

# **MURUDESHWAR CERAMICS LTD.**

# **26<sup>th</sup> ANNUAL REPORT**

**2008-09**

  
**NAVEEN**  
CERAMIC TILES

  
**NAVEEN**  
DIAMONTILE

  
**NAVEEN**  
GRANITES



RNTUV

# M MURUDESHWAR CERAMICS LTD.,

## BOARD OF DIRECTORS

**Dr. R N SHETTY**

Chairman

**Shri K P SURENDRANATH**

**Dr. SADANAND V NADIG**

**Shri K. SUNDAR NAIK**

**Dr. S.S. HIREMATH**

**Shri SATISH R SHETTY**

Managing Director & C.E.O.

**Shri SUNIL R SHETTY**

**Shri NAVEEN R SHETTY**

Joint Managing Director

Vice President (Legal),

Company Secretary & Compliance Officer

**Shri P A RAVISH**

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.,

HDFC BANK LTD.,

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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 : 080-27826964

Fax : 080-27826956

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 Sixth 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 Friday the September 25, 2009 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, 2009 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 K P Surendranath, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Shri K Sundar Naik, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Auditors and to fix their remuneration.

Place : Bangalore  
Date : July 27, 2009

By Order of the Board  
**For Murudeshwar Ceramics Limited**  
**P A RAVISH**  
Vice President (Legal) & Company Secretary

### 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 16, 2009 to September 25, 2009 (both days inclusive).
- (6) Members seeking any information/clarification concerning the Accounts for the year 2008-09 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 27, 2009

By Order of the Board  
**For Murudeshwar Ceramics Limited**  
**P A RAVISH**  
Vice President (Legal) & Company Secretary



## DIRECTORS' REPORT

To : The Members,  
Murudeshwar Ceramics Limited

Your directors present the 26th Annual Report of the Company for the year ended on March 31, 2009 :

### FINANCIAL RESULTS

Particulars	(Rs. in Lakhs)	
Sales income	19,041.49	
Other Income	36.35	
Increase/(Decrease) in stock	(237.47)	
<b>Total income</b>		<b>18,840.37</b>
Operational Expenditure	13,818.79	
Interest	2,547.60	
Depreciation	2,402.13	
<b>Total Expenditure</b>		<b>18,768.52</b>
<b>Profit Before tax</b>		<b>71.85</b>
Taxation		53.77
<b>Net Profit for the year</b>		<b>18.08</b>
Balance of Profit brought forward		552.29
<b>Profit available for appropriation</b>		<b>570.37</b>
<b>Appropriation Proposed :</b>		
Dividend on Equity Shares @ 6%	105.01	
Corporate Tax on Dividends	17.85	
Sub-total		122.86
<b>Surplus carried to Balance Sheet</b>		<b>447.51</b>

### OPERATIONAL PERFORMANCE

Members are aware that the year 2008-09 is mainly marked with recession which has badly affected the global economy. Infrastructure industry in general and real estate sector in particular were very significantly hit by recession. Most of the real estate business has faced liquidity crunch on account of low off-take in the dented market conditions and related financial constraints. This in turn has left its deep impact on the tiles industry which is mostly dependant on construction industry and your Company was no exception to such down trends.

During the year under report the Company has produced 38,47,682 Sq.mtrs of Vitrified tiles & 18,38,979 Sq. mtrs of Ceramics tiles which is lower by 19.10% and 6.61% respectively compared to previous year. In the vitrified tiles segment the Company has sold 39.39 lakhs sq mtrs of Vitrified tiles and realized Rs.14,557.65 lakhs which is about 21% less than that of previous year. In the ceramic tiles segment the Company has sold 17.73 lakh sq mtrs of tiles and realized Rs.3,047.66 lakhs. The said realization is marginally less compared to previous year. The performance of the Company during the year 2008-09 was hit on account of several reasons, prominently recession in the market, severe competition from unorganized manufacturing units, cheaper imported tiles and loss of production on account of internal factors which are briefly discussed in the following paragraphs.

As discussed in the previous Annual Report, the Company has installed Coal Gasification unit to fuel two of the four kilns at Hubli unit. Taking into consideration the economies of operation with Coal gas fired kilns compared to LPG fired kilns, the management undertook installation of second Coal Gasification unit to fuel remaining two kilns, one each of Ceramic and Vitrified tiles at Hubli unit. The said installation was completed by the end of third quarter of the year. Until completion of this project the Hubli unit was run only with 50% of the capacity during the year. By the time the said installation was completed and the Hubli plant could take up 100% capacity with Coal gas fired kilns, the market for tiles was crippled due to recession and liquidity crunch and therefore the Company could not step up production.

## DIRECTORS' REPORT (Contd.)

Severe competition in the tiles market from small manufacturing units, particularly in the unorganized sector, and importation of cheaper tiles from China by traders have caused deep dents in the market for tiles produced by large and medium Companies in the organized sector. There is bound to be difference in the cost incidence between tiles produced by such small units in the unorganized sector and those produced by medium to large units in the organized sector. The medium to large units in the organized sector, inspite of producing high quality and value added products find it hard to dominate the retail market where the price advantage will be a major determinant factor than inherent quality standards. In the process, manufacturers in the organized sector find it difficult to pass on the escalation in cost of inputs to the customers in order to maintain customer base and market share, resulting in reduced margins from time to time. However, your Company management is taking steps to cut costs and evolve a more effective marketing strategy in the context of the environment in the market.

The granite division which is a 100% EOU has achieved sales income of Rs.301.78 lakhs against Rs.891.04 lakhs for the previous year. The granite business is mostly dominated by unorganized entities rendering it difficult for corporate entities in the organized sector to effectively compete in the market. The Company is also finding it difficult to get quality granite blocks at reasonable prices.

### DIVIDEND

On account of reasons stated above, the profit after tax for the financial year 2008-09, has declined from Rs.2662.67 lakhs to Rs.18.08 lakhs compared to previous year. Taking into consideration the tight financial condition of the Company on one hand and investor sentiments on the other, your directors recommended for a dividend at 6 % (Re.0.60 per share) on fully paid equity share capital of the Company for the year ended 31.03.2009. 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 derived from concerned depositories as at the close of the working hours on the last date before closure of transfer books.

### MARKETING STRATEGY

Your Company has all along given more weightage to project sales where the Company could get better price at lower over-heads for sales. But on account of recession and liquidity crunch, project sales has declined. Also too many market players entering into the tiles business year after year have rendered the market vulnerable to severe competition and irrational trade practices. On account of these factors the Company has faced a dip in sales. Under the circumstances, the management is initiating steps to evolve strategies to make more inroads into the market. Various measures being taken include economizing the cost on one hand and expanding the market net work on the other. In the first instance, depending upon market conditions and viability, dealer net work is being expanded even to places where the Company has showrooms. At some places selectively, show rooms are maintained as platforms for better presentation and customer service. Distributor and Dealer net work is being expanded to rural areas. Company representatives are on door to door leg work to enhance retail sales. Thus all efforts are being made to expand the retail market base by penetrating the market net work to even small towns. Company show room sales and depot sales are being continued based on viability and other economic considerations. As on the date of this report, the marketing net work is supported by 56 Showrooms and 49 depots. The Company has appointed 6 distributors and 450 dealers.

On the product range, the Company has introduced new varieties with aesthetic look and elegance. Modifications are being planned in the body matrix and other inputs to enhance quality and elegance. In order to penetrate sales into lower segment of the consumers, the Company has introduced innovative shades and colours in Ceramic tile segment. The manufacturing process is being planned in such a way that larger format tiles and value added items are being produced at Hubli unit. The production schedule is being distributed between Hubli and Karaikal units so as to ensure better savings in cost, keeping in view the easy accessibility to source of raw material and to markets. While 60 cm x 60 cm tiles continue to be the dominant product, emphasis is also being given for 40 cm x 40 cm tiles, the demand for which has been gaining momentum.

### PROSPECTS

The Company has taken a multi pronged strategy to improve performance and sustain competition. New varieties, formats, designs and shades which enhance the aesthetics are being introduced from time to time. Anti skid and rustic finish tiles which can sustain high traffic and densely populous areas like commercial complexes, forums,





## DIRECTORS' REPORT (Contd.)

malls etc., are likely to boost the sales and increase customer base. Maximum efforts are being made to expand more and more into Southern markets in order to save in cost of transportation and other marketing overheads. Marketing network is being penetrated into rural areas and door to door sales promotion on leg work is also put in place. On the economies of operation, various cost cutting measures are being planned to increase margins. The Coal gasification units installed at Hubli will enable the Company to save fuel cost by about 35%. At Karaikal unit imported Coal gas stoves are being used in the spray drier. The Natural Gas saved in this process is being diverted to two kilns used in the manufacture of vitrified tiles. This will reduce to some extent the adverse impact of curtailment of gas allocation. With these steps and some other cost effective measures which are in progress, and the brand name established in the market, the management hopes to improve the financial results for the current year 2009-10.

### RESEARCH AND DEVELOPMENT

The R & D wing of the Company continues to perform satisfactorily. Constant efforts are being made to economise operating costs and improve quality further. R & D Wing is also seriously working on improving body matrix. Constant efforts are being made to explore technical modifications to attain higher levels of economy and efficiency at each level of production.

### DIRECTORS

Shri K P Surendranath and Shri K Sundar Naik retire by rotation and being eligible offer themselves for reappointment.

Brief personal details of the abovesaid directors whose reappointments have been proposed, 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 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.

### 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. In the said report the management has also discussed opportunities, threats and risk factors.

### AUDIT COMMITTEE

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

### DEPOSITS

As at the end of the year under report the Company had 64 deposit accounts for Rs.165.67 lakhs. As at 31.03.2009, one (1) account for Rs.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

Particulars of employees pursuant to provisions of Section 217(2A) of The Companies Act, 1956 read with The Companies (particulars of employees) Rules 1975 is furnished in the annexure forming part of this report.

## DIRECTORS' REPORT (Contd.)

### 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 2008-09, 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) Your 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, 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 27, 2009

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

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

Auditors have noted in Paragraph (iv) of the Audit Report that non-provision of excise duty on finished goods lying at the factory amounting to Rs.52.07 lakhs 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 making 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.

Place : Bangalore  
Date : July 27, 2009

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

### PARTICULARS OF EMPLOYEES PURSUANT TO SECTION 217(2A) OF THE COMPANIES ACT, 1956.

Name of Employee	Designation	Remuneration received	Nature of employment	Nature of duties	
1	2	3	4	5	
Mr.Satish R Shetty	Managing Director	Rs.30,69,360	Reappointed for a period of 5 years w.e.f. 27.06.2007	Overall administration subject to supervision and control of Board of Directors.	
Other terms & conditions	Qualification & Experience	Date of commencement of employment	Age of employee	Last employment before joining the Company	No. of Equity shares held
6	7	8	9	10	11
Non-retiring	B E Experience : 21 years	01.07.1988	47 years	Nil	5,55,201 Eq. shares (3.17%)

**Note :** 1) Remuneration includes value of perquisites and amenities.

2) Above director is relative of directors namely Dr R N Shetty, Shri Sunil R Shetty & Shri Naveen R Shetty

## 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 :

- (i) Second Coal Gasifier installed at Hubli Plant.
- (ii) Chain Coal Stove Hot Air Generator installed at Karaikal for spray drier for powder preparation.

#### (b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy :

Coal Gas burner system proposed for Verticle Dryers.

#### (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 :

Fuel cost in the production has been reduced.

#### (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. 36.01 Lakhs  
Foreign Exchange Outgo : Rs. 1,865.66 Lakhs

### 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

Specific Raw material clay for Glazed Floor Tiles and Rustic Finish Glazed Vittrified tile production.

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

Better price for new product in the market.

#### 3. Future plan of action

Proposing to produce Glazed Wall tiles.

#### 4. Expenditure on R & D

(Rs. in lakhs)

Particulars	2008-2009	2007-2008
a) Capital	Nil	0.21
b) Recurring	15.00	18.61
c) Total	15.00	18.82
d) Total R & D expenditure as a percentage of total turnover	0.08	0.08

#### TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

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

- a) Chain Coal Stove for hot air generation in the spray drier at Karaikal unit.
- b) Rustic Surface finish glaze material for Vittrified tiles.

#### 2. Benefits derived as a result of the above efforts

- a) New series of Vittrified Tiles with better selling price in the market.
- b) With Chain Coal Stove Hot Air generator production cost reduced.

#### 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 : Second Coal Gasifier at Hubli Plant
- b) Year of import : 2008-09
- 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 construction industry is growing at about 15% from year to year. Even in B class cities and towns construction of residential apartments, commercial complexes, malls and forums are on increase. Simultaneously Elegant interiors and aesthetic floors and walls have been much sought after even among middle class of the society. The narrowing gap between cost of mosaic tiles and Ceramic tiles, and Ceramic tiles and Vitrified tiles have added strength to the market for Ceramic and Vitrified tiles. As a result of these positive developments, more and more market players have been foraying into the tiles business. Simultaneously a situation of cut-throat competition, margin squeezing to capture market and tactical business practices have been on increase. In the first instance cheaper tiles imported from China has caused serious set back to the business of tiles manufacturers in the organized sector. Added to this, many small manufacturing units in the unorganized sector have taken up production of tiles and the number of such small units are increasing year after year. The cost of production for such units is significantly lesser than costs incurred by units in the organized sector for obvious reasons. This cost advantage for such small units will enable them to compete effectively in the market. Tiles produced by large industries are superior in quality and endurance. In order to sustain the competition, medium to large scale units in the organized sector have been planning and implementing various cost cutting measures both on technical and non-technical/administrative aspects.

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 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 6000 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 8000 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. 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	30,00,000	42,00,000	48,00,000

The price of petroleum products has been increasing significantly in recent times. The cost of power and fuel constitutes between 25-30% of the total cost of production. In order to reduce cost of production, the Company has undertaken to convert the LPG fired kilns to coal gas fired kilns at Hubli unit. One kiln each of Ceramic and Vitrified Tiles have been successfully converted and operationalised during last quarter of 2008. Encouraged by the success and operational efficiency of the first coal gasification unit the Company also undertook and completed installation of second coal gasification unit at Hubli plant which caters coal gas to remaining two kilns, one each of Ceramic and Vitrified tiles. The installation of second coal gasification plant was completed by the end of 3rd quarter of 2008-09. This modification reduces the cost of fuel for the Kilns by about 35%.

### OPPORTUNITIES

Recent trends indicate that the recession is over and the phase of revival has commenced. This is also apparent from the increase in construction activity in recent times. The Company produces both Vitrified tiles and Ceramic Tiles. Value added tiles in different sizes and variety shades and an established brand name in the market are advantages for the Company. Increasing number of big apartments, commercial complexes, malls do add demand for the value added products of the Company. Simultaneously there has been an ever increasing flare for aesthetic interiors including wall and floor tiles. Several expansion projects and technology upgradations undertaken by the Company have been contributing to attain better economies of operation. The Karaikal unit which sources its fuel requirement from Natural Gas supplies has a major share in attaining economies of operation which enabled the Company to combat the price war to some extent.



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

At the same time coal gasification of kilns at Hubli unit will reduce Company's dependence on LPG, the price of which has been increasing frequently.

Also the Company has advantage of having two manufacturing units, one at Hubli and the other at Karaikal. This helps the Company to have a planned strategy for sourcing inputs viz., raw materials, power, fuel etc., and to have a planned production strategy between Hubli and Karaikal units. This will result in savings in cost of transportation and other related over-heads.

### THREATS

The market players in the small and unorganized sector have been on increase from year to year. The market share of these units has in recent times increased upto about 60% of the domestic tiles market. The increased number of such units has lead to price war. The retail market which constitutes about 60% of the tiles market depends mainly on price considerations. Eventhough tiles manufactured by medium to large units in the organized sector are superior in quality with many inherent merits, it may not get adequate response in the retail market on price considerations.

On the other hand, cheaper tiles imported from China also affect large units in the organized sector. The anti-dumping duty imposed on tiles imported from China has been of less impact owing to many other sources of import remaining open and its insignificant impact on over all cost of such imported tiles. At the same time on account of increased demand for Natural Gas, the allocation for this Company has been reduced from 24,000 SCMD to 16,000 SCMD. The Company has been representing for increased allocation.

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

The Segment-wise performance for the year ended on 31.03.2009 is furnished hereunder:

SEGMENT	PRODUCTION (in Sq. Mtrs.)	SALES	
		Volume (Sq.Mtrs.)	Value (Rs.in lacs)
Vitrified Tiles	38,47,682 (47,55,888)	39,39,397 (49,73,126)	14,557.65 (18,540.15)
Ceramic Tiles	18,38,979 (19,69,048)	17,73,122 (20,22,121)	3,047.66 (3,074.70)
Granite Slabs	19,807 (48, 691)	23,283 (44,953)	301.78 (891.04)
Earth Work (Sales receipts)	- (-)	- (-)	1,134.40 (2,562.75)

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

As may be seen from the above statement, production has declined in all the three segments namely, Vitrified tiles, Ceramic tiles and Granite by about 19.10%, 6.61% and 59.32% respectively compared to previous year. In the Vitrified tile segment sales revenue has declined by about 21.48%. But in Ceramic tiles the difference in sales revenue is not significant compared to previous year. The sales revenue of the granite division has considerably reduced by over 66%. Reasons for decline in production and sales has been explained in the directors report under the heading "operational performance". Consequent upon loss of production and also loss in sales revenue, the profit after tax for the financial year 2008-09 has declined from Rs.2,662.67 lakhs to Rs.18.08 lakhs compared to previous year.

### OUT-LOOK

The indications are that the recession faced by the construction industry has almost ended and the phase of revival has commenced. The Government policy for supporting the infrastructure / construction industry is positive. Home loans from banks are once again becoming customer friendly. The Company hopes that these developments in the construction industry will boost demand pattern for tiles and add strength to the tiles market.