cost of transportation of raw material since Karaikal is nearer to raw material source than Hubli. Additionally the Company will be able to pay better attention to markets in Chennai, Kerala and Andhra Pradesh also.

The said project is proposed to be financed by term-loans of about Rs. 26 Crores from Banks. Promoters have agreed to make up the shortfall by means of subscription to Preference Share Capital.

INCREASE OF SHARE CAPITAL

As already stated above, the Karaikal unit of the Company is estimated to cost about Rs. 40.36 Crores. The term lending Banks are willing to finance upto Rs. 26 Crores and required that the shortfall be brought in by Promoters by way of Share Capital. The Promoters have expressed their willingness to make up the said shortfall in the form of Preference Share Capital. The existing Authorised Share Capital of the Company is Rs. 24 Crores divided into 2,40,00,000 equity shares of Rs. 10/- each. In order to enable the Company to issue Preference shares as stated above, Board of Directors has proposed to alter Clause V of the Memorandum of Association by increasing the existing Authorised Capital to Rs. 40 Crores by creating new Preference Share Capital of Rs. 16 Crores.

Consequential changes in the Memorandum and Articles of Association and seeking of approval of members under applicable provisions of law have been dealt with in the notice of the Annual General Meeting forming part of this Annual Report.

PROSPECTS

The steps taken by the Company to stop production of Ceramic tiles and Smaller size Vitrified tiles at Hubli unit are bound to contribute to better margins. The new unit at Karaikal is expected to commence commercial production by August end. Thereafter, the new unit produces the same tiles at a comparatively reduced cost. This is expected to help the Company to sustain competitive market conditions and improve profitability, if the current trends continue to prevail.

RESEARCH & DEVELOPMENT

The R & D wing of the Company is constantly making efforts to improve the product range, body matrix etc., as a result of which the Company has been able to produce newer designs. Efforts are also continuing to reduce power consumption and cost reduction at various stages of production.

DIRECTORS

Shri Y. Arjun Rao died after brief illness on 16-12-2002. He was also member on the Audit Committee, Remuneration Committee and Shareholders Grievance Committee. He had been a part of this group for about one and a half decade. Board wishes to place on record with appreciation the valuable contributions made by Late Shri Y. Arjun Rao to this Company.

Dr. K. Sandip Malli and Shri K.P. Surendranath, will retire by rotation and being eligible they offer themselves for reappointment.



DIRECTORS' REPORT (Contd.)

KSIIIDC Limited has appointed Shri P. Kotilingangoud, IAS as its nominee on the Board of Directors in the place of Shri S. Swatantra Rao effective from 29-10-2002. Board wishes to place on record with appreciation the services of Shri S. Swatantra Rao as nominee of KSIIIDC Ltd., on the Board of Directors of this Company.

Unit Trust of India (Now UTI Asset Management Company Pvt. Ltd.,) appointed Shri K.R. Ramamoorthy as its Nominee on the Board of Directors of this Company effective from 13-12-2002.

Shri Naveen R. Shetty has been redesignated as Joint Managing Director effective from 01-09-2003. The terms and conditions of appointment of the said whole-time director as approved by members at the Annual General Meeting held on 28-09-2002 remains unchanged.

AUDITORS

The present Auditors M/s. M.A. Narasimhan & Co., Chartered Accountants, Bangalore, will be holding office as Auditors of the Company until conclusion of the ensuing Annual General Meeting and are eligible for reappointment. Your directors recommend for reappointment of M/s. M.A. Narasimhan & Co., as Auditors for the year 2003-2004.

CORPORATE GOVERNANCE PROVISIONS

Your Company has complied with the mandatory requirements of the said Corporate Governance Provisions. Corporate Governance Report is furnished separately forming part of this Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management Discussion and Analysis Report as per requirements under Cl.VI(A) of the Corporate Governance Provisions prescribed under Clause 49 of the Listing Agreement is furnished in the enclosure forming part of this Report.

AUDIT COMMITTEE

The present composition of the Audit Committee has three Non-executive directors namely Shri R N Shetty, Shri K.P. Surendranath and Shri. K. Rangaswamy with Shri. K.P. Surendranath as Chairman. Shri K.P. Surendranath and Shri K. Rangaswamy are independent directors. Shri P.A. Ravish, Company Secretary is the Secretary.

DEPOSITS

As at the end of the year under report the Company had 3646 deposit accounts for Rs. 617.47 lakhs. The Company has not defaulted in either payment of interest on deposits or repayment of deposits on respective due dates.

PARTICULARS OF DISCLOSURE UNDER SECTION 217(1) (e)

Particulars pursuant to Section 217(1)(e) of The Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988, are furnished in the statement annexed forming part of this report.