

13th Annual Report 2003-2004

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Cover: A model smiles out of a Stanza ad
wearing a shirt that has come out of one of Asia's most sophisticated
apparels manufacturing plants, part of Pokarna Limited's
diversification programme



"Check your road

and the nature of your battle.

The world you desire can be won.

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exists, it is real, it is possible,

it is yours.

— and

CONTENTS

Board of Directors	3
Directors' Report to Shareholders, Management Discussion & Analysis Report	4
Corporate Governance	13
Your Company's Growth	22
Auditors' Report to the Members of Pokarna Limited	25
Balance Sheet as at 31st March, 2004	30
Profit & Loss Account for the year ended 31st March, 2004	31
Schedules forming part of the Balance Sheet	32
Schedules forming part of the Profit & Loss Account	36
Cash flow statement of the year ended 31st March, 2004	50
Balance Sheet Abstract and Company's General Business Profile	52

BOARD OF DIRECTORS

Mr. Gautam Chand Jain, *Chairman & Managing Director (w.e.f 30th July, 2004)*

Mr. Prakash Chand Jain, *Director*

Mr. M.Yugandhar, *Director*

Mr. T.V. Chowdary, *Director*

Mr. Vinayak Rao Juvvadi, *Director*

Mr. Mahender Chand Chordia, *Director*

Mr. Dhanjibhai Sawla, *Director*

Mr. Rahul Jain, *Executive Director (w.e.f. 30th July, 2004)*

Mr. Siddharth Jain, *Executive Director (w.e.f. 30th July, 2004)*

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COMPANY SECRETARY

Mr. Paras Jain

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AUDITORS

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

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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.

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Fax: 91-40-27842121

Email: contact@pokarna.com

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, Shameerpet (Mandal), R.R. District, Andhra Pradesh

Survey No. 33, 39, 50, 51, 55, 68 & 69, Apparels Export Park,

Gundla Pochampally Village, Medchal Mandal, R. R. District, Andhra Pradesh

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13th ANNUAL GENERAL MEETING

Date: 30th September, 2004 • Time: 10:00 a.m.

Place: Hotel Grand Kakatiya Sheraton & Towers, Begumpet, Hyderabad

DIRECTORS' REPORT TO THE SHAREHOLDERS

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Your Director's have pleasure in placing before the Stakeholders', the 13th Annual Report and Audited Accounts for the year ended March 31, 2004.

1. Working Results

The Financial Highlights are summarized below:

Particulars	Amount in Rupees	
	2003-2004	2002-2003
Total Income	113,54,11,545	100,25,27,585
Less: Expenditure	96,03,94,431	79,77,40,843
Profit/(Loss) before Tax	17,50,17,114	20,47,86,742
Provision for Taxation	2,32,81,171	1,85,02,285
Net Balance of Profit	15,17,35,943	18,62,84,457
Balance of Profit brought over from previous year	34,12,13,816	20,77,14,030
Appropriation		
Interim / Proposed Dividend	2,17,02,800	3,10,04,000
Corporate Dividend Tax	27,80,671	27,80,671
Transfer to General Reserve	1,52,50,000	1,90,00,000
Balance carried to Balance Sheet	45,32,16,288	34,12,13,816

2. MANAGEMENT DISCUSSION AND ANALYSIS

a. INDUSTRY STRUCTURE AND DEVELOPMENT

Granites:

India is one of the leading countries in the production and export of granite and other stones. Granite is a very hard crystalline, igneous or metamorphic rock primarily composed of feldspar, quartz and lesser amounts of dark minerals. These varieties are used to produce monuments, building slabs, tiles, surface plates, etc. About 110 variety of granites have been identified for processing as products for exports. The deposits are widely spread over the entire country. However, popular varieties are mainly found in South India.

Your Company is the largest exporters of Granite slabs from India dealing in over 55 premium colors and exporting more than 110 containers every month to the most reputed companies all over the world. We have our own quarries apart from two state of the art units processing both slabs and tiles. Besides Indian stones, your Company also process rough granite from other countries.

Apparels:

Textiles and clothing sector is the largest employer after agriculture and its importance in India's economy is recognized for its contribution to industrial production and export earnings. With the removal of Quantitative Restrictions and scheduled dismantling of tariff barriers by the end of 2004, the industry will be required to achieve a competitive strength for its survival in the global environment. In the globally integrated scenario new opportunities will emerge for the Indian textile industry while challenges in the form of credible threat of imports would also arise. The key to success will be a transformed mindset of the industry to get rid of technological obsolescence and pave way for modern industrial base. The garment industry comprises manufacturers of ready-made garments for either the domestic or export markets or, in certain cases, both. The constituents of this segment are very diverse in terms of their size, production facility, the type of apparel manufactured, the quality of output, fabric requirement, price sensitivity etc.

Post Quota Regime 2005 scenario

With January 2005, WTO provisions will come into force, and there will be no quota restrictions in any of the 137 exporting countries. A free-for-all regime will emerge. Then, only garment exporters, who are

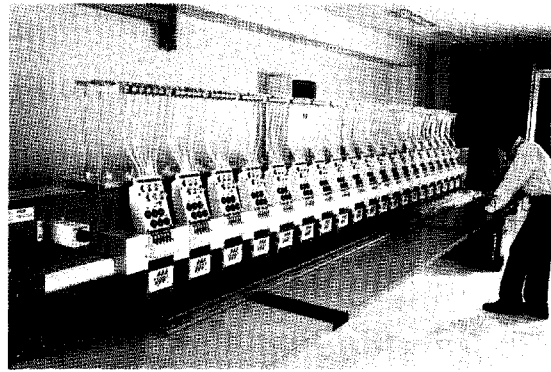
able to provide the best quality at the cheapest price, will succeed.

b. OPPORTUNITIES and THREATS

Granites:

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.



At Pokarna it is believed that the integrity of any company must come from a leadership committed to behavior that is honest, decent and fair and from directors and employees who share that commitment and bring it to life at all levels of the organization.

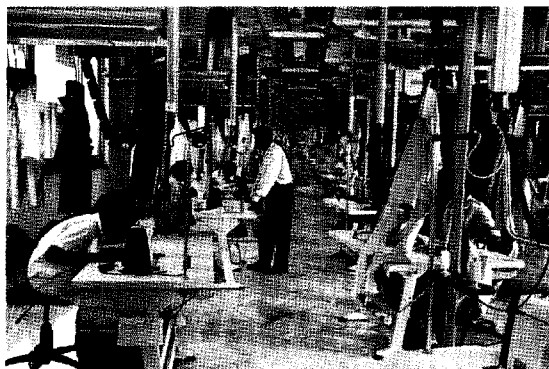
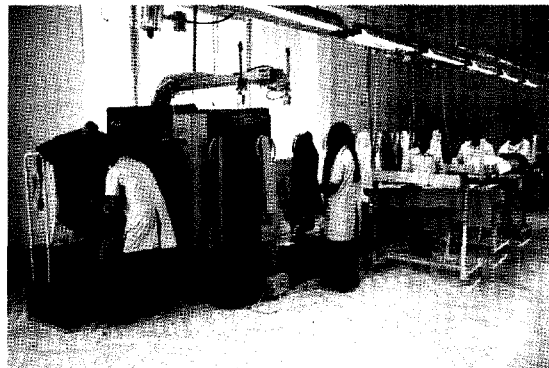
There is still an irrepressible attraction to the beauty of natural stone, which is proven by the expansion of the world's market. It's important that stone be made accessible, both in terms of market and in terms of image. Stone must look natural in all respects, and it must also be easy and close to 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 the 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, flooring market and engineering stone.

Apparels:

Opportunities

- Growing market
- Multifibre raw material base
- High labour cost in developed countries
- Large domestic market
- Quota absence after 2004

Threats

- Technological obsolescence
- High Import tariffs (40-65%)
- Non-proximity to markets
- Emerging Competition

c. SEGMENT WISE PERFORMANCE

Company operates in two segments namely, Granite and Apparels. Since the Apparels division of the Company had commenced commercial production on 25th March, 2004, its performance vis-à-vis, the Granites division is not comparable. The financials for the said divisions of the Company are as under

(Rs. in Lacs)		
Particulars	Year ended 31.03.2004	Year ended 31.03.2003
1. Segment Revenue		
a) Granites	11178.38	10052.24
b) Apparels	2.02	0.00
Gross turnover	11180.4	10052.24
Less: Inter-segment revenue	57.32	0.00
Less: Excise Duty recovered on sales	77.71	40.32
Gross sales / Income from operations	11045.37	10011.92
2. Segment Results		
a) Granites	2148.65	2423.25
b) Apparels	-1.09	0.00
Total	2147.56	2423.25
Less: i) Interest	397.39	375.38
ii) Other un-allocable	0.00	0.00
Total Segment Profit Before Tax	1750.17	2047.87
Less: i) Provision for current tax	152.95	171.46
ii) Provision for deferred tax	79.86	13.56
Profit after tax	1517.36	1862.85
3. Capital Employed		
(Segment Assets-Segment Liabilities)		
a) Granites	5139.25	4642.16
b) Apparels	950.79	0.00
c) Other Unallocable	11.50	11.50
Total Segment Capital Employed	6101.54	4653.66

d. OUTLOOK

Outlook for both the segments in which Company operates is encouraging. Focus of the Company in both the segment has been to improve sales realization and to implement cost cutting measures to the maximum extent possible.

Granite

The world wide improvement of transportation system with more and more bulk vessels will also help many countries to import more thereby boosting our exports.

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.



Apparels

The Garmenting business is a fragmented industry. There are sourcing hubs all around the world. Each with its own plus points. Some have favored duty structures and some have inherent strengths in the price quality equation. The Quotas till now have restricted the export volumes, But Post 2004, quota abolition will give way to free market principles. Only the best players will survive in the Garmenting business.

India, in such a scenario has inherent advantages of fine cotton production coupled with cheap labor. These shall show India the way to higher garment exports, with major garmenting hubs coming up. This is evident from the foresight of many of the leading brands and retailers from the world over, who are setting up buying offices in India estimating India's potential in the near future.

e. RISKS AND CONCERNS

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.

LABOUR MANAGEMENT

The low productivity per worker and less man-hour utilisation is another problem. 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

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. The Company has also tied up with the other quarry owners for supply of Blocks.

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.

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 and its own energy generation devices. With the existence of ICD facilities at Hyderabad, despatches of the containers are not effected much.

POST 2004 SCENARIO

'Life after 2005' is a big question which is hanging over the Apparels Industry around the world. The equations in the industry which is more determined by Quotas will come to an end on 31st December 2004.

