

23rd

Annual Report

2005-06

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**M MURUDESHWAR
M CERAMICS LTD.**



**RWTV**

MURUDESHWAR CERAMICS LTD.

BOARD OF DIRECTORS

Shri R N SHETTY

Chairman

Dr. K SANDIP MALLI

Shri K JEEVAN SHETTY

Dr. B SUDESH HEGDE

Shri K P SURENDRANATH

Justice K. JAGANNATHA SHETTY

Dr. SADANAND V NADIG

Shri K. SUNDAR NAIK

Shri SATISH R SHETTY

Managing Director & CEO

Shri SUNIL R SHETTY

Joint Managing Director

Shri NAVEEN R SHETTY

Joint Managing Director

Company Secretary

Shri P A RAVISH

Vice President - Finance & CFO

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.

PUNJAB NATIONAL BANK

I N D E X

Particulars	Page No.
Notice of the Meeting	02 - 03
Directors' Report	04 - 08
Management Discussion & Analysis Report	09 - 10
Corporate Governance Report	11 - 16
Auditor's Certificate on Corporate Governance Provisions	16
Auditors' Report	17 - 19
Statement of Accounts with Schedules thereon	20 - 33
General Business Profile	34
Cash Flow Statement	35 - 36

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)

Kallabalu Village

Hobli : Jigani

Taluk : Anekal

Dist : Bangalore

Ph : (080-27825900)

143, Ilayancudy Road

Devamapuram Village

Thirunallur Commune

KARAIKAL - 609 607

Pondicherry State

Ph : (04368-236899 / 236599)

Fax : (04368-236805)

NOTICE

To ,
The Members
Murudeshwar Ceramics Limited

NOTICE is hereby given that the Twenty Third Annual General Meeting of the Company will be held at Shri R N Shetty Kalyan Mantap, Opp. Indira Glass House, Hubli 580 030 on Monday the 25th day of September, 2006 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, 2006 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 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 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 Justice K Jagannatha 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 Justice K Jagannatha 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.

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

RESOLVED that Shri K Sundar Naik, 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 K Sundar Naik to the office of Director, be and is hereby appointed as a Director on the Board of Directors of the Company with immediate effect.

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 Sections 198, 269, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII thereunder, approval be and is hereby accorded for increase in salary payable to Shri Satish R Shetty as Managing Director of the Company from the existing Rs.1,00,000/- (Rupees One lakh only) to Rs.1,50,000/- (Rupees One lakh fifty thousand only) per month with effect from 01/12/2005 and that the corresponding perquisites/benefits shall also be simultaneously increased at the same proportion and subject to same terms and conditions as approved by the Members at the Annual General Meeting held on 28/09/2002.

RESOLVED FURTHER that the other terms and conditions of the above said appointment shall remain unaltered.

Place : Hubli

Date : 28.07.2006

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



NOTICE (Contd.)

NOTE:

- (1) 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 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, 2006 to 25th day of September, 2006 (both days inclusive).
- (6) Members seeking any information/clarification concerning the Accounts for the year 2005-06 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 Justice K Jagannatha Shetty as Director.

Justice K Jagannatha Shetty was appointed as an Additional Director on the Board of Directors w.e.f. 16.12.2005. 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 complying with provisions of Secn. 257 of The Companies Act, 1956 proposing the candidature of Justice K Jagannatha Shetty to the office of Director. Brief resume of Justice K Jagannatha Shetty is furnished forming part of the Corporate Governance Report.

None of the directors except Justice K Jagannatha Shetty may be deemed as concerned or interested in the resolution relating to this item.

Item 7 : Appointment of Shri K Sundar Naik as Director.

Shri K Sundar Naik was appointed as an Additional Director on the Board of Directors w.e.f. 28.07.2006. 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 complying with provisions of Secn. 257 of The Companies Act, 1956 proposing the candidature of Shri K Sundar Naik to the office of Director. Brief resume of Shri K Sundar Naik is furnished forming part of the Corporate Governance Report.

None of the directors except Shri K Sundar Naik may be deemed as concerned or interested in the resolution relating to this item.

Item 8 : Increase in remuneration to Shri Satish R Shetty

Shri Satish R Shetty was reappointed as Managing Director of the Company for a period of five years effective from 27/06/2002. The salary fixed at that time was Rs.1,00,000/- per month with corresponding benefits within the limits prescribed under Schedule XIII of the Companies Act, 1956. Subsequent to the said reappointment, the Company has put up one more Vitrified tile plant at Karaikal and the capacity expansion is going on in phases. At Hubli plant also the production Capacity for Vitrified tiles has been increased. As at the close of the financial year 2005-06 the annual production capacity at both Hubli and Karaikal are 30,00,000 sq.mtrs. and 33,00,000 sq.mtrs. respectively. Compared to the performance for the year 2001-02 the production of Vitrified tiles has increased by about 250%. There is a significant improvement in sales income by over 120%. Company's Sales net work has been widely enlarged. Under the circumstances, Board felt that it is justified if the remuneration package to the Managing Director is increased as proposed in the resolution for this item.

Shri R N Shetty, Shri Satish R Shetty, Shri Sunil R Shetty, Shri Naveen R Shetty, Dr. K Sandip Malli, Shri K Jeevan Shetty and Dr. B Sudesh Hegde being relatives may be considered as concerned or interested in the resolution relating to this item of business.

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

Place : Hubli

Date : 28.07.2006

DIRECTORS' REPORT

To :

The Members

Murudeshwar Ceramics Limited

Your directors are happy to present the 23rd Annual Report of the Company for the year ended on 31.03.2006.

FINANCIAL RESULTS

Particulars	(Rs. In Lakhs)	
Sales income	20295.23	
Other Income	73.35	
Increase in stock	988.23	
Total income		21356.81
Operational Expenditure	15269.97	
Interest	1457.90	
Depreciation	1823.64	
Total Expenditure		18551.51
Profit before tax		2805.30
Taxation		422.76
Net Profit for the year		2382.54
Profit brought forward		413.64
Profit available for appropriation		2796.18
Appropriation Proposed :		
Dividend on Preference Shares	221.55	
Dividend on Equity shares @ 20%	300.02	
Corporate tax on Dividends	68.16	
Transfer to :		
Capital redemption reserve	1600.00	
General Reserve	300.00	
Total appropriation proposed.		2489.73
Surplus carried to Balance Sheet		306.45

Your directors are happy to inform you that for the year under report the Company has achieved growth rate of 13.30% in sales income at Rs.20,295.23 lakhs compared to previous year. Despite the fact that there has been considerable increase in cost of Power & Fuel, Transportation cost, Staff cost etc.. still the Management has been able to contain the over all operational expenditure at about 16% over and above the previous year level which is phenomenal compared to increase in production of Vitrified tiles by about 31.22%. By effective deployment of resources and a planned production strategy, the Management has been able to end up the year with an improvement of profit before tax by about 46% at Rs.2,805.31 lakhs compared to previous year.

DIVIDEND

Your directors recommend dividend at 20% on the paid up Equity Share capital of the Company for the year 2005-06. 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 closure of Register of Members. 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 Ceramic tile unit at Hubli has become operational since December 2005 having completed I phase of installation with a capacity to produce 12,000 sq.mtrs. per day. Upto March 31, 2006 the Company could realise Rs.193.91 lakhs on sale of Ceramic tiles. The slow rate of sale of Ceramic tiles is on account of increased customers choice for Vitrified tiles of the Company. During the year under report the Company has produced 45,79,076 sq.mtrs of Vitrified tiles. Correspondingly there is also improvement in sale of Vitrified tiles by volume at 43,95,896 sq.mtrs. Thus there is a growth of over 31% in both production and sale of Vitrified tiles by volume. At the same time the market realization on sale of Vitrified tiles has improved by about 10% at Rs.19,074.29 lakhs. The said realization could be still higher but for inevitable loss in margins in order to sustain highly competitive market conditions. The Hubli and Karaikal units have contributed at 59% and 41% respectively in the aggregate sales realization on Vitrified tiles.

CAPACITY EXPANSION

During the year under report the Company has completed capacity expansion for manufacturing Vitrified tiles at both Hubli and Karaikal units. As a result, the present installed capacity at Hubli and Karaikal have been increased to 30,00,000 sq. mtrs. and 33,00,000 sq. mtrs. of Vitrified tiles per day respectively. The capacity utilization at both Hubli and Karaikal units have also been satisfactory at about 82% and 118.30%. At the same time the first phase of expansion project to produce 12,000 sq.mtrs. of Ceramic tiles per day has been operational from December 2005.

PRODUCT RANGE

On the Vitrified tile segment, the Company produces tiles of plain colours, Granite textures and in Marble shades. Sizes vary from 40 cm x 40 cm to 80 cm x 80 cm. However it is found that the major portion of the revenue comes from 60 cm x 60 cm at about 62% followed by 50 cm x 50 cm at about 24%. Besides, the Company also produces value added products like profile cut designs, step tiles, skirting and border tiles. During the year under report the Company has added 7 more new designs in marble under deluxe series to its existing series. The Ceramic tiles production has been commenced with 40 cm x 40 cm in plain and flamed colours and in printed and marble series. The Company is planning to introduce Super Glossy Vitrified tiles which will be first of its kind in the Vitrified tile segment during 2006-07. This will be a further value addition and is expected to boost the brand image of our product.

GRANITE DIVISION

As already informed in the earlier report, the granite division of the Company has been shifted from Chalamatti to Jigani in Anekal Taluk near Bangalore and the commercial production has commenced from September 2005. There has been an inevitable production loss in the granite division during the course of dismantling and packing of units at Chalamatti and transporting and installation at Jigani. For the part of the year during which the Company has been in operation the unit has produced 19,791 sq.mtrs. of granite slabs and realized Rs.381.89 lakhs on sale of 17,705 sq.mtrs.

BUSINESS PROMOTION

The Company is adopting a mixed strategy of show-room sales and through Dealer net work depending upon the market size and feasibility. As at the end of the year under report the Company had 74 show rooms and 43 depots nation-wide. The Company has also appointed 32 dealers and 2 distributors during the year. With a view to enhance the visibility of our product at some new places the Company has opened show rooms under Joint Venture with the local dealers. Some more show rooms and depots are planned which will enhance market presence and quick services to the customers.

The Company continues to pay increased attention to customer care and customer satisfaction deploying personnel who are specifically trained and experienced in this field. While project sales is being given priority on grounds of economic viability, the retail market also is being strengthened and being penetrated into B class and C class cities. The results are encouraging. Every possible means of advertisements and creating awareness about the Company and the product is being meticulously examined and proper steps are being taken to expand the customer base in all parts of the country. The Company has recently appointed an advertising agency to exclusively take up the task of planning and executing the business promotional activities with a professional approach.

DIRECTORS' REPORT (Contd.)

PROSPECTS

The construction industry continues to flourish further and the trends are likely to continue. Housing projects are coming up in much bigger way at all metros and other urban and semi-urban areas. Under the competitive market trends Vitrified tiles is an affordable choice even to the middle class of the society. Under such circumstances it is hoped that the demand for Vitrified tiles will grow further and the Company may look ahead for improved sales in coming days also. Additionally the Ceramic tiles being manufactured by the Company will be a better substitute for Mosaic tiles which can stretch to even the lower middle class of the society. Hence it is expected that slowly but surely the revenue from Ceramic tiles segment will improve. After completion of the on going expansion project the Company has plans to reintroduce full range of exterior Vitrified tiles in 30 cm x 30 cm and 40 cm x 40 cm in addition to Ceramic tiles of 60 cm x 60 cm. in different designs and textures. This step is likely to boost the brand image and provide a variety choice to customers and adds on to boost the revenue for the Company. The granite division, a 100% EOU, operating from Jigani which is very close to Bangalore has the locational advantage which may attract more number of customers.

SHARE CAPITAL

Members are aware that at the Extra-Ordinary General Meeting held on 15/11/2005 the Company was authorized to issue 25,01,000 - 10% Cumulative Convertible Preference Shares of Rs.124/- each at par aggregating to Rs.31,01,24,000/- to R N Shetty Family Trust and Reliance Capital Asset Management Ltd.,-A/c PMS. Accordingly the said Cumulative Convertible Preference Shares have been allotted on 29/11/2005 and the same are due for conversion into Equity shares of Rs.10/- each with Premium of Rs.114/- each on 29/11/2006. The proceeds of the said issue has been fully utilized for the purpose for which it has been raised.

The Company has during December 2005 redeemed 16,00,000/- - 10% Redeemable Cumulative Preference shares of Rs.100/- each aggregating to Rs.16,00,00,000/-.

RESEARCH & DEVELOPMENT

R & D wing of the Company is performing satisfactorily and continues to contribute to the improved efficiency at different levels of production. R & D Wing is concentrating further to improve efficiency in body matrix, optimizing power utilization, and improved designs to suit the changing market needs.

DIRECTORS

Board has appointed Justice K Jagannatha Shetty as an Additional Director w.e.f. 16.12.2005. The term of an additional director is valid upto the date of the Annual General Meeting pursuant to Secn.260 of The Companies Act, 1956. The Company has received a notice under Secn.257 of The Companies Act, 1956 proposing the candidature of Justice K. Jagannatha Shetty to the office of director. Necessary resolution is placed before the members.

Shri I M Vittala Murthy ceased to be director on the Board of Directors with effect from 29/06/2006. Board of Directors has placed on record the valuable association of Shri I M Vittala Murthy as a director on the Board since 28.01.2005.

Board of Directors has appointed Shri K Sundar Naik as an Additional Director on the Board of Directors with effect from 28.07.2006. The term of such additional director is valid upto the date of the Annual General Meeting pursuant to Secn.260 of the Companies Act, 1956. The Company has received a notice under Secn.257 of The Companies Act, 1956 proposing the candidature of Shri Sundar Naik to the office of director. Necessary resolution is placed before the members.

Dr.K Sandip Malli and Shri K P Surendranath retire by rotation and being eligible, offer themselves for reappointment. Brief personal details of the abovesaid directors whose appointments have been proposed is furnished forming part of the Corporate Governance 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 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 Annual Report.



DIRECTORS' REPORT (Contd.)

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, Shri K P Surendranath and Dr.Sadanand V Nadig with Shri K P Surendranath as Chairman. Shri K P Surendranath and Dr.Sadanand V Nadig 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 173 deposit accounts for Rs.190.46 lakhs. As at 31.03.2006 there were 2 accounts for an aggregate amount of Rs.80,000/- remained not claimed by the concerned deposit holders. However efforts are being made to locate the parties to advise them to claim the repayment by surrendering the original deposit receipts.

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 2005-06, 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.

Place : Hubli

Date : 28.07.2006

for and on behalf of the Board of Directors

R N SHETTY

Chairman

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.1.85.05,416/- is 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 factory or on stock transfer. There is bound to be variation between value of Stock at factory and value of sales at the point of removal of stock from factory. Hence making provision for excise duty on value of stock at factory will be misleading. To avoid such mismatch in the Central Excise account, the Company adopted and has been consistently following the practice of valuing the stock at factory without making provision for excise duty. In any case such non-provision for excise duty on stock at factory will have no impact on the Profit and Loss Account of the Company.

Place : Hubli

Date : 28.07.2006

for and on behalf of the Board of Directors

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 :** Dry grinding for powder preparation in Single fired glazed floor tile.
- (b) **Additional investments and proposals, if any, being implemented for reduction of consumption of energy:**
Coal Gasification Plant is proposed.
- (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:**
Dry Grinding Method saves about 40% electrical energy compared to commonly used wet grinding method.
- (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. 85.76 Lakhs
 Foreign Exchange Outgo : Rs. 5525.22 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) Development of new designs for newly dry grinded single fired glazed floor tile.
- b) Technology to develop and implement the use of raw materials directly into composition instead of processed raw materials.

2. Benefits derived as a result of the above R & D

- a) Range of products and respective designs. b) Lowering the input raw material cost.

3. Future plan of action

- a) Reduction of Wastage. b) Increase in Productivity.
- c) Use of new technology for improvement in product quality.

4. Expenditure on R & D

(Rs. in lakhs)

Particulars	2005-2006	2004-2005
a) Capital	4.74	8.25
b) Recurring	6.87	21.23
c) Total	11.61	29.48
d) Total R & D expenditure as a percentage of total turnover	0.05	0.16

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Efforts in brief made towards technology absorption, adaptation and innovation

- a) Dry grinding technology for powder preparation of single fired glazed floor tile.
- b) Drying of green tile by horizontal dryer instead of vertical dryer.

2. Benefits derived as a result of the above efforts

- a) Increase in productivity. b) Reduced energy consumption per ton.

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 : Dry Grinding Technology. Fast track glaze line by using Roto Screen / Silicon Roller; for printing.
- b) Year of import : 2005
- 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

The growth of construction industry is very important in many respects as many other industries also grow with it. The ups and downs in the construction industry will have its direct impact on such other industries which also includes tiles industry. The government policy of encouraging the infrastructure development and housing projects which was added on with easy bank finance have helped the construction industry look forward with optimism and to increase the growth rate. Vitrified tiles which is a product of innovative diversification of the floor tile industry is a value added product with various built in advantages in terms of elegance and endurance. The Vitrified tiles which was high value item in its initial stages of launch is now affordable to even the middle class on account of the cost efficiency attained due to technological innovations. At the same time the Ceramic floor tiles are found to regain market by taking away a major share from Mosaic tile industry.

Murudeshwar Ceramics Limited started commercial production on 01.05.1988 with an installed capacity of 12,500 tonnes per annum (TPA) of Ceramic tiles at Hubli in Northern Karnataka. The Company took a major leap forward by diversification of product range into 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. 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. The Company which started off with a small capacity of 12,500 TPA of Ceramic tiles is at present having a capacity to manufacture 1,36,500 TPA.

OPPORTUNITIES

The competitive trends in the floor tile industry has lead to price war. While margins are getting eroded in a bid to sustain market share, the demand has been constantly increasing with boom in the construction industry. Under the existing price structure the Vitrified tiles has become affordable even to the middle class of the Society and consequently demand has increased. On the other hand the Company has the advantage of having two Vitrified tiles manufacturing units with one at Hubli and the other at Karaikal. This is helpful to the Company to have a comprehensive production and distribution plan suiting to demand pattern of the nearest markets. This will also lead to economy in production and distribution plan. At the same time, this will reduce waiting periods and saves time that would be otherwise lost for changeovers in production schedule. The revival of Ceramic tile production with improved technology is expected to help the Company to improve customer base, market presence and market presentation. The brand image built up by the Company over the years, quality assurance, aesthetic and elegant designs are added advantages of the Company to compete against any other manufacturers in the market.

THREATS

There are more than 17 manufacturers of Vitrified tiles in the Country in the organized sector apart from innumerable small Companies in various parts of the country in the unorganized sector. On account of low capital investment for small units, unhealthy competition in the market cannot be ruled out. Besides, 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.

SEGMENT-WISE PERFORMANCE

SEGMENT	PRODUCTION (in Sq. Mtrs.)	SALES	
		Volume (Sq.Mtrs.)	Value Rs.in lacs
Vitrified Tiles	45,79,076 (34,89,529)	43,95,896 (33,38,593)	19,074.29 (17,361.19)
Ceramic Tiles	3,09,198 (0)	1,24,308 (10,646)	193.91 (17.11)
Granite Slabs	19,791 (25,275)	17,705 (20,422)	381.89 (535.23)
Earth Work(Sales receipts)	- (-)	- (-)	645.14 (-)

(Figures in brackets indicate figures for the corresponding period of the previous year).

OUT-LOOK

A big surge in the real estate industry in the country has created a good demand for tiles. The price war leading to reduced margins and also technical innovations aimed at cost efficiency are the main contributing factors for market price for Vitrified tiles to fall within the reach of middle class society. On the positive side, drop in prices for Vitrified tiles has lead to increase in demand. Further the increased general awareness about Vitrified tiles has also contributed to increase in demand. At the same time revival of Ceramic tile production enables the Company to enlarge the customer base and stretch its sales net work to the lower middle class. After completion of the expansion project, the Company has plans to introduce several ranges of Exterior Vitrified tiles in addition to Ceramic tiles of bigger dimension. These measures will provide for broader choice for the customers.