



NITCO TILES LIMITED, ANNUAL REPORT 2003-2004

FORWARD-LOOKING STATEMENTS

Forward-looking statements in this Annual Report should be read in conjunction with the following cautionary statements. Certain expectations and projections regarding future performance of the Company referenced in this Annual Report are forward-looking statements. These expectations and projections are based on currently available competitive, financial and economic data along with the Company's operating plans and are subject to certain future events and uncertainties, that could cause actual result to differ materially from those that may be indicated by such statements.



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DIRECTORS' REPORT

To the Members,

Your Directors take pleasure in presenting the Annual Report with the audited statement of accounts of the Company for the year ended 31st March, 2004.

FINANCIAL RESULTS

The highlights of the financial results for the financial year ended 31st March 2004 are:

(Rs in Lacs)

	31.03.2004	31.03.2003
Sales and other Income	17238.76	15110.66
Profit before interest and depreciation	2213.00	2290.56
Less: Interest and other Financial Charges	762.44	978.69
Gross Profit	1450.56	1311.87
Less: Depreciation	524.94	489.08
Profit before Tax and Extra-Ordinary items	925.62	822.79
Less: Provision for Income Tax	70.00	65.00
Less : Provision for Deferred Taxes	304.85	157.32
Profit after Tax	550.77	600.47
Add: Excess Provision for Tax in earlier Year	(4.15)	44.55
Less : Deferred Tax Liability upto 31.3.2002	0.00	800.70
Add: Balance brought forward from previous year	2487.69	2643.37
Less : Transfer to Capital Redemption Reserve	965.00	0.00
Profit Carried Forward to Balance Sheet	2069.31	2487.69

REVIEW OF OPERATIONS

Sales during the year increased by 14.08 % over the previous year while the Profit before Tax increased by 12.50 %. Your Directors are pleased to report that all the divisions of the company have achieved increased volume sales over the previous year. In the prevailing liberalised import environment, and increased competition from the domestic manufacturers, the company was subjected to pressures on the margins of all its products. With tensions in West Asia continuing to cast an adverse impact of the global oil prices, the increased fuel costs to the company and the withdrawal of sales tax exemption with effect from February 2004 also impacted profits from the core manufacturing operation. The company continued to spend resources on brand building and

promotional activities, which also had an effect on the net profits of the company. Interest rates continued to be soft and showed a trend to be in alignment with global low interest rates. Prudent working capital management, and inventive financial restructuring of replacing high cost loans with low cost borrowings to take advantage of the declining interest rates also helped in lowering interest and other financial charges in the year. Your Directors are also pleased to inform you that the Preference Shares issued to ICICI Bank aggregating Rs.9.65 crores were redeemed during the year.

CURRENT YEAR OUTLOOK

The World has been witness once again, with awe, wonder and amazement, to the vibrant democracy that is India. We hope that the new Government at the Centre, will continue with the pace of reforms even though there will be changes in the method. Continuing tensions in West Asia are a cause of concern due to the resultant high fuel prices, which will adversely affect the competitiveness of the Indian Industry. We are sure that the thrust on the Housing Sector will continue.

Continuing low interest rates on housing finance has contributed to a continuing building boom in the country. With increased flooring options available at varying price points, the Indian consumer has never had it so good. Your company has a well established and recognised brand and its range of products is available to suit different requirements at all price points and therefore is well poised to partake a good share of the huge market and thus expects an encouraging performance in the coming year.

EXPORTS

Due to improvement in the domestic demand and lower prices prevailing in the international market coupled with appreciation of the Indian Rupee, the company consciously restricted its level of exports. The Company's exports during the year ended 31st March 2004 was Rs.663.51 Lacs as compared to Rs.1326.34 lacs achieved during the previous year.

DIVIDEND

In order to conserve the financial resources to meet the increased fund requirements of the business, your Directors do not recommend payment of equity dividend for the year under review.

DIRECTORS

Mr. Dinesh Kanabar, Director of the Company, retires by rotation at the forthcoming Annual General Meeting and being eligible offers

himself for reappointment. Your Directors recommend his reappointment.

Mr. N.P.Subramanian, Nominee Director appointed by ICICI Bank, ceased to be a Director of the company from 4th June 2004 as ICICI Bank has withdrawn the nomination. We place on record our appreciation his contribution to the company's affairs.

DIRECTORS' RESPONSIBILITY

Pursuant to Section 217(2AA) of the Companies Act as amended by the Companies (Amendment) Act, 2000, the Directors confirm that:

- i) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanations relating to material departures,
- ii) Appropriate accounting policies have been selected and applied consistently and have made judgements and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the company as on 31st March 2004 and of the Profit of the Company for the year ended 31st March 2004.
- iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) The annual accounts have been prepared on a going concern basis.

PARTICULARS OF EMPLOYEES AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956

Information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended forms part of this Report.

AUDITORS

The present auditors of the Company, M/s. A. Hussein Noumanali & Co. retire at the conclusion of the Annual General Meeting and being eligible, offer themselves for reappointment. Your Directors recommend their appointment.

PARTICULARS AS PER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988.

A. CONSERVATION OF ENERGY

The company's manufacturing operations are energy intensive.

The concern for more efficient utilization and conservation of energy has remained not only in the domain of the top management but has also percolated to the shopfloor. Continuous improvements in the manufacturing processes and practices are carried out with one of the objectives of energy conservation.

B. TECHNOLOGY ABSORPTION

The entire Plant and Machinery for the manufacture of ceramic tiles has been imported from SACMI, Italy on a turnkey basis. The Company's technicians have been imparted training in maintenance of these equipment's by SACMI. The technology has been fully absorbed by the Company's personnel. Barring major problems, the Company's technical personnel are fully competent and equipped to attend to preventive maintenance of the machines. The Company has also identified vendors for indigenously procuring certain spare parts of the machines.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

The information on foreign exchange earnings and outgo is furnished in the Notes to the Accounts.

APPRECIATION

Your Directors wish to place on record their sincere thanks to:

Customers, who continue to be delighted in the company's range of products and their quality, and who therefore continue to patronise the company's products in spite of competition.

Banks, Financial institutions for their unwavering faith in the company in extending their support to the company at all times, and to the various Government Departments who have extending their support and co-operation to the company at all times.

Employees of the company whose sincere efforts add to the strength of the company.

For and on behalf of the Board of Directors

Place : Mumbai

Date : 11th June, 2004

P.N. TALWAR

Chairman

AUDITORS' REPORT

To The Members of Nitco Tiles Limited

We have audited the attached Balance Sheet of M/s NITCO TILES LIMITED as on 31 March 2004 and also the Profit & Loss Account of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraph 4 of the said Order.

Further to our comments in the Annexure referred to above, we report that :

- 1) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- 2) in our opinion proper books of accounts as required by law have been kept by the Company, so far as appears from our examination of the books;

- 3) The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of accounts;
- 4) in our opinion, the Balance Sheet and Profit & Loss Account dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 to the extent applicable.
- 5) on the basis of written representations received from the directors of the Company, as on 31 March 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
- 6) in our opinion and to the best of our information and according to the explanation given to us, the said accounts give the information as required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :
 - a) in the case of the Balance Sheet of the state of affair of the Company as at 31 March 2004. and
 - b) in the case of Profit & Loss account of the Profit for the year ended on that date.
 - c) In the case of the Cash Flow Statement of the cash flow for the year ended on that date.

For A. Husein Noumanali & Co.
Chartered Accountants

Address
Fountain Chamber, 1st floor,
1-c Nanabhai Lane, Fort,
Mumbai : 400 001
Date : 11th June, 2004

A.Husein Noumanali
Proprietor
M.NO. 14757

ANNEXURE TO THE AUDITORS' REPORT

- 1 (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets;
- (b) As per the information and explanations given to us, physical verification of fixed assets has been carried out in terms of the phased programme of verification of its fixed assets adopted by the Company and no material discrepancies were noticed on such verification. In our opinion, the frequency of verification is reasonable, having regard to the size of the Company and nature of its business.
- (c) During the year, the Company has not disposed of any substantial / major part of fixed assets.
- 2 (a) Physical verification of inventory has been conducted during the year by the management at reasonable intervals.
- (b) In our opinion and according to the information and explanations given to us, procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company has maintained proper records of inventories and discrepancies noticed on physical verification of inventories as compared to book records were not material.
- 3 (a) The Company has not granted any loans to companies, firms or other parties covered in the Register, maintained under Section 301 of the Companies Act, 1956. The Company has taken loans from four parties covered in the Register maintained under Section 301 of the Companies Act, 1956, and the amount outstanding as on 31st March, 2004 is Rs. 413.38 lacs.
- (b) The rate of interest and other terms and conditions on which loans have been taken by the Company are not, *prima facie*, prejudicial to the interest of the Company. The Company has not given any loans during the year.
- (c) In respect of loans taken, the Company has been regular in repayment of principal and interest wherever applicable.
- (d) In respect of such loans taken by the Company, there are no overdue amounts more than Rs. 100,000/-.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of inventory and fixed assets and for the sale of goods. During the course of our audit, no major weakness has been noticed in the internal controls.
- 5 (a) In our opinion and according to the information and explanations given to us, transactions that need to be entered into the Register in pursuance of Section 301 of the Companies Act, 1956 have been so entered.
- (b) In our opinion and according to the information and explanations given to us, the transactions exceeding Rupees Five Lakhs in respect of each party made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 have been made at prices, which are reasonable having regard to prevailing market prices at the relevant time.
6. The Company has not accepted any deposits during the year from the public within the meaning of the provisions of Section 58A and 58AA of the Companies Act, 1956 and rules made thereunder. Hence, the Clause (vi) of the order is not applicable.
7. In our opinion, the Company has an internal audit system commensurate with the size of the Company and the nature of its business.
8. Paragraph 4(viii) is not applicable as the Company is not required to maintain records u/s 209(1)(d) of the Companies Act, 1956.
- 9 (a) According to the records of the Company, the Company is regular in depositing undisputed statutory dues including Employees' State Insurance, Income-tax, Sales-tax, Wealth-tax, Customs Duty, Excise Duty, Cess and other statutory dues with appropriate authorities. According to the information and explanations given to

us, there are no undisputed amounts payable in respect of such statutory dues which have remained outstanding as at 31st March, 2004 for a period more than six months from the date they became payable.

- (b) According to the records of the Company, the dues of sales tax, income-tax, customs, wealth-tax, excise duty, cess which have not been deposited on account of disputes and the forum where the dispute is pending are as under:-

Name of the Statute	Nature of the dues	Amount (Rs.)	Forum where dispute is pending
Customs Act	(a) Redemption fine/ penalty on import of marble	9,30,000	CESTAT, Mumbai
	(b) Anti Dumping duty demand	518,26,066	Commissioner (Appeals)
Central Excise Act	Excise Duty demand	5,40,333	Commissioner (Excise), Thane
Sales Tax Act	Sales Tax Demand	13,43,808	Addl. Commissioner of Sales Tax, Mazagon

10. The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the financial year under report and the immediately preceding financial year.
11. The Company has not defaulted in repayment of its dues to financial institutions and banks.
12. The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures or other securities.
13. The provisions of any Special Statute applicable to Chit Fund, Nidhi or Mutual benefit Fund / Societies are not applicable to the Company.

14. The Company is not dealing or trading in shares, securities, debentures or other investments and hence, the requirements of Para 4(xiv) are not applicable to the Company.
15. According to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks and financial institutions.
16. According to the information and explanations given to us, the term loans raised during the year have been applied for the purpose for which they were raised.
17. According to the cash flow statement and other records examined by us and the information and explanations given to us, on an overall basis, funds raised on short term basis have, *prima facie*, not been used during the year for long term investment (fixed assets, etc.) and vice versa, other than temporary deployment pending application.
18. The Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956.
19. No debentures have been issued by the Company and hence, the question of creating securities in respect thereof does not arise.
20. The Company has not raised any money by way of public issues during the year.
21. On the basis of our examination and according to the information and explanations given to us, no fraud, on or by the Company, has been noticed or reported during the year.

For A. Husein Noumanali & Co.
Chartered Accountants

Address :
Fountain Chamber, 1st floor,
1-c Nanabhai Lane, Fort,
Mumbai : 400 001
Date : 11th June, 2004

(A. Husein Noumanali)
Proprietor
M.NO. 14757