

12th Annual Report 2002-2003

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**Shimmering in the sun,  
a magnificent rock formation symbolises Pokarna Limited's  
crossing of the Rs. 100 crore turnover mark  
Picture: Antelope Valley, USA**

*“If you would hit the mark,*

*you must aim a little above it;*

*every arrow that flies*

*feels the attraction of the earth.”*

*– Henry Longfellow*

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## **BOARD OF DIRECTORS**

Mr. Gautam Chand Jain, *Chairman*  
Mr. G. Krishna Rao, *Managing Director*  
Mr. A. Ramachandra Rao, *Executive Director*  
Mr. B.V.S. Prakash, *Executive Director*  
Mr. M.Yugandhar, *Director*  
Mr. Prakash Chand Jain, *Director*  
Mr. T.V. Chowdury, *Director (w.e.f. 31.07.2002)*  
Mr. Mahender Chand Chordia, *Director (w.e.f. 31.07.2003)*  
Mr. Dhanjibhai Salwa, *Director (w.e.f. 31.07.2003)*  
Dr. J.W. Aurangabadkar, *Director (w.e.f. 31.07.2003)*  
Mr. Vinayak Rao Juvvadi, *Director (w.e.f. 29.01.2003)*  
Mr. Rahul Jain, *Director*  
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## **COMPANY SECRETARY**

Mr. Paras Jain  
.....•.....

## **AUDITORS**

M/s Rao, Reddy & BVS Prakash, Chartered Accountants, Hyderabad

## **BANKERS**

Union Bank of India, R.P. Road Branch, Secunderabad-500 003  
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## **REGISTERED & CORPORATE OFFICE**

First Floor, Surya Towers,  
105, Sardar Patel Road, Secunderabad-500 003, Andhra Pradesh, India.  
Tel: 91-40-27842182, 27844101, 27897722  
Fax: 91-40-27842121  
Email: pokarna@hd2.vsnl.net.in  
Website: www.pokarna.com  
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## **FACTORIES**

Survey No.123, Toopranpet (Village),  
Choutuppal (Mandal), Nalgonda (District), Andhra Pradesh  
Survey No. 563, 568 & 574,  
Aliabad Village, Shamecrpet (Mandal), R.R. District, Andhra Pradesh  
.....•.....

## **12th ANNUAL GENERAL MEETING**

Date: 27th September, 2003 • Time: 10:00 a.m.  
Place: Hotel Grand Kakatiya Sheraton & Towers, Begumpet, Hyderabad

## DIRECTORS' REPORT TO THE SHARE HOLDERS

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Your Directors have pleasure in placing before the Stakeholders, the 12th Annual Report and Audited Accounts for the year ended March 31, 2003.

### Working Results

The Financial Highlights are summarized below:

Particulars	Amount in Rupees	
	2002-2003	2001-2002
Total Income	1,00,32,52,246	62,15,58,761
Less: Expenditure	79,84,65,504	52,12,67,151
Profit/(Loss) before Tax	20,47,86,742	10,02,91,610
Provision for Taxation	1,85,02,285	38,72,951
Net Balance of Profit	18,62,84,457	9,64,18,659
Balance of Profit brought over from previous year	20,77,14,029	14,39,46,892
Appropriations:		
Interim Dividend	3,10,04,000	2,17,02,800
Corporate Dividend Tax	27,80,671	9,48,722
General Reserve	1,90,00,000	1,00,00,000
Net Profit carried to Balance Sheet	34,12,13,815	20,77,14,029

## 2. MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Structure and Development

India has a rich deposit of granites. Granite is one of the most sought after natural stones in and from India. Granite is produced in Karnataka, Tamil Nadu, Andhra Pradesh, Rajasthan, Madhya Pradesh, Orissa & Uttar Pradesh. The variety and the colour offered by granite makes it the most preferred stone to architects and builders, the world over. In India, Granite is also the third largest foreign exchange earner amongst the minerals and metals, after cut diamonds and iron ore. There are more than 150 varieties of granites available in India for various applications. Granite is used extensively as table tops, kitchen/bath countertops, flooring, bar tops and walls, statues, figurines and other gift items.

### Opportunities and Threats

#### Opportunities

Andhra Pradesh is one of the largest producer of granites in the country, 17 out of 23 districts have several occurrences of different varieties of granites. Jet black, Black Galaxy, Blue and White coloured are exclusive varieties in the international market. There are a number of unexplored areas in the state, which contain workable and marketable deposits, Central and State Geological agencies have started exploration to identify new varieties and areas. Vast scope exists for development of granite industry in the state. The Govt. of Andhra Pradesh has the most progressive policy for granites in the country. World's rare and exclusive variety of Black Galaxy Granite occur in Chimakurthy- Prakasam district. Your Company has almost all its quarrying operations in the State of Andhra Pradesh with Black Galaxy being the premium of all.

There is still an irrepressible attraction to the beauty of natural stone, which is proven by the expansion of the world's market. It's important that stone be made accessible, both in terms of market and in terms of

image. Stone must look natural in all respects, and it must also be easy and close to the end consumer. But all this needs to be done in keeping with its value and features, which have gone with it all through its history.

The market potential is abundant and there are excellent prospects for the Indian granite industry to get its due share in the world market. The professional and realistic approach towards solving the practical problems and careful planning of facilities by the Industry and Government can make India the leading exporter of the world market. We have challenging years ahead but the potential for growth is beyond any reasonable doubt.

#### Threats

There is also a continued marketing campaign being conducted against natural stone by the Ceramic Industry, which imitates the beauty of stone and boasts that they have the same attractiveness but none of their faults. This campaign contains all of the threats that an organized and cohesive industrial sector can pose to a small and objectively weaker one. But for the stone sector, this also acts as an indirect confirmation of the potentials that still exist in the tiling and flooring market.

*"Corporate governance matters are clearly high on the current issues agenda. While our business can, I believe, be fairly described as being in a very transparent and low-risk category, we have nevertheless closely examined our corporate governance practices to ensure that we comply with the highest standards and guidelines"*

#### Segment wise Performance

Company operates in two segments Granite and Apparels. In order to avoid duplicity, granite division's performance is not discussed herein. Members may please refer the appropriate section for this.

Members are aware that the Company had taken their nod to commence the Apparel business at the last annual general meeting. It is great pleasure to share with you that the Apparel segment of the Company is near completion and the first batch of production, barring unforeseen contingencies, is expected to rollout in the month of November 2003. It is expected that it will achieve its full capacity by the end of March 2004. In the process of setting up this project, your Company has entered into an agreement with





Pokarna Apparels Limited (Associated Enterprise- disclosure is made elsewhere in the Report). Pursuant to this agreement an amount of 1.25 Crores has been paid towards capital and revenue expenditure incurred by Pokarna Apparels Limited. As on 31.3.2003, your Company has incurred an aggregate amount of Rs. 3.41 Crores on this Project.

Your Company proposes to start the business of Construction and allied activities. It is believed by the Management that the Construction activity can be conveniently and advantageously combined with the existing activities of the Company. Necessary approval in this regard has already been taken from the Members by way of passing of Special Resolution through Postal Ballot. It was also proposed to clarify and widen the scope of the existing Object relating to Apparel Business and hence necessary approval in this regard has been taken from the Members by way of passing of Special Resolution through Postal Ballot.

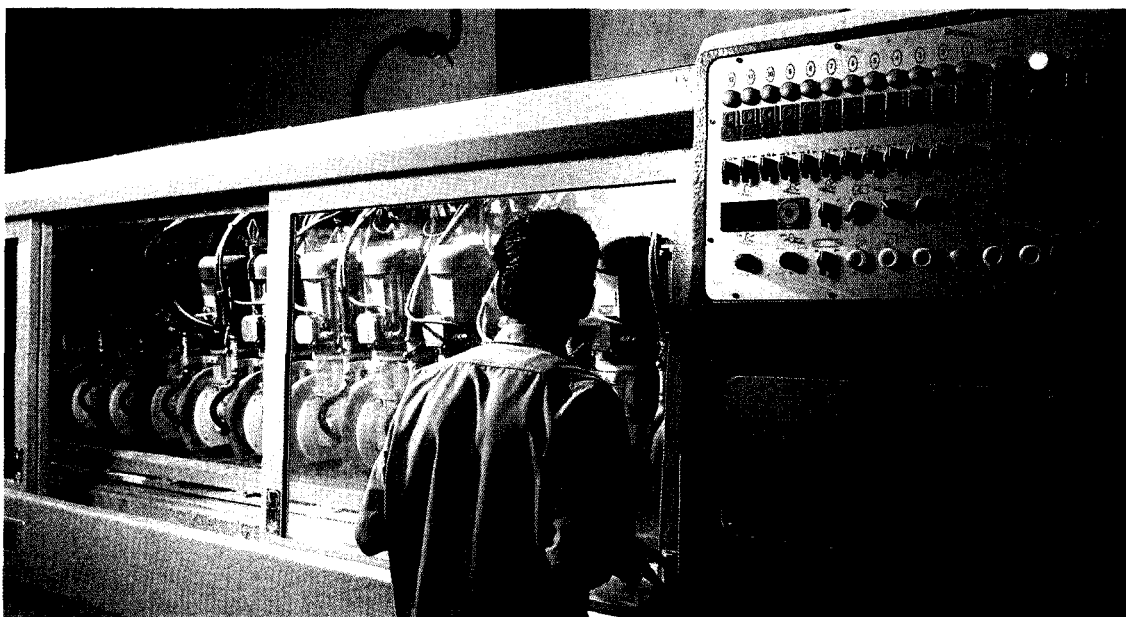
### **Outlook**

The 9 /11 disaster, the war on Afghanistan and Iraq and just when the world thought it had enough, the news of deadly epidemic of SARS had hit the world. These events are dashing the hopes of revival of the world economy already reeling under severe downturn. The Countries directly bearing the brunt of SARS are China, Hong Kong. Company exports a considerable portion of its Rough Blocks to China. In China the domestic consumption and Import seems to be hard hit. What is Global economic Outlook? Who are the winners and who are the losers? What will be the impact of SARS on China? What are lessons countries and the business world can learn from the SARS episode? It would be premature to comment on the above questions. In this Economic slowdown your Company is expected to maintain historical topline growth by improving sales through deeper market penetration and our bottomline growth through further cost reductions and improvements in productivity. We are cautiously optimistic about the future and feel that our committed team will meet the challenges of an extremely competitive environment.

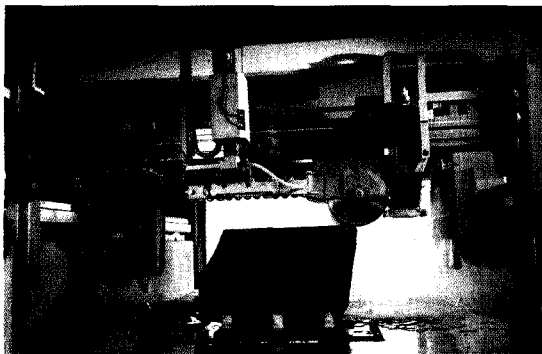
### **Risks and Concerns**

#### **1. Productivity**

The main problem of Granite Mining Industry in India is the low productivity and high wastage. The granite mining industry in India is far behind in terms of productivity compared to countries like Italy, Brazil, Spain, Norway, South Africa etc. The low productivity is mainly due to conventional methods of mining adopted at present.







*Mitigant:* Your Company is fast in adopting the use of wire saws and slot drilling instead of conventional blasting burner. Mechanisation of Company's Quarries with modern machines and new techniques will increase the production of defect free blocks. This will result in high productivity and production of defect free blocks with less wastage.

## 2. Labour and Management

The low productivity per worker and less man-hour utilisation is another problem for the granite quarrying in

India. The lack of exposure to modern quarrying and training for the Indian workers is a major reason for the low productivity of the workers.

*Mitigant:* Company's field supervisors' train and educate the work force, which helps to a great extent.

## 3. Availability of Blocks

The major problem is the non-availability of best quality blocks for the processing. As exporting of blocks is more advantageous due to high value realization and tax benefit, the processing companies are finding it difficult to buy certain colour granite blocks as per their requirement. The first quality blocks, which are free from defects and larger in size, are always given preference for exports.

*Mitigant:* Company has its own captive quarries and hence is able to get best of the Blocks for Export.

## 4. Exploring new Areas

As per the geological survey, India has a vast area of abundant granite deposits of various colours that are still to be explored.

*Mitigant:* Every effort is made by the Company to improve the company's share in the world market by exploring new areas.

## 5. Infrastructure Development

The existing infrastructure to meet the needs of the stone sector in India is extremely poor and inadequate for the growing demand. Transport strike during April – May 03 hit the economy very badly. Your Company would also be effected by such strikes for a short period.

*Mitigant:* Company has at its quarries its own energy generation devices. With the existence of ICD facilities at Hyderabad, despatches of the containers are not effected much.

## 6. Falling Dollar – Rising Euro

Our functional currency is Rupee although we transact a major portion of our business in foreign currencies and accordingly face foreign exchange exposure through our sales in Dollar and purchase from overseas supplier in Euros. Results of our operations will be adversely affected as the rupee appreciates against the dollar and depreciate against the Euro.

*Mitigant:* All these years your Company benefited from the foreign exchange fluctuation. However necessary steps will be taken to reduce the exposure of risk inherent in foreign exchange fluctuation.

## Internal Control Systems and Adequacy

The Company has a well-established internal control system



in all functional areas, and this is reviewed periodically. This system is further reinforced by an independent audit.

### **Financial Performance of the Company / Operations**

Your Company has achieved a historical turnover of Rs. 100 Crores. The performance has been very encouraging with significant increases in sales, profits and operating margins. USA is the largest market of the Company. Your Company is undertaking major restructuring of production facilities at the Manufacturing Units. This restructuring is expected to result in the increase of production by 30% from the current level. It is expected that increased capacity shall fetch the Company an additional turnover of Rs. 30 Crores.

### **Human Resources**

The company has continued to strengthen its Human Resource practices and has maintained industrial harmony at all its facilities. There have been no violations or industrial unrest resulting in loss of production during the year under review. Company employed 440 personnel across the country including Casual Labour.

### **3. DIVIDEND**

First interim dividend of Rs.1.50 per share was paid in October 2002 and Second Interim of Rs. 3.5 per share for the year 2002-2003 was paid in July 2003. Your directors recommend that the aforesaid interim dividends aggregating to Rs.5.00 per share be declared as final dividend for the year ended on March 31, 2003.

### **4. DEBT RESTRUCTURING**

Your Company has initiated a debt-restructuring programme to take advantage of the falling interest rates in the global financial markets. In today's competitive business environment, companies need to be flexible enough to take advantage of pricing and quality to remain a dominant player. This necessitates the need for reducing financial costs.

Accordingly, your Company has negotiated, a cost-effective LIBOR based Foreign Currency Loan of 11.25 Crores from Union Bank of India.

Your Directors wish to state that the above financial restructuring shall have a positive impact on your Company's results in the coming years. Your Directors feel that since the earnings of the Company are in foreign exchange there shall not be any problem in repayment of this Foreign Currency Loan in the event of any fluctuation in the Foreign Currency.

### **5. DIRECTORS / MANAGEMENT RESPONSIBILITY STATEMENT**

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors Responsibility Statement, the Directors confirm:

- i) that in the preparation of the annual accounts, the applicable accounting standards have been followed and no material departures have been made from the same;
- ii) that they had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for that period;
- iii) that they had taken proper and sufficient care 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) that they had prepared the annual accounts on a going concern basis.