

NITCO LIMITED

Innovation for a better life

(Formerly Nitco Tiles Limited)

ANNUAL REPORT 2008–09





NITCO LIMITED

Innovation for a better life

www.nitcotiles.com

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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 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

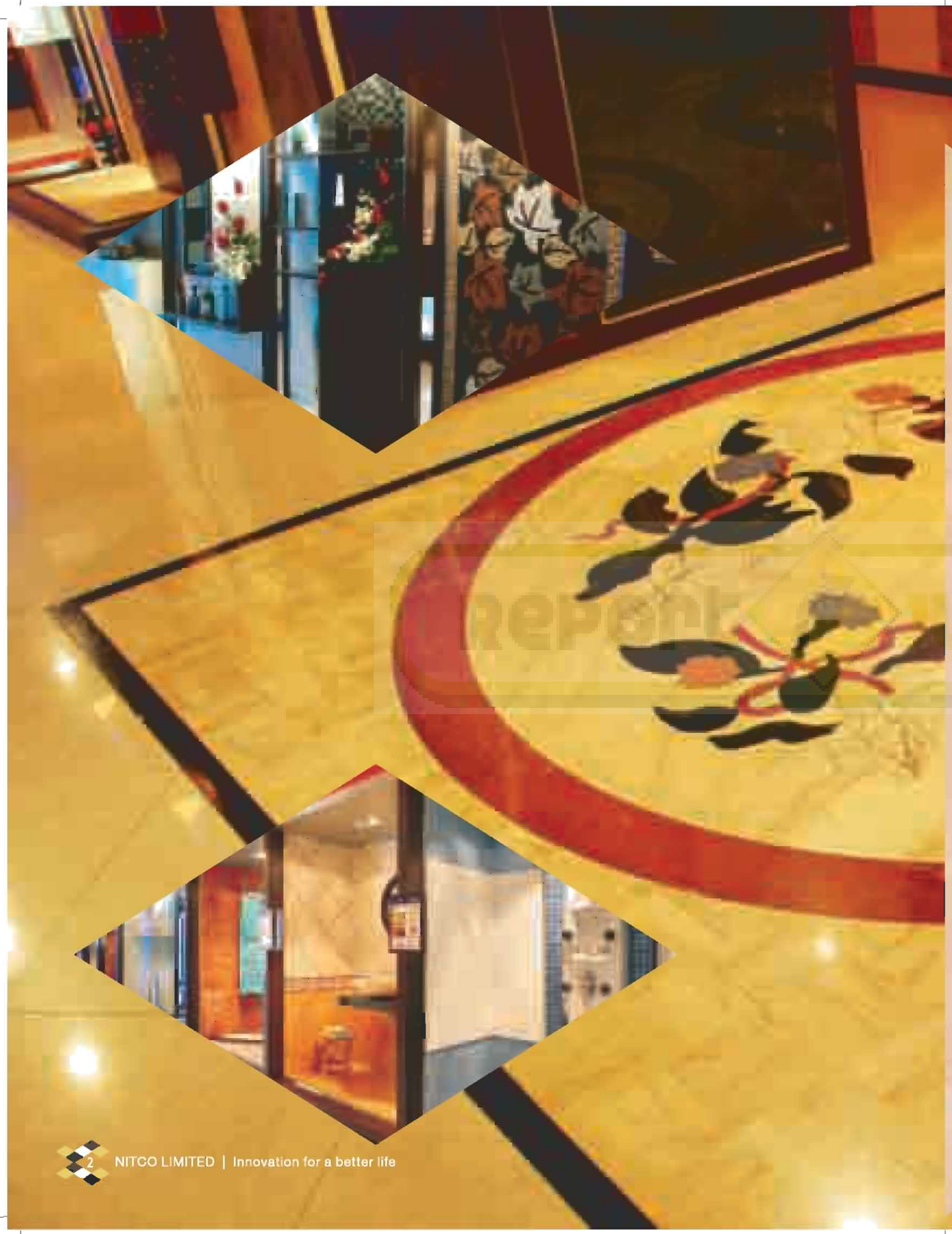
We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying 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.

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CREATING CONCEPTS

Our continuous endeavour to apply sustainable innovation in offering unique and high quality products, keeping in mind customer tastes and preferences, has enhanced our client reach; ensuring our growth through the current down cycle. Our proactive efforts have positioned us well for the economic recovery when it begins.

At Nitco, we believe innovation to be the centerpiece of our business. When a customer walks into our stores or interacts with our dealers – we don't just ask them what type of tile they want – we ask them to be a part of the Nitco experience.

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OUR JOURNEY FROM A TILE MANUFACTURER TO A BUILDING PRODUCTS-CUM-SERVICES PROVIDER

1966
- Commenced the manufacture of cement tiles in Thane, Maharashtra

1984
- Commenced processing of marble

1997
- Set up ceramic floor tiles manufacturing unit in Alibaug, Maharashtra

2001
- Started outsourcing of vitrified tiles from China

2002
- Received the Institute of Trade and Industrial Development – Quality Excellence Award for ceramic floor tiles

2004
- Upgraded the Alibaug plant for the manufacture of Porcelain Tiles

2006
- Mobilised Rs 168 Cr. through an IPO
- Installed six windmills with a combined power-generation capacity of 7.5MW in Dhule; these windmills supply power to the Company's plant and market the surplus power to the electricity grid
- Increased ceramic tile production capacity by 56%

2007
- Ventured into real estate development
- Launched 12 exclusive showrooms (Le Studio) across India

2008
- Mobilised Rs 166 Cr. through QIP
- Commenced construction of an IT park in Thane and a premium residential project in Worli
- Embarked on ceramic tile capacity expansion at Alibaug plant

2009
- Expanded retail presence to 14 owned Le Studio and 36 franchise Le Studio Express stores
- Launched premium quality brand 'Naturoc' – a new category of Gres Porcelain Floor Tile
- Enhanced production capacity by 96,950 MT per annum for ceramic tiles at Alibaug plant

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THE YEAR AT A GLANCE...

Gross Sales increased by 4% from Rs 651.00 Cr. in FY'08 to Rs 674.66 Cr. in FY'09

Ratio of retail to institutional sales increased from 40 : 60 in FY'08 to 60 : 40 in FY'09

Exports increased 7.9 times from Rs 2.08 Cr. in FY'08 to Rs 18.46 Cr. in FY'09

AWARD FOR EXCELLENCE

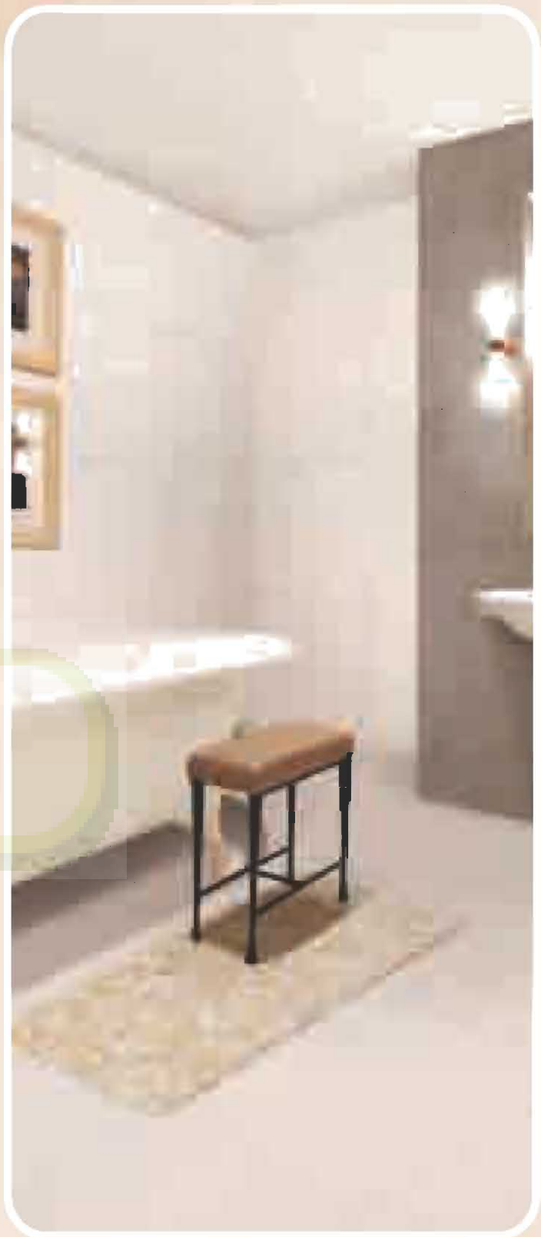


Ranked first as the

"fastest growing tile, ceramic and sanitary ware company"

at the Sixth Construction World – Annual Awards, 2008.

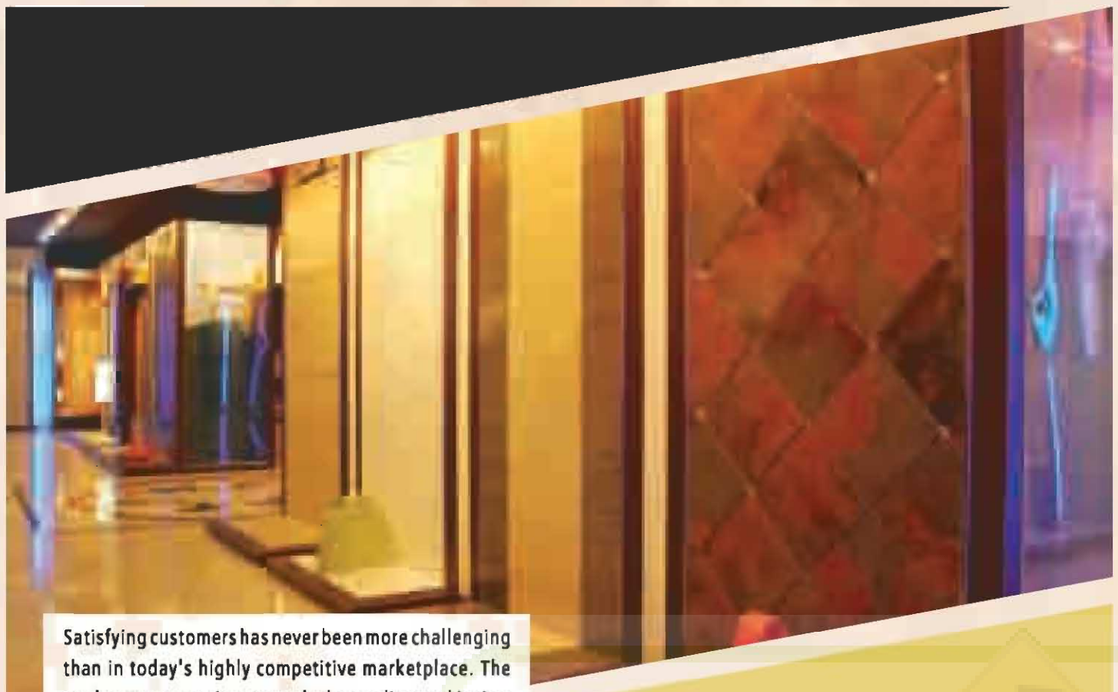




PRE-EMPTING CUSTOMER NEEDS.....INTRODUCING

INNOVATIVE PORTFOLIO

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Satisfying customers has never been more challenging than in today's highly competitive marketplace. The modern customer is extremely demanding and insists on being treated as an individual with specific needs. At Nitco, we believe in pioneering ground breaking innovations in all our offerings, to provide a wider choice to end customers ensuring they feel the offering addresses them personally.

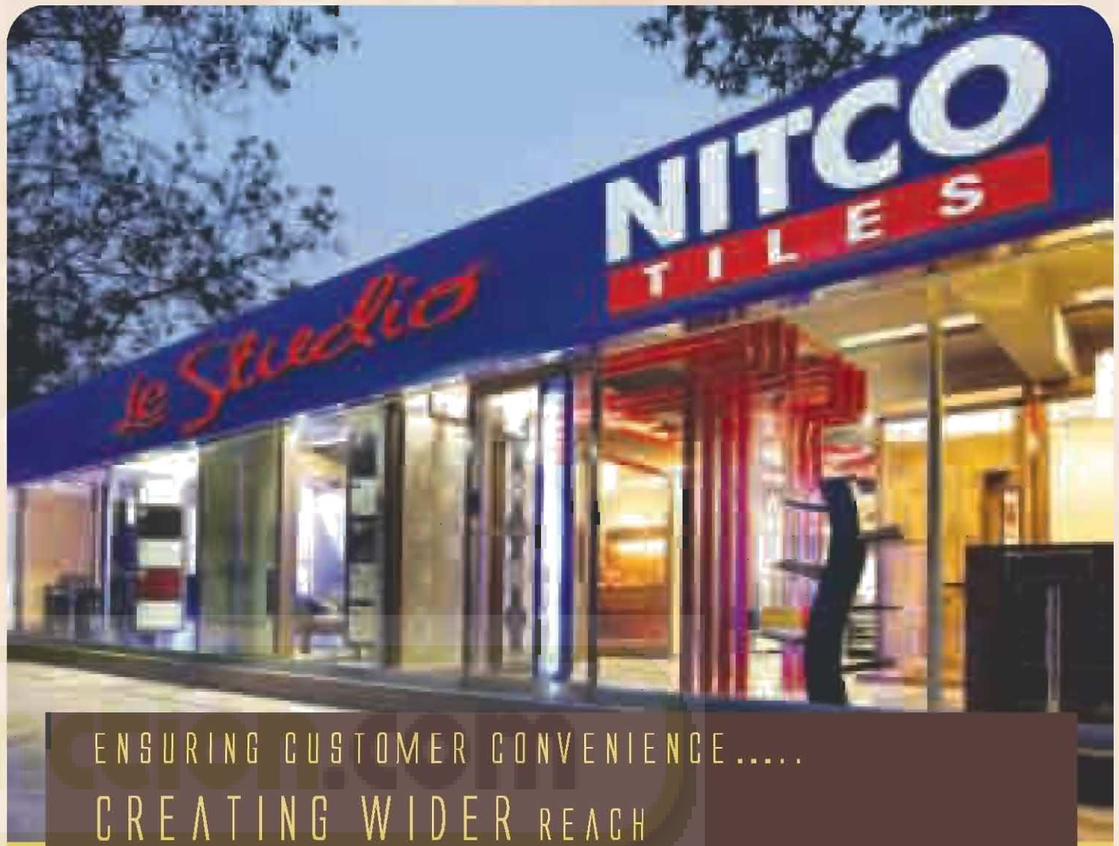
Consequently, we have developed a diversified, innovative and premium product portfolio comprising ceramic tiles, vitrified tiles, porcelain tiles and marble available in different designs, sizes and colours. Knowing what the customer wants helps us to continuously introduce new options and revolutionary concepts which are superior in quality and enjoy premium pricing over competition. Our investment in innovation guarantees leadership in our core business and creates opportunity to grow in new areas.

Nitco, in line with its legacy of being innovative in flooring products, recently launched brand 'Naturoc' –premium Gres Porcelain Floor Tiles manufactured for the first time in India – as a substitute for imported high end tiles from Italy and Spain. Available in a range of over 40 natural designs and textures with a semi-glossy look, the newest technological marvel skilfully combines the beauty of nature and strength of rock.

We also launched a wide range of state-of-the-art wall tiles with 70 exquisitely crafted concepts spread over 135 SKUs across India and categorised into 5 series – Contemporary range, Lexus range, Designer range, Supreme range and the Classic range.







ENSURING CUSTOMER CONVENIENCE..... CREATING WIDER REACH

Customers hold the key to value in the company. At Nitco, we follow an innovation-driven customer-centric culture and continue to focus on increasing our presence in the higher margin and relatively recession proof retail market segment; by developing a strong retail infrastructure in order to be available in close proximity of our customers.

We have launched 14 owned 'Le Studio' showrooms in all major metros and 36 franchisee 'Le Studio Express' showrooms in various Tier-1 and II cities across India. We have also expanded our marketing and distribution network to 778 direct dealers, over 5,000 retail outlets, 18 sales & marketing offices, 130 sales & display counters in multi-brand shops and 21 warehouses across the country. We continue to conduct marketing tours, roadshows and special events to arouse customer interest in our new launches.





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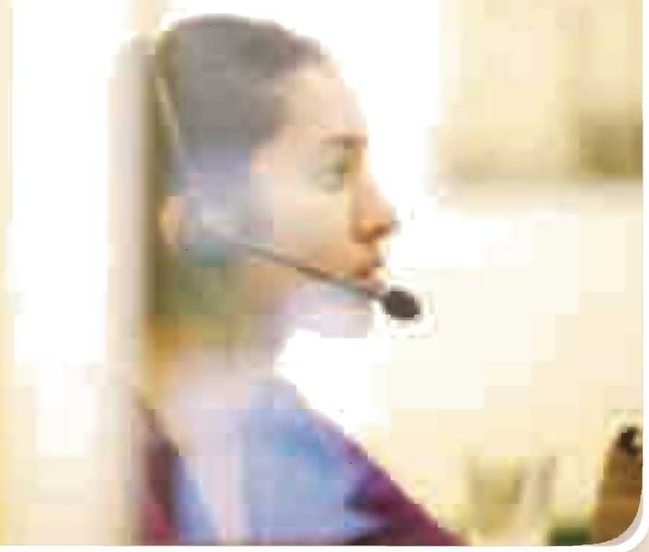
Nitco specially organized 'Mega 10', one of the largest B2B activity in India, to launch its 2 new product categories - Naturoc and Wall Tiles. The 10 city mega event kicked off from Chandigarh and followed in Delhi, Ahmedabad, Mumbai, Pune, Cochin, Bengaluru, Chennai, Hyderabad and Kolkata. The event was graced by over 12,000 business partners with esteemed presence of renowned architects, builders, interior designers, dealers as well as people from the media.



ENHANCING CUSTOMER EXPERIENCE...INITIATING INTEGRATED SERVICES

The tile business is not just about selling; it is about striving for zero defects in customer experience through the best possible service & support network, and managing relationships by ensuring continuity of customer interface. At Nitco, we believe our existing customers to be the best brand ambassadors of the company.

We are the pioneers in providing a dedicated customer service line, which was introduced five years back to record feedback and ensure speedy redressal of all customer grievances & complaints.



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TEN MINUTES WITH THE MANAGING DIRECTOR

VIVEK TALWAR, MANAGING DIRECTOR, REVIEWS THE COMPANY'S PERFORMANCE IN 2008-09 AND SHARES HIS OPTIMISM.

Dear Shareholders,

It is my privilege to present to you the Annual Report of Nitco Limited for the financial year 2008-09.

I look back at the Company's performance in 2008-09 with a sense of satisfaction as it ensures that we have the necessary experience, discipline and a dynamic strategy to sustain and grow our business even through a down cycle.

The global financial and economic downturn witnessed during the year, blew strong and turbulent winds that hit India's stock markets, financial institutions & industries and affected the country's economic progress. Organizations had to cope with the reduced confidence and trust of their stakeholders on one hand and an uncertain & cautious consumer on the other.

Nitco's proactive approach towards the situation, with a well planned strategy for sustained growth focused on innovative and premium category products along with expansion in retail customer reach, ensured growth for the Company during these testing times. The Company's single-minded emphasis on pioneering concepts and designs to provide an extensive gamut of offerings in order to increase retail sales and clientele, widespread distribution network and enhanced retail space, helped to more than offset the slowdown in the institutional segment. Our retail push is expected to drive margin improvement in the future.

Our actions have started bringing in positive results for the Company. However, the financial results bear only partial testimony to this. I am confident that in the years to come our actions will translate into better numbers.

I feel that the Indian economy has already entered the revival zone and 2010 will see a resurgence of the markets. Thanks to the measures initiated by Government of India to boost economic growth, inflation has been brought under control and liquidity has improved. The new Government is expected to push reforms aggressively, leading to economic stability and growth. It is widely accepted that the fortunes of the realty sector are dependent on general economic growth; which in turn would lead to revival in the tile industry.

Nitco, with its innovative product range, enhanced customer reach, cutting edge quality and strong operating & distribution infrastructure will be one of the biggest beneficiaries of an economy on its path to recovery. We will be foremost amongst the tile industry players, taking full advantage of the impending turnaround.

Sincerely,

Vivek Talwar
Managing Director

FIVE-YEAR FINANCIAL SUMMARY

(Rs. in Cr)

	2004-05	2005-06	2006-07	2007-08	2008-09
Share Capital*	12.27	22.27	25.97	32.12	32.12
Reserves	72.51	235.63	268.73	464.94	488.31
Loan Funds	119.95	82.86	128.23	129.68	291.13
Gross Block	136.05	198.98	229.25	249.51	447.11
Net Block	101.07	157.56	178.11	187.61	371.29
Capital Work in Progress	8.78	13.43	33.03	69.82	66.07
Investments	-	74.83	37.39	26.80	5.95
Current Assets	138.92	181.56	327.33	507.55	545.42
Current Liabilities	40.68	82.56	140.32	154.26	157.78
Net Current Assets	98.24	99.00	187.01	353.29	387.63
Deferred tax (assets) Liability	3.35	4.06	12.46	10.64	18.30
Turnover	208.81	306.36	470.43	651.76	675.95
Other Income	0.01	0.02	1.26	3.67	0.11
Material Costs	90.11	144.43	231.43	361.54	387.73
Excise Duty	6.46	7.97	11.06	13.51	8.52
Power Costs	21.59	21.94	24.31	27.05	28.25
Employee Costs	11.62	14.70	18.32	26.71	29.64
Other Manufacturing Expenses	3.18	3.98	5.36	5.87	6.62
Administration & Selling Expenses	51.84	70.36	110.24	133.98	139.78
EBDITA	24.02	43.00	70.97	86.77	75.52
Interest	8.56	13.25	8.11	13.94	23.56
EBDT	15.46	29.75	62.86	72.83	51.96
Depreciation	5.64	6.46	10.04	10.93	14.41
PBT	9.82	23.29	52.82	61.90	37.55
Tax	2.28	3.28	14.79	10.73	12.43
PAT	7.54	20.01	38.03	51.17	25.12
Net Worth	84.78	257.90	294.70	497.06	520.43
Capital Employed	208.08	344.82	435.54	637.53	830.95
EPS (Rs.)	6.15	15.59	16.39	18.21	7.82
Book Value (Rs.)*	69.10	115.81	132.33	154.73	162.01
Dividend Per Share (Rs.)*	-	1.00	2.00	2.00	1.00
RONW (%)	9.97	11.68	13.76	12.93	4.94
ROCE (%)	9.67	13.22	15.62	14.14	8.32

* Face value of Rs. 10 per share

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STATEMENT OF VALUE-ADDITION

(Rs. in Cr)

	2004-05	2005-06	2006-07	2007-08	2008-09
Sales (Gross)	208.81	306.36	470.43	651.76	675.95
Other Income	0.01	0.02	1.26	3.67	0.11
Increase/(Decrease) in Stock	31.60	20.75	74.27	20.48	-10.71
	240.42	327.13	545.96	675.91	665.35
Less					
Material Consumed	121.71	165.18	305.70	382.02	377.03
Manufacturing Expenses	24.77	25.91	29.66	32.92	34.86
Other Expenses	37.15	42.46	63.97	74.74	79.05
	183.63	233.55	399.33	489.68	490.94
Total Value-Addition	56.79	93.58	146.63	186.23	174.41

DISTRIBUTION OF VALUE-ADDED SURPLUS

(Rs. in Cr)

	2004-05	2005-06	2006-07	2007-08	2008-09
To the Government					
Excise Duty	6.46	7.97	11.06	13.51	8.52
Dividend Tax	-	0.31	1.19	1.09	0.55
Current Tax	0.77	2.56	6.39	12.56	4.77
Sales Tax	14.70	27.91	46.26	59.23	60.73
	21.93	38.75	64.90	86.39	74.57
To the Employees	11.62	14.70	18.32	26.71	29.64
To Financiers	8.56	13.25	8.11	13.94	23.56
To Shareholders	-	2.23	7.00	6.42	3.21
Depreciation	5.64	6.46	10.04	10.93	14.41
Deferred Tax	1.51	0.71	8.40	-1.82	7.66
Retained in Business	7.53	17.48	29.86	43.66	21.36
Total Value-Added Distribution	56.79	93.58	146.63	186.23	174.41

* Face value of Rs. 10 per share

RISK MANAGEMENT



Risk evaluation and management is an ongoing process within the organization. As part of this process, the Company consistently engages itself in carrying out a detailed exercise on the subject, covering the entire gamut of the Company's operations. Nitco is committed to a proactive approach with an integrated risk management framework comprising risk identification, creation of an appropriate risk management structure and evaluation of performance. Risk management is centrally initiated and prudently decentralised across the organization so as to minimise risks and maximize returns.

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Risk 1: Industry risk

The real estate sector has been severely impacted due to the economic slowdown. Large amount of funds required for investment have further brought the sector under pressure. This resulted in a slump in the construction sector activities thereby adversely affecting the growth of the tile industry.

Risk mitigation

The tile industry is expected to grow robustly over the coming years for the following reasons:

- Braving global recessionary trends, India managed 6.7% economic growth in 2008-09, at a time when most developed economies have shrunk. Further, the Government's top priority of bringing the economy to a high growth path will directly benefit the performance of real estate sector; the key user industry of the Company's products.
- The residential sector is expected to grow at a CAGR of 18%-19% upto 2010, owing to the current shortage of more than 25mn housing units [Source: India Brand Equity Foundation (IBEF)].
- Commercial space is expected to grow at a CAGR of 20-22% over the next five years, with IT/ITeS sector alone expected to require in excess of 250mn sq. ft of commercial office space by 2012-13 (IBEF).
- Organised retail contribution to total sales is expected to increase to 10% by 2010, with about 323mn sq. ft. of new retail space to be added by 2012 (IBEF).
- The Company is focused on the premium tiles segment in retail markets - mostly consumed by upper middle class section of the society which has low price sensitivity and is less impacted by any slowdown in the economy.

Risk measurement

Despite economic recession, the Company's revenues grew at a rate of 4%; from Rs 651.00 Cr. in 2007-08 to Rs 674.66 Cr. in 2008-09.

Risk 2: Competition risk

The Company competes with over 200 organized and unorganized players in the tile industry. Stiff price competition from other players in the market can adversely impact operations and profitability.

Risk mitigation

The Company's business model is significantly insulated from competition for the following reasons:

- Uniquely positioned in the premium flooring solutions space, divergent from a price driven approach.
- Diversified client base comprising both retail and institutional customers across India.
- Widespread marketing network with exclusive retail outlets offering customers a one-stop shop for complete flooring solutions inclusive of ceramic tiles, vitrified tiles, porcelain tiles, 'naturoc' and marble.
- The Company has been successful in creating brand awareness through advertisements and by increasing the number of display spaces.

Risk measurement

Average realizations increased across all key segments during 2008-09.

Risk 3: Brand risk

Inefficient brand management, leading to the loss of brand recall in a crowded market place could result in a decline in sales.

Risk mitigation

The Company has consistently invested in enhancing brand visibility, through the following measures:

- Regular surveys and meetings with architects, masons, consumers and specifiers to track changing market preferences so as to innovate our product portfolio accordingly.
- Expanded the Le Studio network across 50 locations; including both owned and franchise stores.
- Invested over Rs. 20 Cr. during the last year towards brand-building.
- 10 city tour to launch new products – one of the largest B-2-B activities in India.

Risk measurement

The response from market participants at the Company's launch events has been positive. The premium quality and innovation behind the company's products resulted in revenue growth of 4% over last year, despite the economic slowdown.

Risk 4: Power and Fuel risk

Any increase in manufacturing costs such as power & fuel, comprising 4.8% of the Company's total expenses, could dent competitiveness.

Risk mitigation

The Company undertook the following initiatives to efficiently optimize its power and fuel costs:

- The Company is receiving re-liquefied natural gas (RLNG) supplies from Gas Authority of India Limited (GAIL) with effect from March 11, 2009. RLNG being a cheaper fuel has replaced the more expensive Liquefied Petroleum Gas (LPG) which was being used earlier.
- The captive power generated through windmills earned Rs. 4.82 Cr in 2008-09.
- The Company's increased focus on superior quality tiles, enjoying premium pricing, enables it to effectively offset any increase in the costs of power and fuel.

Risk measurement

Power & fuel costs as a proportion of total expenses declined from 4.9% in 2007-08 to 4.8% in 2008-09.

Risk 5: Attrition risk

The Company's performance might be significantly impacted in the event of attrition among its customers and dealers.

Risk mitigation

The Company retains its strong client base with the following measures:

- It has developed a well diversified client mix including both retail and institutional clients, with focus on the former to maintain better margins. Pantaloon Retail, Reliance Retail, Hiranandani, Rahejas, Godrej, Oberoi Construction, DLF, Unitech, Sobha Developers, Nirmal Lifestyle and others are regular customers of the Company.
- It has evolved its products through a high degree of customisation, quality and just-in-time delivery. The Company is the first in the industry to run a dedicated customer service line for its products for more than 4 years; to address customer queries and grievances and ensure speedy redressal.
- To strengthen its dealership network, the Company has established a pan-Indian presence of 778 direct dealers and over 5,000 retail outlets marketing its products. It has created a strong distribution network with 18 sales and marketing offices, 130 sales & display counters and 21 warehouses throughout India.
- The Company has rolled out 14 owned 'Le Studio' showrooms in all major metros and 36 franchise showrooms 'Le Studio Express' in various Tier-1 and Tier-II cities across India. It further plans to add over 100 dealers in next 12 months and 400 franchise 'Le Studio Express' stores in next 3 years.

Risk measurement

The Company recorded an increase in sales of 4% during 2008-09.

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