CAUTIOUS OPTIMISM

NITCO LIMITED | Annual report 2013-14

Forward-looking statements

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Contents

Corporate information

Board of Directors
Mr. Vivek Talwar, *Managing Director*

Mr. Pradeep Saxena, *Director*

Mr. Vishal Malik, *Director*

Mr. Rohan Talwar, *Director*

Mr. Rakesh Kumar, *Nominee Director*

Chief Executive Officer
Mr. Ashok Goyal

Chief Finance Officer
Mr. B.G. Borkar

Company Secretary and Compliance Officer
Mrs. Reena Raje

Auditors
A. Husein Noumanali & Co., Chartered Accountant

Corporate Office
Nitco Limited
Nitco House, Station Road
Kanjur Marg (East)
Mumbai – 400042, Maharashtra
Tel: 91 22 67521555
Fax: 91 22 67521500

Registered office
Nitco House
Recondo Compound
S.K. Ahire Marg, Worli,
Mumbai 400 030
Tel: 91 22 66164555
Fax: 91 22 66164657

Works
Ceramic tile division
Village Shrigaon, Taluka Alibaug,
Post Poynad,
District Raigad, Maharashtra

Marble division (Mumbai)
Nitco Marble Land,
Plot no. 3, Kanjur village Road
Kanjur Marg (East),
Mumbai 400 042, Maharashtra

Marble division (Silvassa)
Survey No. 176, Village Silli,
Silvassa 330 396

About us

Nitco (Northern India Tiles Corporation) Limited was established in 1966 by Mr. Pran Nath Talwar, a first generation entrepreneur. The Company is engaged in providing floor and wall solutions with a portfolio comprising a comprehensive range of tiles, marbles and mosaic. The Company has also forayed into real estate development.

The Company's equity shares are listed on the Bombay and National Stock Exchanges. The promoters held 69.54% of the Company's equity as on 31st March 2014.

Presence

Nitco is headquartered in Mumbai and possesses a pan-India distribution network comprising 1,100 dealers and more than 5,000 retail outlets (at the close of 2013-14).

The Company's manufacturing units are strategically located in various locations; its ceramic tiles division is located in Alibag (in Maharashtra); its joint venture for manufacturing tiles is located at Morbi (Gujarat); its marbles division is located in Mumbai (Maharashtra) and Silvassa (Dadra and Nagar Haveli).

Clientele

Apart from catering to domestic demand, the Company enjoys a sizeable global client base serviced overseas through exports to Bahrain, Oman, Qatar, Taiwan, Saudi Arabia, Europe and Africa, among others.

Awards

- Thirteen Capexil awards for exports
- Two Construction World awards
- Economic Times 'Design Wall' award
- Best SAP Implementation award
- Ranked 20th among the 'Dream companies to work for' category at the World HRD Congress

Certifications

Nitco is certified with world-class credentials comprising ISO 9001:2008, 14001:2004 and 18001:2007.

Key corporate highlights, 2013-14

- The Company entered the digital wall tiles segment in 2013-14.
- The Company entered into a joint venture, which commissioned a new plant at Morbi with a capacity of 8 million sqm per annum.

Product portfolio

The Company manufactures a vast portfolio of tiles (floor and wall), marble and mosaico.

Product	Portfolio
Floor tiles	Ceramic tiles, vitrified tiles – soluble salt, ultra/double charged, gres porcelain tiles (Naturoc) and HD digital tiles
Wall tiles	HD digital tiles – Base tiles and highlighters
Marble	Natural marble and engineered marble
Mosaico	Signature collection, magnum opus collection, décor collection, solitaire collection, crest collection, frame collection, step risers and skirtings

Innovation at Nitco

Nitco manufactures a range of innovative products, comprising the following;

- Rustic tiles utilising a unique 'dry powder application' technology which imparts a natural 'stone' feel with undulated surfaces embellished using a special glaze
- 600x600 mm glazed vitrified tiles of which the Company is among the largest manufacturers in India.
- Super gloss floor tiles with an enhanced aesthetic finish similar to natural stone
- 100% matte finish tiles in satin and rustic finishes with anti-skid properties, addressing medium to heavy footfall traffic
- Dirt-free tiles leveraging unique sharp-edge technology and cut into a perfect square with minimal joints; besides, micro-porosity keeps tiles dirt-free and impervious to bacterial decay
- Rectangular wood strips that reconcile the texture and colours of natural wood with the durability of superior quality porcelain

Premium wall tiles (size: 300x600 mm, 300x900 mm, 300x450 mm), (finish: gloss, matte and satin matte) with 101 SKUs.

Small wall tiles (size: 200x300 mm, 225x330 mm), (finish: gloss, matte and satin matte) with 83 SKUs.

Wall grandeur (size: 600x300), (finish: gloss).

Over the years...

1966

- Incorporated as NITCO Tiles Pvt Limited.
- Commenced cement tiles manufacture at Thane (Mumbai).

1984

- Commenced marble processing at Kanjurmarg.

2007

- *Best SAP* Project Implementation award from SAP India Ltd
- Received marble import license by the DGFT.
- Entered real estate development through Nitco Realties (subsidiary) with 100% shareholding
- Launched 16 exclusive showrooms under the Le Studio brand

2008

- First *Construction World* award win
- Embarked on the creation of exclusive franchised showrooms under Le Studio Express.

2009

- Second *Construction World* award win
- Received ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 certifications
- GAIL commenced RLNG supplies at the Alibaug unit

2010

- Launched premium category porcelain tiles under the Naturoc brand

1997

- Commissioned the Alibaug ceramic tiles unit

2002

- Received the *Quality Excellence* award for the Alibaug unit from the Institute of Trade and Industrial Development

2004

- Upgraded the Alibaug plant for manufacturing porcelain tiles

2006

- Mobilised Rs.168 crore through IPO
- Listed on the BSE and NSE
- Expansion of ceramic tiles capacity at Alibaug
- Installed six windmills (7.5 MW) at Dhule (Maharashtra)

2011

- Commissioned a 5.5 MW cogeneration gas-based power plant at Alibaug
- Completed the construction of the Biz Park at Thane, spread across 2 lac ft

2012

- Commenced commercial operations of marble processing plant at Silvassa
- Installed automatic pelletiser and polishing line at the ceramic tiles plant at Alibaug

2013

- Ranked 20th among *'Dream companies to work for'* by the World HRD Congress
- Acquired 51% stake in the equity of New Vardhman Vitrified Private Limited

2014

- Commenced production through the joint venture
- Launched digital wall tiles

Q&A with the Managing Director

For the last several years, Nitco had selected to remain simply a floor tiles company. One of the things that we had noticed during the years was growing customer willingness to buy the entire complement of their requirement – walls and floors which we could not address because we did not possess any wall tile capacity.

Q: Were you pleased with the Company's performance in the last financial year?

A: Yes and no. Yes, because despite exigent circumstances, the Company reported only a slight decrease in revenues to Rs 757 crore in FY14 against Rs. 769 crore in FY 13, indicating that the Nitco brand enjoyed popular acceptance in the tiles market. No, because of an EBIDTA loss of Rs 26 crore, which took some sheen off from what was a creditable performance.

Q: What were some of the positives that the Company emerged with during this challenging year?

A: Shareholders need to appreciate the manner in which the Company evolved its revenue mix to deal with a rapidly changing marketplace. A few years ago, the Company imported nearly 70% of its product mix with the conviction that it was more prudent to remain asset-light by sourcing high-end vitrified tiles than commission greenfield capacities.

However, two things happened since that adversely affected the viability of this approach: one, the Indian currency weakened considerably, which not only made imports more expensive but also resulted in a significant loss, the effect of which continues to this day. The result is that during the year under review, imports from China were moderated to a mere 5% of our overall mix, which was well within our risk profile.

Concurrently, the Company raised the proportion of domestic outsourcing from near-nil a few years ago to 66%, the other 29% being contributed by our existing Alibaug operations. So even as this may not be visible in our financials of 2013-14, the reality is that from an operations and sourcing perspective, Nitco arrived at a point of comfort during the year under review.

Q: What were some of the positives to emerge that were not easily visible in the financials?

A: If shareholders see the figure alongside inventories in our Balance Sheet, they will see a reduction from Rs 232.71 crore in 2012-13 to Rs 200.35 crore in 2013-14. This is the result of tighter inventory control over our pan-India operations. Earlier, we had six mother warehouses across India that provided material to regional warehouses that, in turn, addressed the growing needs of dealers. While the establishment of this network was justified on the grounds that this made it quicker for us to respond to marketplace requirements, we recognised that the cost of doing business this way was higher than what would have been considered ideal.

During the year under review, the Company implemented a factory-to-dealer distribution linkage, which helped rationalise the in-pipeline material lying across the country. The benefits of this inventory rationalisation enhanced our fiscal efficiency; we also moved to the 'customer-pays-freight' arrangement that helped us save nearly Rs 30 crore in transportation costs during the year. The aggregated value of these savings was sizeable in 2013-14 even though the effect of this could not become visible due to legacy problems and a relentless increase in fuel costs by GAIL.

Q: Through what other initiatives did the Company strengthen its working?

A: For the last several years, Nitco had selected to remain simply a floor tiles company. One of the things that we had noticed during the years was a growing customer willingness to buy the entire complement of requirements – walls and floors which we could not address because we did not possess any wall tile capacity. During the year under review, we made a significant tweak in our business model by commissioning the production of wall tiles at our Morbi joint venture (installed capacity 10,000 SQM a day) in June 2013. I am pleased to state that the output was well-received by our primary (dealers) and secondary customers.

Q: Shareholders will be keen to know whether the health of the Nitco brand was protected during this challenging year.

A: This is something that we are particularly proud of. The strength of our brand was visibly showcased in various exhibitions like ACETEC, CAPEXIL and Times Property Expo etc. We enjoyed the continuing loyalty of as many as 1,100 dealers; if one goes by the health of our principal asset – the Nitco brand – then I am happy to state that we continued to be robustly healthy despite several constraints.

Q: What were some of the principal challenges encountered by the Company during the year under review?

A: The principal challenge was clearly an unprecedented increase in the cost of fuel (gas). This cost accounted for 8% of our overall expenditure (not including interest). However, over the last two years, there has been a significant increase in the price of RLNG: from Rs 496 per MMBTU in March 2012 to Rs 768 per MMBTU in March 2013, rising to Rs. 1005 per MMBTU in November 2013 and Rs 950 per MMBTU in March 2014. The result is that of the manufacturing cost incurred directly by us, there was net increase in our outgo on power and fuel cost by Rs 13 crore at our Alibaug plant. Further, our procurement costs from vendors increased by Rs. 6.40 crore to compensate for the fuel cost increase by the respective units. Without this impact, I have no hesitation in stating that we would have been in a better position during the year under review. However, it would be relevant to state that the impact would have been worse but for the proactive use of coal in our spray driers and other areas which ushered considerable savings. Due to adverse market conditions, the real estate assets could not be monetised, which resulted in a high debt and interest burden.

Q: How does the Company expect to perform in 2014-15?

A: We are cautiously optimistic of the Company's prospects in the current financial year. For one, we expect to report a double-digit growth in revenues with stronger organisational efficiency (management of dealers, inventory, fuel, product portfolio and franchisee outlets).

To address this encouraging reality, the Nitco team has broken targets down into categories – products, markets and dealers – with periodic monitoring and timely corrective action in the event of short-term deviations. In view of these realities, we expect to break even at the EBIDTA level by the end of the current financial year.

Q: The Company's market capitalisation stood at Rs 82.87 crore as on 31 March 2014, way below industry peers. How does the Company expect to enhance shareholder value?

A: At Nitco, we recognise that the only way to accelerate profitable growth is through an asset-light approach. In view of this, we will continue to increase the proportion of outsourcing and even look for more joint venture alliances.

One of the initiatives high on the Company's priorities is the proposed disposal of our real estate assets with the objective to moderate debt on the Company's books, which will liberate it for faster growth.

With steps being taken for the monetisation of real estate assets and expected improvement at the EBITDA level, the Company is hopeful of a turnaround in the near future.

Business model

Distribution network
With a strong distribution network, Nitco caters to demand from across India. Widening its presence further, the Company has built a loyal global client base as well. The Company has increased its distribution network in North and East Zone to catalyze offtake.

Brand equity
The Nitco brand stands for pioneering innovation in glazed vitrified tiles and ceramic floor tiles, of which the Company is among the largest manufacturers in India. The Company also manufactures rustic tiles utilising a unique 'dry powder application' technology, which imparts a natural 'stone' feel with undulated surfaces, embellished using a special glaze.

Asset-light
Nitco re-oriented its operating model to a joint-venture led approach, whereby much of its incremental capacity is deployed through the latter.

Multi-segment
Although a major segment of the Company's business comprises tiles, Nitco also has interests in marble and digital wall tiles, enabling it to offer complete flooring solutions. Besides, the Company is also engaged in real estate development.

Customer-focused
Nitco's products are sold across the retail and institutional channels, enabling it to enhance its customer base, drive volumes and margins