

BOARD OF DIRECTORS

Dr. R N SHETTY

Chairman

Dr. SADANAND V NADIG

Shri K. SUNDAR NAIK

Dr. S.S. HIREMATH

Shri SUNIL R SHETTY

Shri SATISH R SHETTY

Managing Director & C.E.O.

Shri NAVEEN R SHETTY

Joint Managing Director

Company Secretary & Compliance Officer

Shri LAKSHMISHA BABU S

Vice President - Finance & C.F.O.

Shri N M HEGDE

Auditors

M/s. M A NARASIMHAN & CO.

Chartered Accountants

Bangalore

Bankers

CANARA BANK

STATE BANK OF INDIA

BANK OF BARODA

THE LAKSHMI VILAS BANK LTD

AXIS BANK LTD

ORIENTAL BANK OF COMMERCE

I N D E X

Particulars	Page No.
Notice of the Meeting	02 - 03
Directors' Report	04 - 07
Management Discussion & Analysis Report	08 - 10
Corporate Governance Report	11 - 17
Auditors' Certificate on Corporate Governance provisions	18
Auditors' Report	19 - 21
Statement of Accounts with Schedules thereon	22 - 36
General Business Profile	37
Cash Flow Statement	38 - 39
NOTES	40

Registered Office

Murudeshwar Bhavan

Gokul Road

HUBLI - 580 030

Ph : 0836-2331615-18

Fax : 0836-2330436/4252583

Plant

Krishnapur Village

HUBLI - 580 024

Ph : 0836-2206741

Fax : 0836-2206773

Kallabalu Village & Post

Via Bannerghatta

Jigani Industrial Area II Phase

Bangalore - 560 083

Ph : 080-27826946

Fax : 080-27826956

143, Ilayancudy Road

Devamapuram Village

Thirunallur Commune

KARAIKAL - 609 607

Pondicherry State

Ph : 04368-236899 / 236599

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NOTICE

To ,

**The Members
Murudeshwar Ceramics Limited**

NOTICE is hereby given that the Twenty Eighth 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 30th September, 2011 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, 2011 and the Profit and Loss Account for the year ended on the said date together with Directors' Report and Auditors' Report thereon.
2. To appoint a Director in place of Dr S S Hiremath, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Shri Naveen R Shetty, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

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

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

Place : Bangalore
Date : July 30, 2011

By Order of the Board
For Murudeshwar Ceramics Limited
LAKSHMISHA BABU S
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 24, 2011 to September 30, 2011 (both days inclusive).



NOTICE (Contd.)

- (6) Members seeking any information/clarification concerning the Accounts for the year 2010-11 are requested to send their specific request addressed to the Company Secretary at the Registered Office of the Company atleast seven days before the Annual General Meeting.
- (7) Members are requested to bring their copies of Annual Reports to the meeting and also to handover their attendance slips signed by the members/valid proxies at the entrance of the meeting hall.
- (8) Please also refer "General Information to Shareholders" in the annexure to Corporate Governance Report forming part of this Annual Report.

Place : Bangalore
Date : July 30, 2011

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

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

Item 6 : Appointment of Shri Annappayya Kundapur as Director.

Shri Annappayya Kundapur has been appointed as an Additional Director on the Board of Directors with effect from June 24, 2011. In terms of Section. 260 of The Companies Act, 1956, the appointment of such Director shall be valid upto the date of the Annual General Meeting. Company has received a Notice from Shri Annappayya Kundapur pursuant to provisions of Secn. 257 of The Companies Act, 1956 offering himself as a candidate to the office of Director. Brief resume of Shri Annappayya Kundapur is furnished forming part of the Corporate Governance Report.

None of the Directors except Shri Annappayya Kundapur himself may be deemed as concerned or interested in the aforesaid appointment.

Place : Bangalore
Date : July 30, 2011

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

GREEN INITIATIVE IN CORPORATE GOVERNANCE : GO PAPERLESS

Dear Shareholder,

Ref. : Our Letter dated June 01, 2011 addressed to all shareholders

Your company wishes to inform that the Ministry of Corporate Affairs (MCA), Government of India has allowed companies to send all its communications / documents to shareholders by electronic mode to their registered e-mail address. Your Company wishes to send all its communications / documents to shareholders by e-mail in future, hence we request our shareholders holding shares in electronic mode to register / update their e-mail address with their concerned Depository Participants and shareholders holding shares in physical mode with Company's Registrar and Transfer Agents Canbank Computer Services Limited by sending an e-mail to ravi@ccsl.co.in or naidu@ccsl.co.in. If you still wish to receive the document in physical form, kindly communicate your intention by sending an e-mail to ravi@ccsl.co.in or naidu@ccsl.co.in.

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

DIRECTORS' REPORT

To : The Members,
Murudeshwar Ceramics Limited

Your directors present the 28th Annual Report of the Company for the year ended on March 31, 2011 :

FINANCIAL RESULTS

Particulars	(₹ In Lacs)	
Sales income	18,556.76	19,996.80
Other Income	64.03	
Increase/(Decrease) in stock	1,346.01	
Total income		
Operational Expenditure	14,782.01	19,455.82
Interest	2,134.12	
Depreciation	2,539.69	
Total Expenditure		
Profit/(Loss) for the year		510.98
Less : Provision for tax	109.00	18.58
Add : Deferred Tax Assets	127.58	
Sub total		
Profit/(Loss) after tax		
Profit available for appropriation		529.56

OPERATIONAL PERFORMANCE

The performance of the Company has improvement during the year. The Global Recession which had badly hit the construction industry has slightly recovered. But an unhealthy competition from the unorganized market players who produce or import cheap tiles has made the Tiles market more volatile.

During the year under report the Company has produced 33,75,306 Sq.mtrs., of Vitrified tiles and 14,99,947 Sq.mtrs., of Ceramic tiles. Compared to previous year even though Ceramic tile production has reduced by about 28.81%, Vitrified tile production has increased by 12.02%. The sales income from Vitrified tiles has increased by 23.02% at ₹ 12,726.12 lacs compared to ₹ 10,344.70 lacs for the previous year. Sales income from Ceramic tile segment has improved by 23.43% at ₹ 4,063.55 lacs compared to ₹ 3,292.31 lacs for the previous year. The granite division did not produce any slabs during the year. The Company is finding it difficult to get quality granite blocks at reasonable prices.

In spite of the above hurdles the Company has managed to earn a profit of ₹ 529.56 lacs during the year through various cost cutting measures and by adopting good marketing strategies. Since the Company has just started recovering from losses suffered during the previous years, and Company is very keen to repay its debts. Hence your Directors have decided to skip the dividend for the year 2010-11. Your directors are working towards achieving higher results during the forth coming years.

PROSPECTS

The Order book position during the year has been good and on expected lines. The CEGRESS variety of tiles in vitrified segment introduced by the Company last year has started moving fast in the market. New designs and textures have been introduced which is fetching good market. The value added product in the vitrified segment in Hubli plant like granite series and special marble series are more in demand especially by corporate customers and big commercial establishments.

Some value added products such as profile cut design, step tiles etc, have been introduced to the market. The newly introduced Somerset Rustic & Wood Series Ceramic Tiles in bigger formats is slowly catching the market. We have also introduced Cegress Series (Application of Glaze on Vitrified Tiles with different colour and design), Aqua Magic Water jet decorative tiles in single and four tiles and various designs, Steps and Risers, Borders. We have received good response from our dealers as well as customers. The Company has started production of Durapave Exterior Tile in Anti Stain Coat in 400 x 400 mm size and 300 x 300 mm size. We are also planning to start production of Lapato Glazed Vitrified Tiles.



DIRECTORS' REPORT (Contd.)

The Karaikal unit is functioned with improved gas allocation. Efforts of the Chairman in impressing the Central Government for gas connection to the manufacturing unit at Hubli have fetched positive results and the Hubli unit is expected to get gas connection by 2012. Since the Construction Industries have slightly picked up their activities during the year, the Company is expecting a better growth in the near future.

MARKETING STRATEGY

The Management has adopted widest distribution network model to deliver products to the end user in quickest and most effective way. Management is also working hard to improve operating margins. The marketing department has been given emphasis to meet new challenges being faced in the market. The advertisement and publicity is under the control of professional team. The regular business promotional activities such as advertisements in News papers, magazines, outdoor publicity such as bus panels, hoardings, signboards etc., are taking place regularly. In order to create brand awareness Glow sing Boards, hoarding, wall painting, New Year calendar and display at dealer's premises are continued. The Marketing Team is in regular touch with the major Clients, Architects and Engineers.

Outsourcing of Vitrified Tiles and Ceramic Wall Tiles during the year has fetched better returns to the Company. The Company has also saved on transportation and other operating costs. This will provide some cushion to price the product a little more competitively.

Your Directors are hopeful to achieving better results in the year 2011-12.

RESEARCH AND DEVELOPMENT

The R & D wing of the Company is successful in introducing new Ball Clay for engobe to improve the quality of tiles and for vitrified body composition, imported ball clay usage quantity is reduced by using locally available ball clay which has resulted in improving the quality and reduction in cost of production. The R & D wing is continuously concentrating on inventing new products, upgrade variety, body matrix, shades and designs to suit market sentiments.

INCREASE IN THE SHARE CAPITAL

During the year the Company had issued 1,75,01,961 Equity Shares to the existing share holders on Rights Issue basis, hence the Paid up Equity share capital of the Company increased from ₹ 1,752.68 lacs to ₹ 3,502.88 lacs.

DIRECTORS

Shri K P Surendranath ceased to be a Director on the Board effective from 12.02.2011 due to death. Board expressed their deep sorrow for the sad demise of Shri K P Surendranath, who left for his heavenly abode. Board also appreciated his contribution to the Company.

The Board has appointed Shri Annappayya Kundapur as Additional Director with effect from June 24, 2011 Pursuant to Section 260 of the Companies Act, 1956 the term of such additional director is valid upto the date of ensuing Annual General Meeting. The Company has received a notice under Section 257 of the Companies Act, 1956 from Shri Annappayya Kundapur offering himself as a candidate to the office of Director. Necessary resolution is placed before the members for approval. Brief particulars of the above director have been furnished in the Corporate Governance Report which forms part of this Annual Report.

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

AUDITORS

The present auditors M/s. M A Narasimhan & Co., Chartered Accountants, Bangalore, will be holding office as Auditors of the Company until conclusion of the ensuing Annual General Meeting. The said Auditors being eligible have consented to be reappointed. Necessary resolution will be placed before members for approval.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

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

DIRECTORS' REPORT (Contd.)**CORPORATE GOVERNANCE PROVISIONS**

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

AUDIT COMMITTEE

During the year under report the Audit Committee consist of three Non-Executive Directors namely Dr. R N Shetty, Dr. Sadanand V Nadig and Shri. K P Surendranath (upto 12.02.2011). Shri K P Surendranath was the Chairman. Shri P A Ravish Company Secretary was the secretary upto 30.05.2010 and Shri Lakshmisha Babu S Company Secretary is the Secretary of the Committee with effect from 02.06.2010.

DEPOSITS

As at the end of the year under report the Company had 14 deposit accounts for ₹ 27.09 lacs. As on 31.03.2011, one (1) account for ₹ 25,000/- remained not claimed by the concerned depositor. Efforts are being made to locate the party and advise him to claim repayment by surrendering the original deposit receipt.

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

As per requirements of Section 217(1)(e) of The Companies Act, 1956 read with The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, necessary particulars are furnished in the annexure forming part of this report.

PARTICULARS OF EMPLOYEES

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

DIRECTORS RESPONSIBILITY STATEMENT

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

- 1) In preparation of the annual accounts for the year 2010-11, the Company has followed the applicable accounting standards prescribed under Secn.211 (3C) of The Companies Act, 1956 and there is no material departure from the same ;
- 2) Your Directors have selected and consistently applied such of the accounting policies and made judgments and estimates thereon, that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company for that period ;
- 3) Your Directors have taken proper and sufficient care for maintenance of adequate accounting records in accordance with the applicable provisions of The Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities ;
- 4) The Company has prepared the annual accounts 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 30, 2011

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

ANNEXURE TO DIRECTORS' REPORT

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

A. CONSERVATION OF ENERGY :

(a) Energy Conservation measures taken :

Energy conservation measures taken for vitrified body-vertical and horizontal shaft impactors are introduced to make granulation of feldspar lumps. The granulized material brings down the grinding hours in the ball mill at body recipe milling which in turn will reduce milling time and saves electrical energy.

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

Additional impactors will be purchased to match the production capacity for both Hubli and Karaikal Plant.

(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 : Electrical energy cost reduction in the production of Vitrified Tiles.

(d) Total energy consumption and energy consumption per unit of production : - Not Applicable -

B. TECHNOLOGY ABSORPTION :

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

C. FOREIGN EXCHANGE EARNINGS AND OUTGO :

(a) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans : - Nil -

(b) Total Foreign Exchange used and earned :

Foreign Exchange Earnings : -Nil-

Foreign Exchange Outgo : ₹ 116.30 lacs

FORM B

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION

RESEARCH AND DEVELOPMENT (R & D)

1. Specific areas in which R & D was carried out by the Company

- a. For Vitrified body composition imported ball clay usage quantity is reduced by using locally available ball clay.
- b. Raw materials development for cloudy double charger production.
- c. Raw Material - New ball clay being introduced for engobe to improve the quality of the tiles.

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

- a. Quality improvement and Reduction in the cost of production.
- b. New product for which better sale price in the market.

3. Future plan of action

Glazed Wall tile production.

4. Expenditure on R & D

(₹ in lacs)

Particulars	2010-2011	2009-2010
a) Capital	1.99	0.40
b) Recurring	1.56	2.39
c) Total	3.55	2.79
d) Total R & D expenditure as a percentage of total turnover	0.02	0.02

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

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

Successful Lab & Line Trial production of Satin Matt - Glazed Ceramic Tiles.

2. Benefits derived as a result of the above efforts

New series of Vitrified Tiles with better selling price in the market.

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 : Cloudy Double Charger for New Series of Vitrified Tile Production
- b) Year of import : 2010-2011
- c) Has technology been fully absorbed : Yes
- d) If not 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 Ceramic and Vitrified Tiles in India are used in houses, educational and research institutions, hospitals, Industries, hotels, restaurants, cinema halls and other public places both in terms of interiors and outdoors. The Ceramic and Vitrified Tiles are heavily influenced by consumer preferences for which the producers have responded in producing tiles with wider style, bigger size, new designs including decorative floor tiles. Innovations in installations and grout have also benefited the industry by using of tiles not only on floors but on wall and counter top applications as well. The market of Ceramic and Vitrified Tiles now a days are better because of improved living standard of people along with supporting Govt. policies for housing sector. Now a days even in rural areas people prefer Ceramic and Vitrified tiles for their residences

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

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

OPPORTUNITIES

The industry's potential appears attractive with the increased demand for Ceramic/Vitrified tiles from rural areas and smaller cities, Ceramic industry is getting back to normalcy after the slowdown effect in recent times. The demand for Ceramic/Vitrified tiles have also increased from urban housing, retail, IT and BPO sectors because they are now used for aesthetic besides utility reasons, hygiene reasons, improved living standard of people along with supporting Govt. policies for housing sector. The main consumers of these Ceramic and Vitrified tiles are educational and research institutions, hospitals, Industries, hotels, restaurants, cinema halls and other public places.

The new CEGRESS variety of tiles introduced for last year has concord great sales in the market and the Company is expecting its further sales from the product. The order book positions of the Company are encouraging. Supply of Natural Gas to Karaikal unit has improved since October, 2010 and supply of Natural Gas to Hubli Plant is expected to start from December 2012.



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

The Company which had started outsourcing production of select varieties of Vitrified tiles under its brand name to other manufacturing units last year has fetched good results and the Company has saved considerable amount on transportation. The cost so saved has enabled the Company to be more competitive in pricing the product.

THREATS

Since Ceramic tile industry is capital intensive it requires huge amount of Fixed Costs. The competition from the unorganized market players has been increased. Excise Duty on Ceramic and Vitrified tiles has increased from 8% to 10% in the last Central Budget. Natural Gas rate at Karaikal has increased from ₹ 5.56 per SCM to ₹ 9.50 per SCM. The power rate has been increased drastically in both the units at Hubli and Karaikal.

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

The Segment-wise performance for the year ended on 31.03.2011 is furnished hereunder:

SEGMENT	PRODUCTION (in Sq. Mtrs.)	SALES	
		Volume (Sq.Mtrs.)	Value (₹ in lacs)
Vitrified Tiles	33,75,306 (30,13,184)	37,92,605 (29,54,188)	12,726.12 (10,344.70)
Ceramic Tiles	14,99,947 (21,07,084)	21,88,120 (18,85,859)	4,063.55 (3,292.31)
Granite Slabs	- (23,043)	2,413 (16,979)	15.74 (202.31)
Earth Work (Sales receipts)	- (-)	- (-)	1,751.35 (-)

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

As may be seen from the above statement, production of Ceramic tiles has been reduced by 28.81% and Vitrified tiles production has increased by 12.02% and Granite has not been produced during the year which leads to reduction of 100% as compare to that of previous year. The sales revenue of the Ceramic and Vitrified division has grown by 23.43% and 23.02% respectively, where as for Granite division it has been reduced by 92.22%. Overall sales revenue has increased by 34.09% which is ₹ 18,556.76 lacs for the year under report. With the result the Company has incurred a profit of ₹ 529.56 lacs for the year under report compared to loss of ₹ 1,530.77 lacs for the previous year.

OUT-LOOK

The Management constantly endeavour to provide customers with the finest Ceramic/Vitrified tiles through its exhaustive product range, innovative designs and sophisticated colors. The Management is constantly exploring latest technology to manufacture products with commitment to give quality products to customers at low costs. The demand from retail market is quite encouraging to the tile industry. While continuing the present strategy the Company is also planning to increase the leg work by increasing the sales staff to combat the competition by closely monitoring the projects with the contractors, architects etc. The strategy of incentive based pay package to sales staff linked with sales is also on the anvil. Company in order to increase the outsourcing volumes from different manufacturers and also to increase the wall tiles volumes is making necessary arrangements.

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

Fuel prices are high and unstable due to continuous increase in energy prices in the international market which has significantly put pressure on margins. Retaining skilled professional is also a major concern, however best H R practices are in place to retain the talent and reduce the attrition rate. Delay in installation of natural gas pipeline from Government is major hindrance at Hubli unit and also unavailability of quality Coal at Hubli plant is the major concern for the Company. The entry of unorganized sectors has been increased and the unhealthy competition from such unorganized sectors has made the tiles market more volatile. The tiles manufactured by such unorganized sectors even though cannot match the tiles produced by larger organized industries in terms of quality, will still affect the retail market which constitute a larger part of the tiles market in India. The price of petroleum products is increasing frequently which leads to increase in cost of inputs and transportation cost.

INTERNAL CONTROL SYSTEMS AND ADEQUACY

Day to day administration is looked after by the Managing Director and the Joint Managing Director under supervision, control and guidance of the Executive Committee of Directors headed by Dr. R N Shetty as Chairman. The Company has a separate internal audit department with experienced staff, placed under the supervision and control of the Vice President (Finance) and CFO. The system control of the Company is functioning efficiently with most of the branches electronically connected with the Head Office. The organizational set up and the system control have been efficient. The internal control procedures are adequate and efficient.

MATERIAL DEVELOPMENT IN HUMAN RESOURCES / INDUSTRIAL RELATIONS

As at the end of the year the Company had 614 employees on the rolls. The Company continued to engage services of senior level personnel even at branches level to ensure better control and coordination. Management also continues to give due importance for Manpower training and motivation. Customer care and Customer satisfaction are being ensured with meticulous care. The understanding between the Management and workers continues to be cordial.

CAUTION

Opportunities, threats, outlook, forecasts in any form and manner, made in this section or any other sections of this Annual Report are purely based on management perceptions made on situations as could be reasonably foreseen under the existing conditions. But various factors viz., capacities else where, technology related matters, inflationary trends, unexpected recession and changes in policies of the Government etc., may impair such perceptions and adversely impact on calculations of the management.

Place : Bangalore
Date : July 30, 2011

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