

22nd Annual Report

2004-2005

**MURUDESHWAR
CERAMICS LTD.**


NAVEEN
CERAMIC TILES


NAVEEN
DIAMONTILE


NAVEEN
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 I.M. VITTALA MURTHY
Dr. SADANAND V NADIG
Shri SATISH R SHETTY

Managing Director

Shri SUNIL R SHETTY

Joint Managing Director

Shri NAVEEN R SHETTY

Joint Managing Director

Company Secretary
Shri P A RAVISH
Vice President (Finance)
Shri N M HEGDE
Auditors
M/s. M A NARASIMHAN & CO.

Chartered Accountants

Bangalore

Legal Advisers
Shri N JAYARAMAN

Advocates, Bangalore

Bankers

CANARA BANK

STATE BANK OF INDIA

BANK OF BARODA

THE LAKSHMI VILAS BANK LTD.

PUNJAB NATIONAL BANK

I N D E X

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Registered Office

Murudeshwar Bhavan

Gokul Road

HUBLI - 580 030

Ph : (0836-2331615-18)

Fax : (0836-2330436)

Plant

Krishnapur Village

HUBLI - 580 024

Ph : (0836-2206741)

Fax : (0836-2206773)

Chalmatti Village

Taluk : Kalghatgi

Dist : Dharwad

Ph : (0836-2723659)

143, Ilayancudy Road

Devamapuram Village

Thirunallur Commune

KARAİKAL - 609 607

Pondicherry State

Ph: (04368-236899 / 236599)

NOTICE

To,
**The Members,
Murudeshwar Ceramics Limited**

NOTICE is hereby given that the Twenty Second Annual General Meeting of the Company will be held at Shri R N Shetty Kalyan Mantap, Opp. Indira Glass House, Hubli 580 030 on Thursday the 29th day of September, 2005 at 4.00 p.m. to transact the following business :

ORDINARY BUSINESS

1. To consider and adopt the Audited Balance Sheet of the Company as at 31st day of March, 2005 and the Profit and Loss Account for the year ended on the said date together with Directors' Report and Auditors' Report thereon.
2. To declare dividend.
3. To appoint a Director in place of Shri Sunil R Shetty, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Shri Naveen R Shetty, who retires by rotation and being eligible offers himself for reappointment.
5. To appoint Auditors and to fix their remuneration.

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 Dr. Sadanand V Nadig 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 from a member proposing the candidature of Dr. Sadanand V Nadig 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 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.40,00,00,000/- (Rupees Forty crores) be and is hereby increased to Rs.60,00,00,000/- (Rupees Sixty crores) by creation of 60,00,000 (Sixty lakhs) Equity Shares of Rs.10/- each amounting to Rs.6,00,00,000/- (Rupees Six Crores) and 14,00,000 (Fourteen lakhs) Redeemable Cumulative Preference shares of Rs.100/- each amounting to Rs.14,00,00,000/- (Rupees Fourteen Crores only):

RESOLVED FURTHER that the approval be and is hereby accorded for amendment of Memorandum of Association of the Company by alteration of Clause V of the Memorandum of Association which shall hence forth be read as hereunder:

"V. The Authorised Share Capital of the Company is Rs.60,00,00,000/- (Rupees Sixty crores only) divided into 3,00,00,000 (three crores) Equity shares of Rs.10/- (Rupees Ten only) each amounting to Rs.30,00,00,000/- (Rupees Thirty crores only) and 30,00,000 (Thirty lakhs) Redeemable Cumulative Preference Shares of Rs.100/- (Rupees One hundred only) each amounting to Rs.30,00,00,000/- (Rupees Thirty crores only)"

8. 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(1-A) and other applicable provisions of The Companies Act, 1956 read with Article 5(d) of the Articles of Association of the Company, the Board of Directors be and is hereby authorised to issue Redeemable Cumulative Preference Shares of Rs.100/- (Rupees One hundred only) each for cash at par for an aggregate amount not exceeding Rs.10,00,00,000/- (Rupees Ten crores only) on Private placement basis to any person/s, Bank/s, Financial Institution/s, Promoter/s, Lender/s, Body/ies Corporate etc., at its independent discretion and that the said Redeemable Cumulative Preference Shares need not be offered to the existing share holders.

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

RESOLVED FURTHER that the Board of Directors is hereby 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 ;

Place : Bangalore
Date : 29.07.2005

By Order of the Board
For Murudeshwar Ceramics Limited
P A RAVISH
Company Secretary



NOTICE (Contd.)

NOTE:

1. Member/s 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/s at such meeting and such a proxy need not be a member of the Company.
2. Any documents including Proxy Form/s signed by any person for and on behalf of any Institution/s, Bank/s, Body/ies Corporate etc., will be valid, only if such document/s are supported by a duly authenticated copy of the relevant Resolution of the Board of Directors authorising such person to sign such document and/or to represent such Institution/s, Bank/s, Body/ies 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 between 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 20th day of September, 2005 to 29th day of September, 2005 (both days inclusive).
6. Members seeking any information/clarification concerning the Accounts for the year 2004-05 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.

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

Item 6 : Appointment of Dr. Sadanand V Nadig as Director.

Dr. Sadanand V Nadig has been appointed as an Additional Director on the Board of Directors w.e.f. 25.06.2005. In terms of Secn.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 a member complying with provisions of Secn.257 of The Companies Act, 1956 proposing the candidature of Dr. Sadanand V Nadig to the office of Director. Brief resume of Dr. Sadanand V Nadig is furnished forming part of the Corporate Governance Report.

None of the directors except Dr. Sadanand V Nadig may be deemed as concerned or interested in the resolution relating to this item.

Item 7 : Alteration of Memorandum of Association for increase in Share Capital :

The Company has undertaken expansion project to increase the capacity to produce Vitrified tiles by 6000 Sq.mtrs. per day at Karaikal unit. At the same time Company also has undertaken to put up plant to produce 24000 Sq.mtrs of Ceramic glazed tiles per day at Hubli unit. The said project is estimated to cost Rs.8638.00 lakhs which has been proposed to be financed by term loans of Rs.6500 lakhs from Banks. Out of the Balance, promoters have been required by the Banks to participate in the said project by way of share capital of Rs.1000 lakhs. Promoters have consented to invest by way of Preference Share capital of Rs.1000 lakhs.

The existing authorised Share capital is Rs.40 crores divided into Equity Share capital of Rs.24 crores and Preference Share capital of Rs.16 crores. The available Preference Share capital has already been subscribed and any further allotment of Preference share capital shall be subject to alteration of Memorandum of Association by way of increase in Authorised share capital. Accordingly approval of members is required by an Ordinary Resolution pursuant to Article-1 of Articles of Association read with regulation 44 of Table-A to Schedule-I to The Companies Act, 1956. Consequential amendment to Clause V of Memorandum of Association also requires approval of members by means of an Ordinary Resolution pursuant to provisions of Secn.94(2) of the said Act.

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

Item 8 : Issue of Preference Shares on Private placement basis.

Kind attention of members is invited to explanatory statement in respect of item of agenda-7 above wherein reasons for issue of Preference Share capital 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(1-A) of The Companies Act, 1956. Accordingly necessary Special Resolution is placed before members for approval.

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

By Order of the Board
For Murudeshwar Ceramics Limited
P A RAVISH
Company Secretary

Place : Bangalore
Date : 29.07.2005

DIRECTORS' REPORT

To,
The Members
Murudeshwar Ceramics Limited

Your directors are happy to present the 22nd Annual Report of the Company for the year ended on 31.03.2005. The financial results are as follows :

(Rs. in Lakhs)

FINANCIAL RESULTS

Sales and other Income (Incl.Stock Adjustment)	18015.53
Expenditure	13134.34
Profit before Interest & Depreciation	4881.19
Less : Interest	1299.67
Depreciation	<u>1657.88</u>

2957.55

PROFIT BEFORE TAX **1923.64**

Less :

Provision for taxation	150.87
Deferred tax	128.10
Income tax paid for earlier year	<u>1.86</u>
	280.83

PROFIT AFTER TAX **1642.81**

Balance of Profit brought forward 409.84

Profit available for appropriation 2052.65

APPROPRIATION :

Proposed :

Dividend on Preference Share Capital	160.00
Dividend on Paid up Equity share capital @ 15%	225.01
Provision for Dividend tax	54.00
Transfer to General Reserve	<u>1200.00</u>
	1639.01

Profit carried to Balance sheet 413.64

Your directors are happy to inform you that for the year under report the Company has achieved growth rate of 17.57 percent in operational income at Rs.17913.53 lakhs. With the continued efforts in economising the operational costs, the Company has been able to make a Profit before tax of Rs.1923.64 lakhs resulting in growth rate of about 49.13% in net profit at Rs.1642.81 lakhs.

DIVIDEND

Your directors recommend dividend at 15% on the paid up equity share capital of the Company for the year 2004-05. 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 Annual General Meeting. In case of members holding shares in electronic form, the dividend entitlement will be decided as per list of beneficiaries ascertained from concerned depositories as at the close of the working hours on the last date before closure of transfer books. Dividend on 10% Redeemable Cumulative Preference shares will be paid to the concerned preference shareholders before the due date.



DIRECTORS' REPORT (Contd.)

OPERATIONAL PERFORMANCE

The expanded capacity at 5000 Sq.mtrs of Vitrified tiles per day at Karaikal has been operational from July 2004. For the year under report the Company has achieved a growth rate of 25.15% in production of Vitrified tiles at 34.90 lakh Sq.mtrs. Both Hubli and Karaikal units have contributed to the said total production of Vitrified tiles at 65.16% and 34.84% respectively. The Company continues to produce tiles varying in sizes from 30x30 cms to 80x80 cms. The Company follows a planned strategy for production of tiles of different sizes at both Hubli and Karaikal units depending upon economies of operation and market conditions.

For the year under report the Company has achieved a growth rate of 17.57% at Rs.17,913.53 lakhs in sales income. Major portion of the Sales income comes from sale of Vitrified tiles at Rs.17,364.01 lakhs. The said growth in sale of Vitrified tiles is despite of highly competitive and complex market conditions on account of cheaper foreign tiles managing entry into Indian market and unhealthy competition from small tile manufacturing units in Gujarat. It is also noticed that several new entrants have been desperately pushing their tiles at uneconomical costs just in order to capture market. Such a situation affects the balance of pricing. Despite the critical market conditions, your directors have been able to manage to improve performance on considerations of quality and higher rate of customer satisfaction established by the Company.

GRANITE DIVISION

As already informed in the earlier report, the granite division of the Company has been shifted to Jigani in Anekal Taluk near Bangalore and the Commercial production has also commenced from May 2005. Your directors hope for better performance in times ahead from Granite division.

For the year under report the granite division has produced 25,275 sq. mtrs of granite slabs and made sales income of Rs.535.23 lakhs on sale of 20,422 sq.mtrs of granite slabs. This growth rate of granite division at 76.81% in sales by volume and 115.39% in sales by value is an encouraging factor to concentrate more on granite division. It is pertinent to recall that the entire sales income from granite division is by export to other countries since granite division is a 100% EOU.

BUSINESS PROMOTION

During the year under report the Company has opened 8 new show-rooms and 4 depots. The Company also has appointed 17 new dealers. In the state of Karnataka, Company has its own sales net work through own show rooms. In other states, sales operations are organised through net work of dealers and distributors. At the same time Company is also establishing showrooms in other states as platforms for better presentation and to ensure customer awareness about the product. Selectively, the Company has appointed service and customer care executives for customer services like advising on quality aspects, laying and maintenance of Vitrified tile laid floors etc. Experienced sales executives of the rank of General Manager and Deputy General Managers have been appointed at all major places. Efforts are on to penetrate into C class cities.

EXPANSION AND DIVERSIFICATION

The Company had earlier stopped production of Ceramic tiles on cost considerations and economies of operation. Considering the recent trends and shift in inclination among lower segments of the society, the management has thought it prudent to restart manufacturing Ceramic tiles, but under improved technology. The first phase of diversification to manufacture 24000 Sq.mtrs. per day is almost complete at the Hubli unit. Simultaneously the Company has also taken up expansion project to increase capacity of Karaikal unit by additional 6000 sq.mtrs. of Vitrified tiles per day. The said projects will be operational very shortly. The abovesaid expansion and diversification costs around Rs.86.38 crores. The said project is being financed by Banks to the extent of Rs.65 crores. Promoters are bringing in Rs.10 crores by way of Preference Share Capital and the balance amount will be managed by internal generation.

DIRECTORS' REPORT (Contd.)

PROSPECTS

Ceramic tiles proposed to be manufactured under improved technology is expected to provide better market presence and better penetration of the product even among lower segments of the customers. The present growth rate of construction industry and the conditions contributing to the said growth are expected to influence the tiles industry in an increasingly positive manner.

RESEARCH & DEVELOPMENT

R & D wing of the Company is persistently trying to explore all possible ways and means of achieving cost effectiveness, improving body matrix, fuel efficiency and optimising power utility. The newer designs developed by the R & D wing has given better edge for the product in the market.

DIRECTORS

Board regrets to note the sad demise of Shri K Rangaswamy who was on the Board of this Company since May 2002. He was also member of the Audit Committee, Remuneration Committee and Investors' Grievance Committee.

UTI Asset Management Co Pvt Ltd., had appointed Shri. R J Kamath in place of Shri K R Ramamoorthy and has subsequently withdrawn it's nominee from the Board of this Company.

The Board has appointed Shri I M Vittala Murthy in place of Shri K Jairaj who ceased to be director effective from 13.10.2004.

Board has appointed Dr. Sadanand V Nadig as an Additional Director w.e.f. 25.06.2005.

Board wishes to place on record with appreciation the valuable services rendered by Shri K Rangaswamy, Shri K R Ramamoorthy, Shri R J Kamath and Shri K Jairaj during their tenure as directors on the Board of this Company.

The Company has received a notice under Secn.257 of The Companies Act, 1956 from a member proposing the candidature of Dr. Sadanand V Nadig to the office of director. Necessary resolution is placed before the members.

Shri Sunil R Shetty and Shri Naveen R Shetty will retire by rotation and being eligible, offer themselves for reappointment.

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. Necessary resolution will be placed before the members for approval.

CORPORATE GOVERNANCE PROVISIONS

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

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The 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.

AUDIT COMMITTEE

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



DIRECTORS' REPORT (Contd.)

DEPOSITS

As at the end of the year under report the Company had 1163 deposit accounts for Rs.346.40 lakhs. As at 31.03.2005 there were 6 accounts for an aggregate amount of Rs.2.16 lakhs remained not claimed by the concerned deposit holders. However as on the date of this report the said unclaimed deposits have been claimed and repaid.

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

There are no particulars to be reported pursuant to Secn.217(2A) of The Companies Act, 1956.

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 2004-05, the Company has, subject to Note No.4(c) of Schedule 21 in the Statement of accounts, 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) the Directors have selected and consistently applied such of the accounting policies and made judgements 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 of 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 on going concern basis.

ACKNOWLEDGEMENTS

Your Directors acknowledge with appreciation, the support and co-operation extended to the Company by the Central Government, the Government of Karnataka, Bankers, Financial Institutions, 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.

for and on behalf of the Board of Directors
sd/-

R N SHETTY
Chairman

Place : BANGALORE

Date : 29.07.2005

ADDENDUM PURSUANT TO SECTION 217(3) OF THE COMPANIES ACT, 1956

Auditors have noted under Paragraph(iv) of the Audit Report that non-provision of excise duty on finished goods lying at the factory amounting to Rs.1,73,54,051/- as not in accordance with the Accounting Standard AS-2 issued by the ICAI. Your Directors wish to clarify that the Excise duty is payable at the time of removal of goods from godown or on stock transfer. There is bound to be variation between value of Stock at godown and value of sales at the point of removal of stock from godown. Hence making provision for excise duty on value of stock at godown will be misleading. To avoid such mismatch in the Central Excise account, the Company adopted the practice of valuing the stock at godown without provision for excise duty. In any case such non-provision for excise duty on stock at godown will have no impact on the Profit and Loss Account of the Company.

for and on behalf of the Board of Directors
sd/-

R N SHETTY
Chairman

Place : BANGALORE

Date : 29.07.2005

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 :** Utilisation of Low cost natural gas as fuel source.
- (b) **Additional investments and proposals, if any, being implemented for reduction of consumption of energy:**
Flue gas of gas generator set is used as a heat source for operating chiller which generates chilled water used for cooling the hydraulic oil in the presses.
- (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:**
More Fuel efficiency and waste utilisation.
- (d) **Total energy consumption and energy consumption per unit of production:** - Not Applicable -

B. TECHNOLOGY ABSORPTION:

- (e) **Efforts made in technology absorption as per Form B of the Annexure :** Furnished in Annexure 'B'.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO :

- (f) **Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans :** - Nil -
- (g) **Total foreign exchange used and earned :**
Foreign Exchange Earnings : Rs. 25.19 Lakhs
Foreign Exchange Outgo : Rs. 1654.12 Lakhs

FORM B

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION

RESEARCH AND DEVELOPMENT (R & D)

1. **Specific areas in which R & D carried out by the Company**
 - a) Implementation of in plant raw material processing unit.
 - b) Development of Technology for consumables items.
2. **Benefits derived as a result of the above R & D**
 - a) Lowering Raw Material Cost. b) More control over quality assurance. c) Cost effective final goods.
3. **Future plan of action**
Implementation of Ceramic Glaze tile by using new dry grinding technology. (Rs. in lakhs)
4. **Expenditure on R & D**

Particulars	2004-2005	2003-2004
a) Capital	8.25	8.25
b) Recurring	21.23	2.19
c) Total	29.48	10.44
d) Total R & D expenditure as a percentage of total turnover	0.16	0.07

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. **Efforts in brief made towards technology absorption, adaptation and innovation**
 - a) L.B. Roll Feed Technology b) Technology of double charging with Micronised Powder and Flakes.
2. **Benefits derived as a result of the above efforts**
Varieties of new products and designs.
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 : Higher capacity press for bigger size tiles (800x800mm).
 - b) Year of import : 2004
 - c) Has technology been fully absorbed : Yes
 - d) If not fully absorbed, areas where this has not taken place, reasons and future plans of action. : Not applicable



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

INDUSTRY STRUCTURE AND DEVELOPMENT

Floor tile industry has over a period of time undergone substantial change in many respects viz., technology, product mix, body matrix, product endurance, aesthetic presentation and so on. Vitrified tiles which is a product of innovative diversification of the floor tile industry was a value added product with various built in advantages. The Vitrified tiles which was high value item in floor tile segment steadily started increasing its market share in the floor tile market. Further technological innovations made the Vitrified tiles more cost effective and with the result the Vitrified tiles are affordable to middle class segment of the society. At the same time the Ceramic floor tiles are found to regain market by taking away a major share from Mosaic tile industry. Since the tiles industry is dependent on progress of construction industry, the ups and downs of the construction industry will have its' direct impact on the tiles industry. With the noticeable progress in construction industry in the country, foreign tiles have started to play it's role in the domestic tiles market. Domestic tiles industry has been trying to counter the threat from foreign tiles, mainly on considerations of efficiency, quality and customer satisfaction.

Murudeshwar Ceramics Limited started commercial production on 01.05.1988 with an installed capacity of 12,500 tonnes per annum of Ceramic tiles at Hubli in Northern Karnataka. The product diversification into production of Vitrified tiles was completed in a very short time and the production commenced on 01.03.1994. The Brand Name of the said Vitrified Tiles namely: "NAVEEN DIAMONTILE" has become popular brand in domestic markets in a very short span of time. Encouraged by the sound response to Vitrified tiles, the Company has not only increased production capacity in Hubli by several expansion programmes but also has started one more Vitrified tiles manufacturing unit in Karaikal in the state of Pondicherry. Taking into account the low margins and high cost, the Company had stopped producing Ceramic tiles in the year 2003 and started expanding capacity to produce Vitrified tiles. But taking into account the recent shift among consumers from Mosaic tiles to Ceramic tiles, the Company is once again putting up a plant at Hubli to produce Ceramic tiles with improved technology and fuel efficiency. Management hopes that the revival of Ceramic tile business will provide better cushioning in competing on price factor and increase in customer base.

OPPORTUNITIES

The Company is taking advantage of having two Vitrified tiles manufacturing units, One at Hubli and the other at Karaikal. This is helping 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 other wise lost for changeovers. The revival of Ceramic tile production with improved technology is expected to add to the advantage of the Company with improved costs and increased market presence and presentation. The increase of corporate customers on one hand and increased affordability to Vitrified tiles by middle class are expected to yield better results for the tile industry in days ahead. Ceramic tiles produced under improved technology is expected to facilitate the Company to reach lower middle class of the society. These developments are expected to produce improved performance of the Company in times ahead. Reduction in income tax rate from 35% to 30% is expected to provide better opportunity to the Company to balance its pricing. All Ceramic tiles come under 12.5% VAT slab. The VAT and CST exemption to an extent of Rs.1569.38 lakhs available to the Company upto 13.11.2006 will also provide relief.

THREATS

The growing popularity and affordability for Vitrified tiles has resulted in large number of smaller to medium size new Companies mushrooming in various parts of the country. On account of low capital investment for small units, unhealthy competition in the market cannot be ruled out. Additionally, foreign tiles, which cost less, adversely affect the balance in pricing. The Domestic Vitrified tile industry has been able to sustain the unhealthy trends created by cheaper foreign tiles to some extent on account of Anti Dumping duty on Vitrified tiles. The Industry hopes that the policy continues.

Frequent increase in cost of power and fuel not only accounts for increase in direct cost but also results in increase of indirect costs like transportation and cost of other inputs.