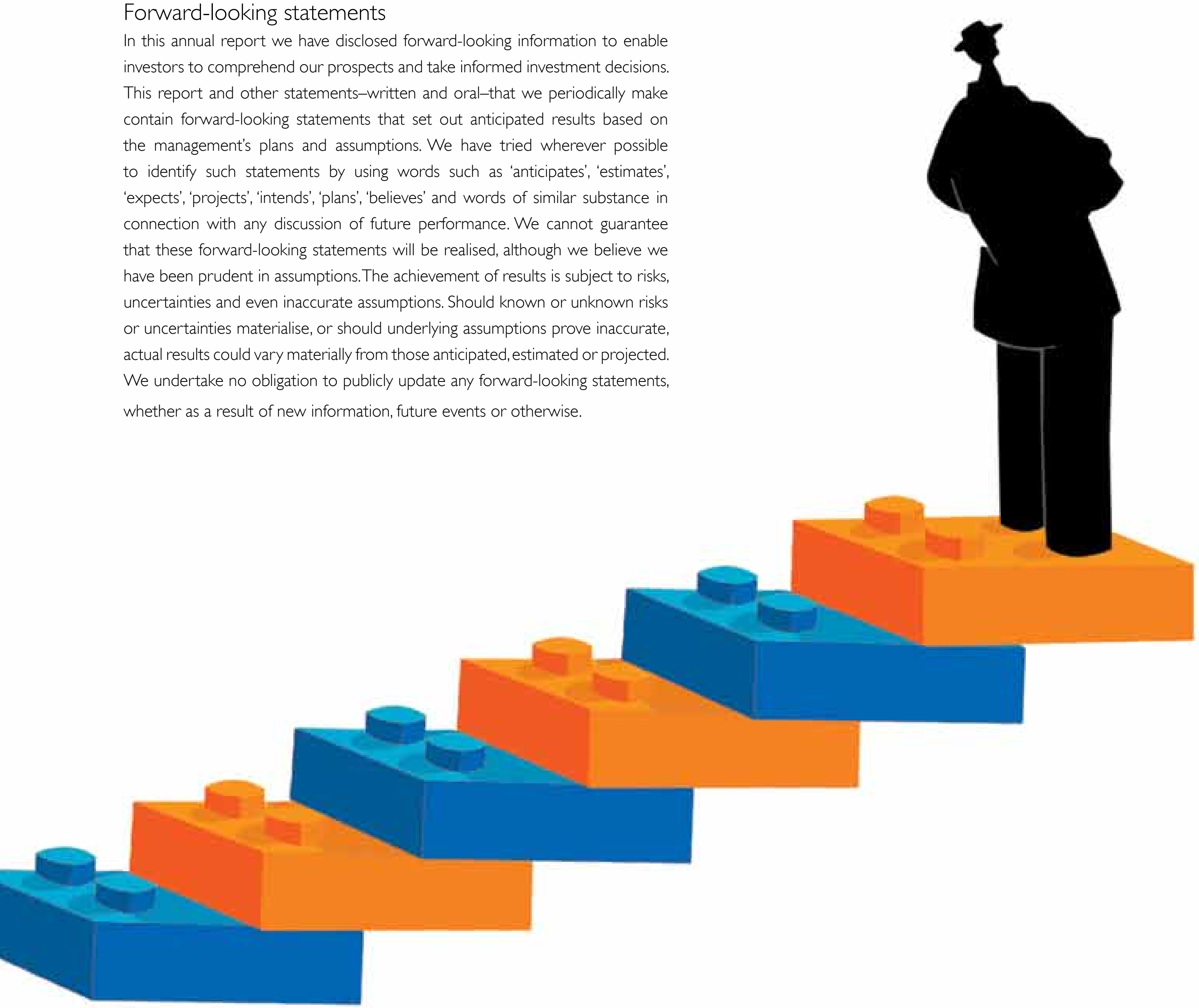
NITCO LIMITED

ANNUAL REPORT 2012-13

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



Corporate Information

Board of Directors

Mr. Vivek Talwar, *Managing Director*
Mr. Pradeep Saxena, *Director*
Mr. Vishal Malik, *Director*
Mr. Rohan Talwar, *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 Marble Land,
Plot no. 3, Kanjur village Road
Kanjur Marg (East),
Mumbai 400 078, Maharashtra
Tel: 91 22 67521555
Fax : 91 22 67521500

Registered office

Nitco House
Recondo Compound
SK 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 400 078, Maharashtra

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

Contents

NITCO.
A Company that believes in being innovative, manufacturing quality products, and being trendsetters.

The result: Nitco is now one of the largest manufacturers of floor tiles in India.

At NITCO, we are taking our business ahead through joint ventures and contract production arrangements, with the potential to translate into higher margins, profits and shareholder value.

Vision

To continuously improve the quality and design of products and constantly increase customer focus is our prime vision.

Mission

- To launch innovative and world-class products to help customers realise their dreams.
- To manufacture products of the highest quality, creating industry benchmarks.
- To be fast and flexible to be able to grasp opportunities in a fast-changing world.
- To be transparent and fair to customers, shareholders, suppliers and employees in all our dealings.

What we are?

- NITCO (established in 1966 by Mr. Pran Nath Talwar) is among the top premium tile companies in India.
- The Company manufactures a vast portfolio of tiles(floor and wall), marble, mosaic or metal craft.

Where we are?

- The Company is headquartered in Mumbai, India.
- Its pan-India presence is facilitated through 22 offices.
- Its strong distribution network comprises more than 1100 direct dealers.
- The Company exports tiles to countries like Belgium, The Netherlands, Muscat, Saudi Arabia, Bahrain, Qatar, Oman and other European and African countries.
- The Company's shares are listed on the BSE and NSE.
- The promoters own 48.90% of the Company's equity.

Our product portfolio

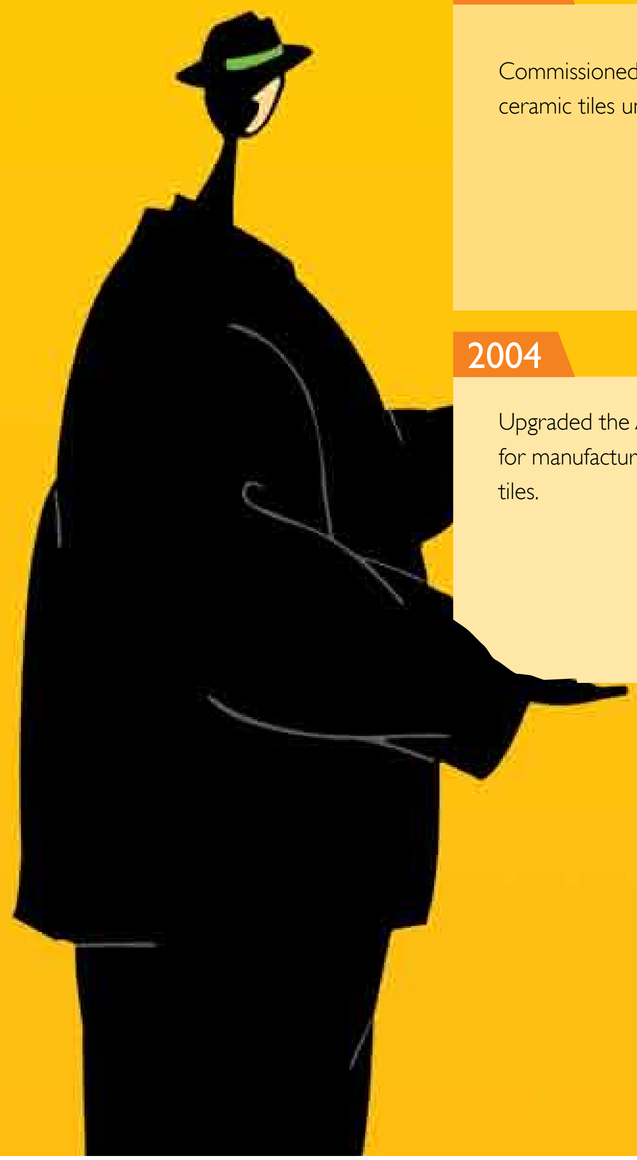
Products	Portfolio
Floor tiles	Ceramic tiles, vitrified tiles, polished glazed vitrified tiles, naturoc gres tiles and duracottura tiles.
Wall tiles	HD digital tiles and mosaic highlighters
Marble	Natural marble and engineered marble
Mosaic	Signature collection, magnum opus collection, décor collection, solitaire collection, naturale collection, crust collection, frame collection, steps, risers and skirting

Pioneering presence

The Company has carved out a distinctive reputation through the manufacture of pioneering and innovative products comprising the following:

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

Milestones



1966
- Incorporated as NITCO Tiles Pvt Limited.
- Commenced cement tiles manufacture at Thane (Mumbai).

1984
Commenced marble processing at Kanjurmarg.

1997
Commissioned the Alibaug ceramic tiles unit.

2002
Received the quality excellence award for ceramic floor tiles from the Institute of Trade and Industrial Development.

2004
Upgraded the Alibaug plant for manufacturing porcelain tiles.

2006
- Mobilised Rs.168 crore through an IPO.
- Installed six windmills (7.5 MW) at Dhule (Maharashtra).

2007
- Entered real estate development through NITCO Realties (subsidiary) with a 100% shareholding.
- Launched 16 exclusive showrooms under the Le Studio brand.

2008
Embarked on the creation of exclusive franchised showrooms under Le Studio Express.

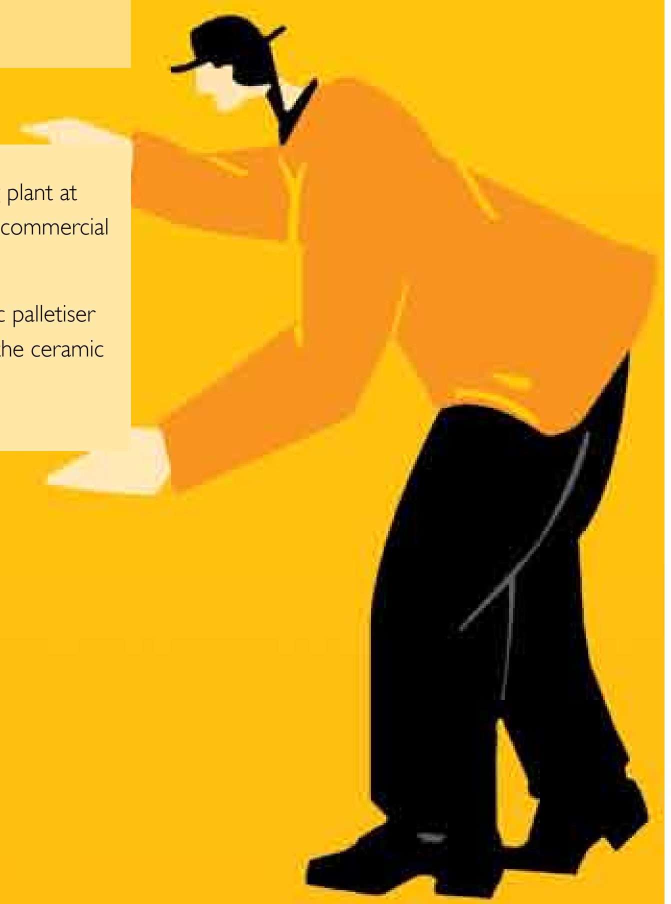
2013
Acquired 51% stake in the equity of New Vardhman Vitrified Pvt Ltd.

2009
- Received ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 certifications.
- GAIL commenced RLNG supplies at Alibaug.

2010
Launched premium category porcelain tiles under the Naturoc brand

2011
- Commissioned a 5.5 MW cogeneration gas-based power plant at Alibaug.
- Completed the construction of the Biz Park at Thane, spread across an area of 2 lakh sq. ft.

2012
- Marble processing plant at Silvassa commenced commercial operations.
- Installed automatic palletiser and polishing line at the ceramic tiles plant at Alibaug.



our edge

Marketing network

- NITCO's wide reach covers more than 5000 retail outlets.
- The Company dealer community (more than 1100 direct dealers) translates into a wide pan-India presence.
- The Company's 27 depots provide an efficient distribution network.

Manufacturing technology

- The Company possesses world-class manufacturing technologies.
- The fully-automated production line delivered a globally-benchmarked product quality.
- State-of-the-art Italian machines delivered consistent cutting precision.
- The supply of high gloss marble was at par with the best global standards.
- The automated marble processing plant at Silvassa is one of the few of its kind in the world and the only such plant in India.

International expertise

- NITCO leveraged advanced Italian know-how.
- The superior marble was drawn from select mines in Italy and other global locations.

Innovative design

- The Company introduced super-gloss scratch-proof floor tiles (resistant to dirt and bacteria).
- The 100% matte finish tiles possessed anti-skid properties.
- Rectangular wooden strips were introduced for the first time in India, reconciling wood textures and colours.

NITCO's wide reach covers more than 5000 retail outlets.

our business model

Nitco went into business at a time when its business segment in India was largely unorganised. The Company was created with the vision to inspire stakeholder trust through high product quality, brand building, efficient manufacture and timely distribution.

Geographic focus

Nitco is a pan-Indian tiles company. For years, the Company selected to import vitrified tiles as part of its asset-light approach. However, in view of the unexpected movements in the value of the Indian currency in relation to the US Dollar, the Company has now resolved to source material from largely within India to service its Indian or international requirements.

Brand

Nitco is a brand-led company, the Company's brand standing for 'pioneering' and 'innovative'. Over the years, the Company is investing a reasonable amount in these themes with an increasing brand spend. Over the years, this brand spend has translated into a growing sales push.

Asset-lightness

Nitco has evolved its model from a singular dependence on captively owned manufacturing facilities to a joint-venture-led approach. In the latter approach, the Company has invested in Gujarat-based facilities for a relatively lower sum than what it would have spent in creating a Greenfield facility; besides, the acquisition has helped the Company capitalise on prevailing market trend without expending a couple of years to build a new facility. This inorganic approach helped the Company moderate its capital cost per sq m, strengthening its future profitability.

Dual

Nitco is not just a tiles company; it is also a marble flooring solutions provider. Besides, the Company is not just engaged in interior and exterior flooring solutions; it is also engaged in real estate development. The Company possesses land at Mumbai, Alibaug, etc which will be developed in near future. The proceeds from this real estate assets will be applied towards the liquidation of the Company's long-term debt.

Customer focus

Nitco derives revenues from two customer types – the retail and the institutional. Over the years, the Company selected to focus on the retail segment where it enjoyed higher margins and a relative derisking from the competitive institutional segment. The result is that during the year under review, the Company generated majority of its revenues from the retail segment and the institutional business is also in a growth path. This ratio is expected to sustain over the foreseeable future.

"We are sitting on an attractive volume-value potential in 2013-14 and beyond, which should make EBITDA-positive starting 2013-14 and enable us to break even at the net level in the years to come"

Mr. Vivek Talwar, *Managing Director,* explains NITCO's turnaround strategy

Q: How did the Company perform during the year under review?

A: The challenging circumstances that the Company had encountered earlier, a sharp devaluation in the value of the Indian currency resulting in an increase in import costs without a corresponding increase in realisations, extended into the year under review as well. The Company was contracted to deliver tile volumes at a pre-agreed price across a certain period of time. The Company addressed its commitments, resulting in a deficit that extended into the year under review. The devaluation of the Indian currency increased our landed cost of imported material which majorly contributed to our EBITDA loss of Rs. 39.64 crore.

Q: What shareholders would want to know is how the Company expects to protect itself from a recurrence of such an impact and how it expects to grow.

A: There are a number of initiatives that NITCO has embarked upon to return to erstwhile growth. Principally, the Company has resolved that its business model will combine products arising out of direct manufacture on the one hand and outsourced manufacture on the other. Within the ambit of this model, the Company recognises that all growth would need to be asset-light. So the Company has resolved that over the foreseeable future, it will expand capacity at its existing locations and strengthen manufacturing alliances with companies that already possess on-the-ground manufacturing capacities. What I am pleased to state is that this is not a wish list: much work has already happened and one can state categorically that had it not been for these initiatives, the impact on the Company's bottom line would have been more severe in 2012-13.

Q: What are the aggressive initiatives that the Company has taken to return to profitability.

A: At NITCO, we recognised that the most effective strategy to fight the economic slowdown on the one hand and the Company's financial position on the other was through portfolio growth. The Company would not just market the same products it had in the past; it would increase the product range, it would enhance a sense of wow and its brand would continue to stand for the one thing for which it became prominent: cutting-edge products. In line with this, the Company launched vitrified polished tiles in November 2012 and wall tiles in May 2013. These products are value-added and we expect that over the next few years, we should be able to scale these brands to double the annual revenues from them.

Q: One would have expected most of the Company's efforts to be focused on fire-fighting. How did the Company strengthen its business instead in 2012-13?

A: Through a combination of defensive action following which we expect to reduce our costs and through aggressive action by which we expect to enhance our revenues. Let me start by discussing defensive action: when we were engaged in the import of vitrified tiles, we needed to import in large shiploads to be able to rationalise logistic costs. Thereafter, this inventory needed to be warehoused for onward despatch as and when demand arose. This worked well in a stable currency environment with an order-to-sales cycle that ran into a few months. However, when the Company recognised that the safest thing would be to source material from within the country and hedge the currency risk, it resolved to reduce its warehousing presence; whatever needed to be supplied would be provided directly from the Company's factories to the extent possible. In this way, we reduced the warehousing space as well as the warehousing cost. Besides, we increased the procurement of tiles from our recently - acquired subsidiary which will further reduce the cost of purchase and increase margins in the year to come.

Q: What shareholders want to know is if the worst is indeed over for the Company.

A: Based on the prevailing realities, I would think so – for a good reason. The corporate debt restructuring was approved in December 2012 and implemented subsequently. The result of the CDR is that the approximate average cost of our debt will reduce to nearly 11 per cent per annum; we have also been allowed a moratorium of 18 months for interest payment and 24 months for principal repayment.; The average tenure of our debt has extended from three-and-a-half years to around eight years with corresponding cash flow implications.

Q: What are some of the positives that have emerged from the crisis?

A: NITCO now has an inventory-light approach where it has selected to deliver material with speed from its plants rather than keep stock in the pipeline. The Company made a successful transition from Chinese imports to Indian material without any compromise. The Company grew in volume and value terms over the last couple of years, albeit marginally, which talks highly of the fact that the Company's brand remained largely unaffected by the financial crisis. The volume of sales achieved by the Company was based on the superior factory-to-customer delivery model as opposed to the conventional factory-to-depot-to-customer approach. So the slowdown notwithstanding, the Company was able to maintain its receivables days at par with the level of the previous year.

Q: What you are indicating is that the Company's most precious asset – its brand – continued to be strong.

A: Absolutely. Even though the Company's financials remained challenging, the management invested attractively in the NITCO brand during the year under review. The Company won three awards based on its tile quality. It is a pleasure to share that we participated in the World HRD Congress Awards 2013 in February and stood 20th in the "Dream Company To Work For" award category.

What is the Company's outlook?

A: The outlook is positive for some good reasons. One, the November launch of polished vitrified tiles will result in lower costs compared to outsourcing. Two, the wall tile launch represents our first serious entry in this rapidly growing segment. The company's monthly overheads are likely to be moderated. The combination of the Alibaug plant and subsidiary plant at Morbi is expected to translate into a 2013-14 throughput of 16 mn sq m. The result is that we are sitting on an attractive volume-value potential in 2013-14 and beyond, which should make EBITDA-positive starting 2013-14 and enable us to break even at the net level in the years to come.

Q: What would you like to communicate to shareholders about the value inherent in the NITCO stock?

A: NITCO's decline in market capitalization is largely the result of reported losses in its profit and loss account and increase in debt. What I want to communicate is that the Company is focusing on real estate asset development in the next two to three years with the objective to use the proceeds and reduce its gearing.

! the best way to predict the future is to nvent it.

Alan Kay

> The acquisition of a 51% equity stake in New Vardhman Vitrified Pvt. Ltd. has provided Nitco an extended manufacturing capacity of 8 million square metres.

In the competitive business of tile manufacture, there was for long a contradictory reality: each time the Company raised its production capacity, it increases its break-even point as a result of the relatively higher cost of fresh capacity.

In the last couple of years, NITCO, among select few Indian companies, reversed this longstanding anomaly. The Company successfully enhanced its effective production capacity without correspondingly increasing its average cost of sq metre (except for the increases in power and fuel costs which are beyond the control of the Company).

NITCO countered a lingering disadvantage through the following initiatives:

- The Company responded innovatively through the acquisition of a 51% equity stake in New Vardhman Vitrified Pvt. Ltd. that owned manufacturing facilities in Morbi.
- This acquisition provided the Company with approximately 8 million square metres of manufacturing capacity at a cost lower than greenfield costs

The outsourced sales from the newly acquired subsidiary at Morbi will have a positive implication on the Company's margins.

Strengthening its competitiveness.

Any fool can reduce prices, but it takes genius to produce a better product.

Anonymous

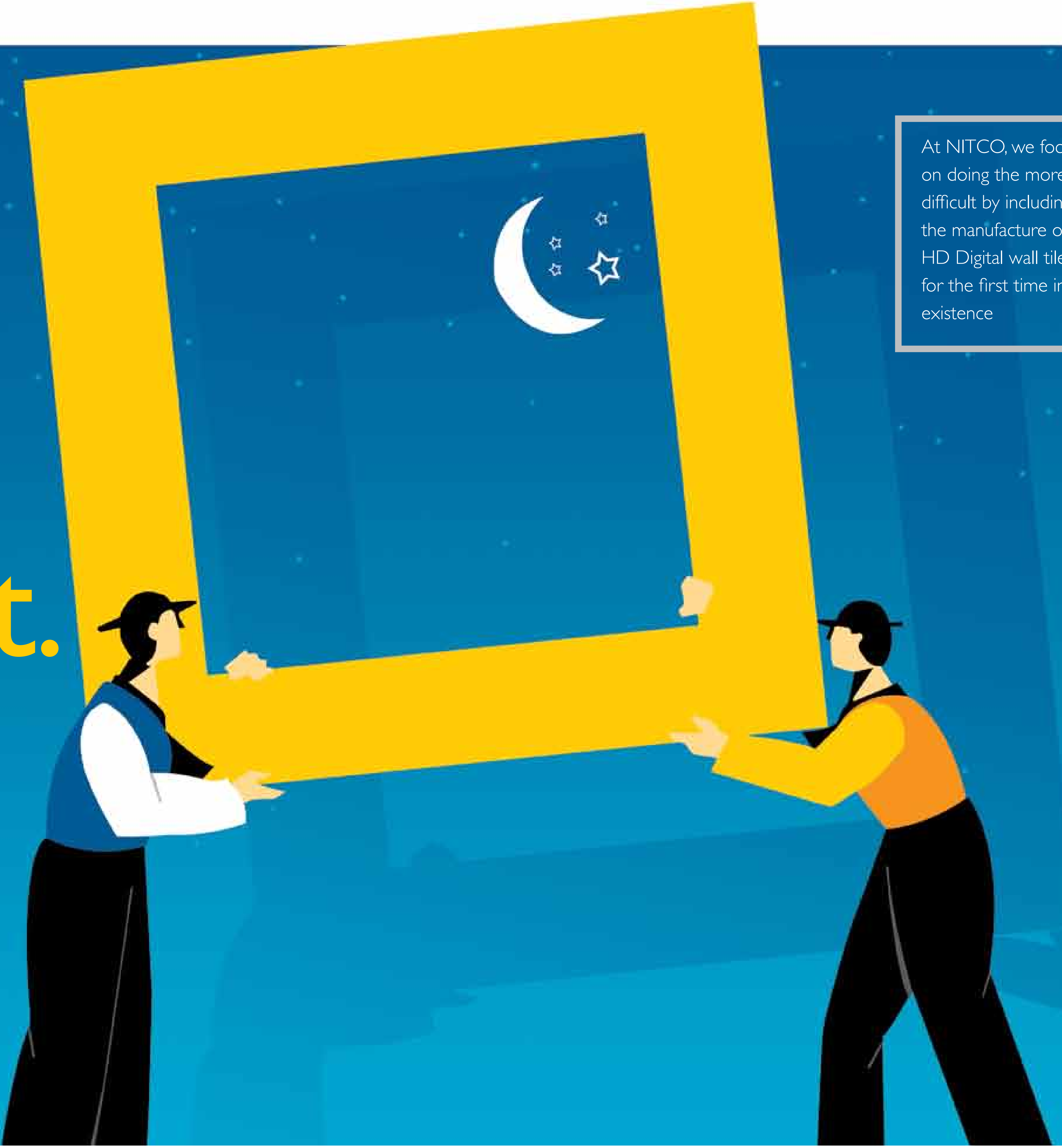
In the competitive business of tile manufacture, it would be relatively simple to cut costs and carve out a large market share; it would be considerably more challenging to enrich the product mix, enhance realizations and increase market share.

At NITCO, we focused on doing the more difficult.

During a year when most buyers were hesitant to buy higher priced products, NITCO responded through contrarian initiatives.

The Company introduced HD Digital wall tiles for the first time in its existence.

Strengthening its realizations.



At NITCO, we focused on doing the more difficult by including the manufacture of HD Digital wall tiles for the first time in its existence

Leaders keep their eyes on the horizon, not just on the bottomline.

Warren G. Bennis

The Company expects that the CDR package will enhance its cash flow and progressively restore the Company's financials back to health.

In the competitive business of tile manufacture and real estate development – the Company's prime businesses – the Company was affected by sharp currency fluctuations which resulted in a net loss of Rs.231 crores during the year ended 31st March 2013.

Due to a depreciation of the rupee against the US Dollar and a stressed market scenario, the Company approached its bankers to restructure its debt under a corporate debt restructuring (CDR) arrangement. This was done with the objective to reschedule debt repayment and enhance financial stability.

The Company expects that the CDR package will enhance cash flow, moderate interest outflow, structure debt repayment and progressively restore the Company's financials to health.

Strengthening viability.