

BOARD OF DIRECTORS

Dr. R N SHETTY

Chairman

Shri K. SUNDAR NAIK

Dr. S.S. HIREMATH

Shri ANNAPPAYYA K

Shri SANKAPPA K SHETTY

Shri SUNIL R SHETTY

Shri SATISH R SHETTY

Managing Director & C.E.O.

Shri NAVEEN R SHETTY

Joint Managing Director

Company Secretary & Compliance Officer

Shri LAKSHMISHA BABU S

Vice President (Finance) & C.F.O.

Shri N M HEGDE

Auditors

M/s. M A NARASIMHAN & CO.

Chartered Accountants

Bangalore

Bankers

CANARA BANK

STATE BANK OF INDIA

BANK OF BARODA

THE LAKSHMI VILAS BANK LTD

AXIS BANK LTD

ORIENTAL BANK OF COMMERCE

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Registered Office

Murudeshwar Bhavan

Gokul Road

HUBLI - 580 030

Ph : 0836-2331615-18

Fax : 0836-2330436/4252583

Plant

Krishnapur Village

HUBLI - 580 024

Ph : 0836-2206741

Fax : 0836-2206773

Kallabalu Village & Post

Via Bannerghatta

Jigani Industrial Area II Phase

Bangalore - 560 083

Ph : 080-27826946

Fax : 080-27826956

143, Ilayancudy Road

Devamapuram Village

Thirunallur Commune

KARAIKAL - 609 607

Pondicherry (U.T.)

Ph : 04368-236899 / 236599

Fax : 04368-236805

NOTICE

To ,

The Members

Murudeshwar Ceramics Limited

NOTICE is hereby given that the Twenty Ninth Annual General Meeting of the Members of the Company will be held at Shri R N Shetty Kalyana Mantap, Opp. Indira Glass House, Hubli 580 029 on Saturday 22nd day of September, 2012 at 4.00 p.m. to transact the following business:

ORDINARY BUSINESS

1. To consider, approve and adopt the Audited Balance Sheet of the Company as at 31st day of March, 2012 and the Profit and Loss Account for the year ended on the said date together with Directors' Report and Auditors' Report thereon.
2. To appoint a Director in place of Shri Sunil R Shetty, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Shri K Sundar Naik, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

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

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

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

RESOLVED THAT :

- (1) pursuant to provisions of Section 198, 269, 309, 310, 311 and other applicable provisions of The Companies Act, 1956 read with Schedule XIII thereunder, Shri.Satish R Shetty, whose term of office as Managing Director of the Company is valid upto June 27,2012, be and is hereby reappointed as Managing Director of the Company for a further period of 5 years effective from June 27, 2012 on the following salary and perquisites.
 - (i) Salary : Rs.2,00,000/- (Rupees Two lacs only) per month.
 - (ii) Provident Fund : Employers contribution not exceeding 12% of the salary.
 - (iii) Superannuation Fund : As per Company's rules not exceeding the non-taxable maximum limits.
 - (iv) Gratuity : As applicable to senior executives of the Company subject to limits not exceeding non-taxable maximum limits.
 - (v) leave encashment : As per leave rules of the Company.
 - (vi) Company's car with driver for official purposes of the Company.
 - (vii) Telephone : Free telephone facility at residence for official purposes of the Company.
- (2) the salary and perquisites payable to Shri Satish R Shetty pursuant to this resolution shall be the minimum remuneration payable irrespective of whether there is adequate profit in any year or not.
- (3) Shri.Satish R Shetty as Managing Director shall not be liable to retire by rotation.
- (4) the Board of Directors is hereby authorized to modify, alter or vary the abovesaid terms and conditions and/or prescribe such further terms and conditions as may be deemed fit by the Board of Directors, from time to time.



NOTICE (Contd.)

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

RESOLVED THAT :

- (1) pursuant to provisions of Section 198, 269, 309, 310, 311 and other applicable provisions of The Companies Act, 1956 read with Schedule XIII thereunder, Shri. Naveen R Shetty, whose term of office as Joint Managing Director of the Company is valid upto June 27, 2012, be and is hereby reappointed as Joint Managing Director of the Company for a further period of 5 years effective from June 27, 2012 on the existing salary and perquisites without any increase as follows:
 - (i) Salary : Rs.1,00,000/- (Rupees One lac only) per month.
 - (ii) Housing : House Rent Allowance as may be decided by the Board of Directors subject to maximum of 20% of the salary.
 - (iii) Provident Fund : Employers contribution not exceeding 12% of the salary.
 - (iv) Superannuation Fund : As per Company's rules not exceeding the non-taxable maximum limits.
 - (v) Gratuity : As applicable to senior executives of the Company subject to limits not exceeding non-taxable maximum limits.
 - (vi) Leave & leave encashment : As per leave rules of the Company.
 - (vii) Leave Travel concession : For self, wife and dependent children once in a year as per rules applicable to senior executives of the Company.
 - (viii) Medical Reimbursement : Actual expenses incurred for self, wife and dependent children subject to maximum of one month's salary per year.
 - (ix) Club Membership : Fees for membership of any two clubs excluding life membership.
 - (x) Company's car with driver for official purposes of the Company.
 - (xi) Telephone : Free telephone facility at residence for official purposes of the Company.
- (2) the salary and perquisites payable to Shri Naveen R Shetty pursuant to this resolution shall be the minimum remuneration payable irrespective of whether there is adequate profit in any year or not.
- (3) the term of office of Shri. Naveen R Shetty shall be liable to be determined by retirement by rotation.
- (4) the Board of Directors is hereby authorized to modify, alter or vary the abovesaid terms and conditions and/or prescribe such further terms and conditions as may be deemed fit by the Board of Directors, from time to time.

Place : Bangalore

Date : July 30, 2012

NOTE:

- (1) Any 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) Any document / Proxy Form in connection with the Annual General Meeting of the Company signed by any person for and on behalf of any Institution, Bank, Body Corporate etc., will be valid, only if such document/proxy form is supported by a duly authenticated copy of the Resolution of the Board of Directors authorising such person to sign such document and/or to represent such Institution, Bank, Body Corporate etc., as the case may be.
- (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 from 2 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 September 15, 2012 to September 22, 2012 (both days inclusive).
- (6) Members seeking any information/clarification concerning the Accounts for the year 2011-12 are requested to send their specific request addressed to the Company Secretary at 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 also refer "General Information to Shareholders" in the annexure to Corporate Governance Report forming part of this Annual Report.

Place : Bangalore

Date : July 30, 2012

By Order of the Board
For Murudeshwar Ceramics Limited
LAKSHMISHA BABU S
Company Secretary

By Order of the Board
For Murudeshwar Ceramics Limited
LAKSHMISHA BABU S
Company Secretary

NOTICE (Contd.)**EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.****Item 6 : Appointment of Shri Sankappa Keremane Shetty as Director.**

Shri Sankappa Karemane Shetty was appointed as an Additional Director on the Board of Directors with effect from May 14, 2012. In terms of section. 260 of The Companies Act, 1956, the appointment of such director shall be valid upto the date of the Annual General Meeting. Company has received a Notice from Shri Sankappa Karemane Shetty pursuant to provisions of Secn. 257 of The Companies Act, 1956 offering himself as a candidate to the office of Director. Brief resume of Shri Sankappa Keremane Shetty is furnished as part of the Corporate Governance Report.

None of the directors except Shri Sankappa Keremane Shetty himself may be deemed as concerned or interested in the aforesaid appointment.

Item 7 : Reappointment of Shri Satish R Shetty as Managing Director.

Shri Satish R Shetty was reappointed as Managing Director of the Company for a period of five years effective from 27/06/2007. Accordingly his term as Managing Director was valid upto June 27, 2012. The Board of Directors has at its meeting held on May 14, 2012 considered various aspects including the improvements made, around growth in the activities and financial position of the Company, from the time of his previous reappointment in the year 2007. Thereafter, subject to approval of members at the Annual General Meeting, the Board has reappointed Shri Satish R Shetty as Managing Director for a further period of five years w.e.f. 27.06.2012 on the salary and perquisites detailed in the resolution relating to this item of business. The salary and perquisites proposed for the said appointment are within the limits prescribed of Part II of Schedule XIII to the Companies Act, 1956.

Shriyuths. Dr.R N Shetty, Satish R Shetty, Sunil R Shetty and Naveen R Shetty, being relatives may be considered as concerned or interested in the resolution relating to this item of business.

The Resolution is recommended to the shareholders for passing as a Ordinary Resolution.

Item 8 : Reappointment of Shri Naveen R Shetty as Joint Managing Director.

Shri Naveen R Shetty was reappointed as Joint Managing Director of the Company for a period of five years effective from 27/06/2007. Accordingly his term as Joint Managing Director was valid upto June 27, 2012. The Board of Directors has at its meeting held on May 14, 2012 considered the valuable contributions made by Shri Naveen R Shetty in overall improvement of performance of the Company and particularly in stage by stage expansion projects implemented by the Company from the time of his reappointment in the year 2007. Thereafter, subject to approval of members at the Annual General Meeting, the Board has reappointed Shri Naveen R Shetty as Joint Managing Director for a further period of five years w.e.f. 27.06.2012 on salary and perquisites detailed in the resolution relating to this item of business. The salary and perquisites proposed for the said appointment are within the limits of Part II of Schedule XIII to the Companies Act, 1956.

Necessary resolution is placed before the members for approval.

Shriyuths. Dr.R N Shetty, Satish R Shetty, Sunil R Shetty and Naveen R Shetty, being relatives may be considered as concerned or interested in the resolution relating to this item of business.

Place : Bangalore
Date : July 30, 2012

By Order of the Board
For Murudeshwar Ceramics Limited
LAKSHMISHA BABU S
Company Secretary



DIRECTORS' REPORT

To : The Members,
Murudeshwar Ceramics Limited

Your directors present the 29th Annual Report of the Company for the year ended on March 31, 2012 :

FINANCIAL RESULTS

| Particulars | (₹ In Lacs) | |
|---|-------------|------------------|
| Sales income | 17,907.06 | 17,751.48 |
| Other Income | 96.54 | |
| Increase/(Decrease) in stock | (252.12) | |
| Total income | | |
| Operational Expenditure | 13,439.60 | 17,486.59 |
| Finance Cost | 2,355.71 | |
| Depreciation | 1,691.28 | |
| Total Expenditure | | |
| Profit/(Loss) for the year | | 264.89 |
| Less : Provision for tax | 53.95 | |
| Less : MAT Credit | (55.78) | |
| Less : Net Current Tax Expenses | (1.83) | |
| Add : Deferred Tax Assets | 110.33 | 112.16 |
| Sub total | | |
| Profit/(Loss) after tax | | 377.05 |
| Profit available for appropriation | | 377.05 |

OPERATIONAL PERFORMANCE

The unhealthy competition from various unorganized sector are increasing day by day. Even though construction industry has recovered, the cost of input and various taxes has gone up during the year which has lead to reduction in profits margins.

During the year under report the Company has produced 34,74,059 Sq.mtrs. of Vitrified tiles and 6,25,150 Sq.mtrs. of Ceramic tiles. Compared to previous year even though Ceramic tile production has reduced by about 58.32%, Vitrified tile production has increased by 2.93%. The sales income from Vitrified tiles has increased by 2.40% at ₹13,031.50 lacs compared to ₹12,726.12 lacs for the previous year. Sales income from Ceramic tile segment has decreased by 30.11% at ₹2,840.15 lacs compared to ₹4,063.55 lacs for the previous year. The granite division did not produce any slabs during the year. The Company is finding it difficult to get quality granite blocks at reasonable prices.

In spite of the above hurdles the Company has managed to earn a profit of ₹377.05 lacs during the year through various cost cutting measures and by adopting good marketing strategies. Since the Company has just started recovering from huge loss suffered during the year 2009-10 and the Company is very keen to repay its debts, your Directors have decided to skip the dividend for the year 2012-13. Your directors are working towards achieving higher results during the forth coming years.

PROSPECTS

New technology such as nano and double / multi charge tiles are catching up as the customer always look for innovative tiles where pricing is not the decision making factor. These being value added item do fetch higher realization. New exterior tiles like Durapave and the new anti stain coat in 400 x 400 and 600 x 600 mm released to the market are being well accepted by the consumers. The Somerset Rustic & Wood Series Ceramic Tiles in bigger formats is also been well accepted in the market. The Cegress Series (Application of Glaze on Vitrified Tiles with different colour and design), Aqua Magic Water jet decorative tiles in single and four tiles and various designs, Steps and Risers, Borders has received good response from our dealers as well as customers.

The Karaikal unit is functioned with improved gas allocation. Gas allocation for Hubli Unit is expected to arrive at December 2012. Since the Construction Industries have slightly picked up their activities during the year the Company is expecting a better growth in the mere future.

DIRECTORS' REPORT (Contd.)

MARKETING STRATEGY

Periodical review of the performance of sales staff and SWOT analysis of the sales staff and dealers are being carried out and attempts are made to convert the weakness to strength and improve our brand image. Target are set at the beginning of each year of operation based on the past performance and future market growth and potential. All Sales staff particularly of southern state have been instructed to identify new potential market and develop the same so that our distribution network will be widened. Sales of high margin items are to be identified and concentrated. Apart from big builders for bulk orders, we are now concentrating on small builders and dealers also, as Vitrified tile is no more considered as a luxury item and is commonly used by the middle class people. The sales team has developed personal contact with Architects and Builders who influence the decision making. The rapport built shows the attitude and reaction of the Architect towards our product.

Company's representatives are on door to door leg work to enhance sales. On the product range the Company has introduced new varieties of Vitrified tiles and the Company has also introduced innovative shades and colors in Ceramic tile segment.

Your Directors are hopeful of achieving better results in the year 2012-13.

RESEARCH AND DEVELOPMENT

The R & D wing of the Company is successful in introducing new Fluxing material [Soap Stone] to reduce firing temperature and firing cycle. The R & D wing is continuously concentrating on reduction of power and fuel in the manufacturing process. The R & D wing is also concentrating on inventing new products, upgrade variety, body matrix, shades and designs to suit market sentiments.

INCREASE IN THE SHARE CAPITAL

During the year the Company had allotted 18,40,000 Equity Shares and 39,70,000 Convertible Share Warrants to Murudeshwar Power Corporation Limited on Preferential allotment basis, hence the Paid up Equity share capital of the Company increased from ₹ 3,502.88 lacs to ₹ 3,686.88 lacs.

DIRECTORS

Dr. Sadanand V Nadig ceased to be a Director on the Board effective from 20.01.2012 due to death. Board expressed their deep sorrow for the sad demise of Dr. Sadanand V Nadig, who left for his heavenly abode. Board also appreciated his contribution to the Company.

The Board has appointed Shri Sankappa Keremane Shetty as Additional Director with effect from May 14, 2012 Pursuant to Section 260 of the Companies Act, 1956 the term of such additional director is valid upto the date of ensuing Annual General Meeting. The Company has received a notice under Section 257 of the Companies Act, 1956 from Shri Sankappa Keremane Shetty offering himself as a candidate to the office of Director. Necessary resolution is placed before the members for approval. Brief particulars of the above director have been furnished in the Corporate Governance Report which forms part of this Annual Report.

Shri Sunil R Shetty and Shri K Sundar Naik retire by rotation and being eligible offer themselves for reappointment. Brief personal details of above said directors are furnished in the Corporate Governance Report which forms part of this Annual Report.

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. The said Auditors being eligible have consented to be reappointed. Necessary resolution will be placed before members for approval.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Management Discussion and Analysis Report as per requirements of Clause 49 of the Listing Agreement is furnished in the annexure forming part of this Report. In the said report management has also discussed opportunities, threats and risk factors.



DIRECTORS' REPORT (Contd.)

COST COMPLIANCE REPORT

As per the requirement of The Companies (Cost Accounting Records) Rules, 2011 your Company has obtained Cost Compliance Report from Mr. Suresh R Gunjalli, Practicing Cost Accountant (Membership No.22121).

CORPORATE GOVERNANCE PROVISIONS

Your Company has complied with mandatory requirements of Corporate Governance provisions prescribed under Clause 49 of the Listing Agreement with Stock Exchanges. Corporate Governance Report is furnished forming part of this Annual Report.

AUDIT COMMITTEE

During the year under report the Audit Committee consist of four non-executive directors namely Dr. R N Shetty, Shri K Sundar Naik, Shri Annappaya. K and Dr.Sadanand V Nadig (upto 20.01.2012). Shri K Sundar Naik was the Chairman and Shri Lakshmisha Babu S Company Secretary was the Secretary of the Committee.

DEPOSITS

As at the end of the year under report the Company had 7 deposit accounts for ₹13.40 lacs. As on 31.03.2012, one (1) account for ₹25,000/- remained not claimed by the concerned depositor. Efforts are being made to locate the party and advise him to claim repayment by surrendering the original deposit receipt.

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

As per requirements of 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, necessary particulars are furnished in the annexure forming part of this report.

PARTICULARS OF EMPLOYEES

Pursuant to the provisions of The Companies (particulars of employees) Rules 1975 read with Notification bearing No. F.No.2/29/1988-DL.V dated 31.03.2011 issued by Ministry of Corporate Affairs, New Delhi. The particulars of employees as required to be submitted under Section 217(2A) of The Companies Act, 1956 are not applicable to the Company.

DIRECTORS RESPONSIBILITY STATEMENT

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

- 1) In preparation of the annual accounts for the year 2011-12, the Company has followed the applicable accounting standards prescribed under Secn.211 (3C) of The Companies Act, 1956 and there is no material departure from the same ;
- 2) Your Directors have selected and consistently applied such of the accounting policies and made judgments and estimates thereon, that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company for that period ;
- 3) Your Directors have taken proper and sufficient care for maintenance of adequate accounting records in accordance with the applicable provisions of The Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities ;
- 4) The Company has prepared the annual accounts ongoing concern basis.

ACKNOWLEDGEMENTS

Your Directors acknowledge with appreciation, the support and co-operation extended to the Company by the Central Government, Government of Karnataka, Bankers, Financial Institutions, Dealers, Members and employees of the Company. Your Directors also wish to place on record their appreciation for the co-operation extended by M/s. SACMI, Italy and M/s. BRETON, Italy.

Place : Bangalore
Date : July 30, 2012

for and on behalf of the Board of Directors
Dr. R N SHETTY
Chairman

ANNEXURE TO DIRECTORS' REPORT

PARTICULARS IN COMPLIANCE WITH PROVISIONS OF SECTION 217(1) (e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

A. CONSERVATION OF ENERGY :

- (a) **Energy Conservation measures taken :**
New Fluxing material [Soap Stone] is used to reduce firing temperature and firing cycle.
- (b) **Additional investments and proposals, if any, being implemented for reduction of consumption of energy :**
Inkjet Printing Machine is proposed for production of value added Vitrified Tile Production.
- (c) **Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods :**
Reduction in fuel & power cost. Better sales realization of sales values of Vitrified tiles.
- (d) **Total energy consumption and energy consumption per unit of production : -** Not Applicable -

B. TECHNOLOGY ABSORPTION :

Efforts made in technology absorption as per Form B of the Annexure:

C. FOREIGN EXCHANGE EARNINGS AND OUTGO :

- (a) **Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans :** - Nil -
- (b) **Total Foreign Exchange used and earned:**

| | |
|---------------------------|---------------|
| Foreign Exchange Earnings | : - Nil - |
| Foreign Exchange Outgo | : ₹ 3.81 lacs |

FORM B

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION

RESEARCH AND DEVELOPMENT (R & D)

1. **Specific areas in which R & D was carried out by the Company**
 - a. Grinding Media sourced from supplier close to factory to reduce transport cost.
 - b. Soluble salt development in-house.
2. **Benefits derived as a result of the above R & D**
 - a. Better utilization of plant & machinery.
 - b. Better sales realization on the finished product
3. **Future plan of action**
Double fired wall tile production

4. Expenditure on R & D

(₹ in lacs)

| Particulars | 2011-2012 | 2010-2011 |
|--|-----------|-----------|
| a) Capital | - | 1.99 |
| b) Recurring | 1.32 | 1.56 |
| c) Total | 1.32 | 3.55 |
| d) Total R & D expenditure as a percentage of total turnover | 0.007 | 0.02 |

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. **Efforts in brief made towards technology absorption, adaptation and innovation.**
Successful trial production of Vitrified soluble tiles production using in-house material development
2. **Benefits derived as a result of above efforts**
Reduction in the material cost, transport cost and quality consistency.
3. **In case of Imported Technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished:**
 - a) Technology Imported : Not done during the year
 - b) Year of Import : N.A.
 - c) Has technology been fully absorbed : N.A.
 - d) If not absorbed, areas where this has not taken place, reasons and future plans of action. : N.A.



MANAGEMENT DISCUSSION AND ANALYSIS REPORT FORMING PART OF THE DIRECTORS' REPORT

INDUSTRY STRUCTURE AND DEVELOPMENT

The growth of Ceramic and Vitrified Tiles industry is closely correlated to the growth of cement and construction industry. The industry has just recovered from the impact of the global recession of the past four years. In both dwelling and institutional construction, Ceramic tile has become an integral as flooring and cladding material. A growth rate of about 20% in demand is estimated with a possible additional increase in the coming years. From the concept of utility and functional needs the development and innovation in the flooring and wall tile, has moved to aesthetic aspect also, thus giving the customer a wider choice. The major change that took over the ceramic industry was the introduction of Vitrified tiles in larger sizes with wider application specifically for floors because of less joints.

Murudeshwar Ceramics Limited started commercial production on 01.05.1988 with an installed capacity of 12,500 tons per annum (TPA) of Ceramic tiles at Hubli in Northern Karnataka. The Company undertook a major product diversification into manufacture of Vitrified tiles in the year 1993. The Vitrified tiles project was completed in a very short time and the production commenced on 01.03.1994. On considerations of quality, value addition, aesthetic looks and endurance, the said Vitrified tiles under the Brand Name of "NAVEEN DIAMONTILE" became very popular in domestic markets in a very short time. Encouraged by the response for Vitrified tiles in the Indian market, the Company has established one more Vitrified tile manufacturing unit in Karaikal with an initial capacity of 6,000 Sq.mtrs. per day which commenced its commercial production on 1st day of October 2003. Simultaneously the capacity expansion also was carried on side by side. On cost considerations the Company stopped production of Ceramic tiles in August 2002. But later on, as a support product, manufacturing of Ceramic tiles was once again started with an initial capacity of 8,000 sq.mtrs. per day at Hubli unit. The new Ceramic tile manufacturing unit became operational from January 2006 and the expansion project was undertaken simultaneously. New varieties of tiles in aesthetic colours, shades, body matrix and in different dimensions are being constantly added on in the product mix. On cost considerations, the Kilns in Hubli unit were modified to be fueled by Coal Gas. The Coal Gasification was completed in the year 2009. Now in the year 2011-12 the Hubli Plant was under conversion process from Coal Gas to Natural Gas. As at the end of the financial year the installed capacity of Ceramic and Vitrified tiles are as follows:

| Annual Capacity | VITRIFIED TILES | | CERAMIC TILES |
|---|-----------------|-----------|---------------|
| | Hubli | Karaikal | Hubli |
| Installed Capacity (in Sq. Mtrs.) per annum | 24,00,000 | 42,00,000 | 48,00,000 |

OPPORTUNITIES

With product acceptance on wider application and with the industry growing at a rapid rate, the potential for various types of Ceramic tile is high. At one time considered as a limited application and affordability product, the acceptance of Ceramic tile in suburban and rural market (apart from the growing rate in urban market) has increased the demand. However lack of infrastructure and technical facilities in the rural market does restrict the usage and it is hoped that with clear awareness of health and sanitation these hurdles will be eliminated. All these will definitely increase the demand for Vitrified & Ceramic tile in the coming months.

With improvement in technology and its availability, Vitrified & Ceramic tiles are now made in different sizes, shades and textures thus providing a variety of choice to the discerning customers.

The Concept of owning a house has got off well in the minds and life style of every middle class families. With required finance being made easily available by Bank and other Finance Institution and with easy repayment system owning a house becomes a necessity and a priority in investment.

The Company is taking advantage of having two units one at Hubli and the other at Karaikal. This helps the Company to have a comprehensive production plan and distribute production of tiles of different sizes and patterns to different units suiting to the market conditions and demand patterns. This will reduce waiting periods and saving in time that would be otherwise lost for changeovers.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT FORMING PART OF THE DIRECTORS' REPORT (Contd.)

THREATS

With an expanding market and increase in demand due to multi various applications, the chances of new entrants coming in to the field cannot be avoided which is turn is making the market highly competitive. The market demands new design and varieties of tile, unless we rise upto the situation we will be left behind. Further two major element of cost of power and fuel are governed by the Government is consistent supply at reasonable rate are extremely important for the growth of this industry. Both price and supply of two major element of cost which is governed by the Government thus creating certain amount of uncertainty. Pricing and extended credit are the other factors of concern.

The severe competition from unorganized sector which is also growing rapidly cannot be ruled out. In view of the restriction on supply of Natural Gas and Power, we are not able to operate our plant fully. Not to lose our market share and the premium enjoyed by our brand image, we have resorted to outsourcing supplies in our brand name. Though we are not able to achieve the required sales level by outsourcing, efforts are made to improve the situation, so that the contribution from outsourced material is substantial.

Cost of raw material is going up continuous increase in power and fuel prices added with uncertain supply position has affected the profit margin. Change in the economic growth pattern and the impact of the global recession has also affected the industry.

SEGMENT-WISE PERFORMANCE AND DISCUSSION ON FINANCIAL/OPERATIONAL PERFORMANCE :

The Segment-wise performance for the year ended on 31.03.2012 is furnished hereunder:

| SEGMENT | PRODUCTION (in Sq. Mtrs.) | SALES | |
|--------------------------------|------------------------------|--------------------------|--------------------------|
| | | Volume (Sq.Mtrs.) | Value (₹ in lacs) |
| Vitrified Tiles | 34,74,059 (33,75,306) | 39,27,205 (37,92,605) | 13,031.50 (12,726.12) |
| Ceramic Tiles | 6,25,150 (14,99,947) | 12,41,942 (21,88,120) | 2,840.15 (4,063.55) |
| Granite Slabs | - (-) | - (2,413) | - (15.74) |
| Earth Work (Sales receipts) | - (-) | - (-) | 3,128.98 (1,751.35) |

(Figures in brackets indicate corresponding values for the previous year)

As may be seen from the above statement, production of Ceramic tiles has been reduced by 28.32% and Vitrified tiles production has increased by 2.93% and Granite Division has not produced any slabs during the year. The sales revenue of the ceramic division has been reduced by 30.11% and vitrified division has grown by 2.40%. Where as for granite division it has been reduced by 100%. Overall sales revenue has increased by 2.44% which is ₹19,037.34 lacs for the year under report. With the result the Company has incurred a profit of ₹ 377.05 lacs for the year under report compared to profit of ₹529.56 lacs for the previous year.

OUT-LOOK

Demand for Vitrified tiles is very high. Though this tile meet with all the technical requirements, competitors have an edge over us because of the improved whiteness of their tile compared to ours. With matching aesthetic look we will be able to double our sale of this as we have a strong and wide distribution network and brand image. There is a great demand for Cegress Tile/Exterior Tile in which Rustic finish Vitrified tiles go well with exterior, sit out and foris. There is a great demand for Granite Finish Tile also.