



17th Annual Report 2007-2008



POKARNA LIMITED

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Cover: Once best known for its unrivalled range of spices, India is now also the home of the world's finest granite. This picture from Pokarna's ad campaign reiterates the idea dramatically.
Photo: Rafeeq Ellias

“The greatest risk of all

is not to take a risk at all.”

– Anon

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BOARD OF DIRECTORS

Mr. Gautam Chand Jain, *Chairman & Managing Director*

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*

Mr. Siddharth Jain, *Executive Director*

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COMPANY SECRETARY

Mr. Paras Kumar Jain

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AUDITORS

M/s. S. Daga & Co., Chartered Accountants, Hyderabad.

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BANKERS

Union Bank of India, Secunderabad, Bank of India, Khairatabad, Hyderabad
Indian Overseas Bank, M.G. Road, Secunderabad

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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: contact@pokarna.com
Website: www.pokarna.com, www.stanzaworld.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.
Plot No. 45, APSEZ, Achutapuram & Rambilli Mandals, Visakhapatnam.

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17th ANNUAL GENERAL MEETING

Date: 24th September, 2008 • Time: 10:30 a.m.
Place: Hotel Grand Kakatiya Sheraton & Towers, Begumpet, Hyderabad.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The directors present their 17th Annual Report and the audited statements of accounts for the year ended 31 March, 2008. The Financial Highlights are summarized below:

FINANCIAL RESULTS

Rupees in Lakhs		
Particulars	2007-2008	2006-2007
Total Income	15957.15	16367.85
Less – Expenditure	15212.01	15125.75
Profit / (Loss) Before Tax	745.14	1242.10
Prior Period Items	(5.98)	9.14
Provision for Taxation	280.20	339.24
Net Balance of Profit	458.96	912.00
Balance of Profit brought forward	6823.40	6257.81
Appropriation		
Proposed Dividend	93.01	217.03
Corporate Dividend Tax	15.81	36.88
Transfer to General Reserve	25.00	92.50
Balance Carried to Balance Sheet	7148.54	6823.40

DIVIDEND

Your Company has been declaring dividend consistently for the last 10 years. The Company's dividend policy is based on the need to balance the twin objectives of appropriately rewarding the shareholders with cash dividend and of retaining adequate capital to meet the Company's future investment needs. Keeping in mind the future expansion plans, the ongoing capital expenditure plans, profit earned during the financial year and necessary financial prudence, the Directors of the Company are pleased to recommend a dividend @ 15% (of Rs. 1.50 per share) for the year ended 31 March 2008. The amount of dividend and the tax thereon aggregates to Rs. 108.82 Lakhs.

Dividend paid for the year ended 31 March 2007 was 35 % (Rs. 3.50 per share). The amount of dividend and the tax thereon aggregated to Rs. 253.91 Lakhs.

ENGINEERED STONE PROJECT

Civil and machinery erection work at the Company's engineered stone plant at APSEZ, Achutapuram, Visakapatnam, Andhra Pradesh is progressing at considerable speed. The plant is expected to get into trial production by the end of October, 2008. For project expenditure details as at 31st March 2008, please refer to an appropriate section of notes to accounts. This project has suffered cost and time overrun due to various reasons including, ballooning construction cost, shortage of construction labour, heavy rain falls during the calendar year 2007, increase in interest rates, increase in total area to be constructed, additional facilities, and mounting inflation tendency and its impact on costs of various goods and services.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors Responsibility Statement, the Directors confirm 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;
- 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) 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) they had prepared the annual accounts on a going concern basis.

AUDIT COMMITTEE

In consonance with the requirement of Clause 49 of the Listing Agreement entered into with Bombay Stock Exchange Limited and Section 292A of the Companies Act, 1956, your Company has constituted Audit Committee. The Composition of the Committee is given else where in the Report.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited, a separate section titled 'Corporate Governance', and the report on 'Management Discussion and Analysis' forms part of the Annual Report. A certificate from Auditors of the Company regarding compliance of the conditions of 'Corporate Governance' as stipulated under Clause 49 of the Listing Agreement is given in the annual report.

All board members and senior management personnel have affirmed compliance with the code of conduct for the year 2007-08. A declaration to this effect signed by the Chairman & Managing Director (CEO) of the company is annexed to this report.

The CEO and Chief Financial Officer (CFO) have certified to the board with regard to the financial statements and other matters as required in clause 49 of the listing agreement.

AUDIT

M/s. S. Daga & Co., Chartered Accountants, who are the Statutory Auditors of the Company hold office until the ensuing Annual General Meeting. It is proposed to re-appoint them to examine and audit the accounts of the Company for the Financial Year 2008-09. As required under the provisions of Section 224 of the Companies Act, 1956, the Company has obtained a written certificate from M/s. S. Daga & Co., Chartered Accountants to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

The members are requested to appoint auditors for the period from the conclusion of the ensuing annual general meeting till the conclusion of the next annual general meeting and authorize Board to fix their remuneration.

DIRECTORATE

Shri Prakash Chand Jain and Shri Vinayak Rao Juvvadi retire by rotation and, being eligible, offer themselves for re-appointment. Information as required under the clause 49 of the listing agreement is provided else where in the Annual Report.

AWARDS AND ACCOLADES

Your Company was conferred 'Special Export Award' by CAPEXIL for Export achievement in Granite Sector.

PARTICULARS OF EMPLOYEES

The particulars of employees as required to be disclosed in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 (as amended) are annexed to the Directors Report. However as per the provisions of Section 219(1) (b)(iv) of the Companies Act, 1956, the Report and the Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholders interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Disclosure under "Form A" pursuant to Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is not applicable to the Company.

Company's quarrying operations, granite processing plants and apparel manufacturing plant are designed to achieve high efficiency in the utilisation of energy. The key areas with regards to reduction of energy have been identified by us and necessary steps initiated. The Company has no specific Research & Development department.

FORM B

(Disclosure of particulars with respect to Technology Absorption)

Research and development (R & D)

1. Specific areas in which R & D carried out by the company – Not applicable having regard to the nature of the industry.
2. Benefits derived as a result of the above R&D – Not applicable having regard to the nature of the industry.
3. Future plan of action – Not applicable having regard to the nature of the industry.
4. Expenditure on R & D:
 - a) Capital – Nil
 - b) Recurring – Nil
 - c) Total – Nil
 - d) Total R&D expenditure as a percentage of total turnover – Nil

The Company maintains a high level of information flow with various companies. Through visits of Executives to developed countries, the Company keeps abreast with the advanced Technology Developments and through specific programmes introduces, adopts and absorbs these sophisticated technologies. This has resulted in higher production, accuracy and perfection in excavation of rough granite blocks, processing of random granite slabs and tiles, and, manufacturing of apparel.

Your Company is at present exporting granite to the United States of America, Canada, Switzerland, New Zealand, Puerto Rico, Russia, Moldova, Ireland, Spain, France, Austria, Germany, United Arab Emirates, Belgium, South America, South Africa, Greece, Republic of Panama, Poland, Israel, Mexico, Bahamas, Venezuela, Turkey, Libya, Ecuador, Bahrain, China, Italy, Taiwan and Austria.

Your Company is at present exporting apparel to the United Kingdom, United States of America, Italy and Netherlands.

Your Company is continuously exploring possibilities of exporting to different markets.

During the period under review:

- a) the foreign exchange earnings by the Company was Rs. 11584 Lakhs.
- b) the foreign exchange expenditure (which includes import of capital items, raw materials, spares, etc.) was Rs. 12715 Lakhs.

ACKNOWLEDGEMENTS

Your Directors are thankful to Union Bank of India for meeting long term and working capital needs of the Company's expanding operations and Indian Overseas Bank and Bank of India for meeting capital needs of the Engineered Stone Division of the Company. The Board is also thankful to the holders of Foreign Currency Convertible Bonds for their support.

The Directors are grateful to the Central and State Governments and the Department of Mines & Geology, Andhra Pradesh, Directorate General of Mines Safety, Andhra Pradesh Industrial Infrastructure Corporation Limited, and Visakapatnam Special Economic Zone for their continued support to the Company's expansion plans. Your Board places on record its appreciation of the support provided by the customers, suppliers and equipment vendors to the Company.

Your Directors acknowledge with gratitude the commitment and dedication of the employees at all levels, that has contributed to the growth and success of the Company.

The Directors take this opportunity to record their appreciation for all those who contributed to the success of your Company and look forward to their continued support in the years to come.

For and on behalf of the Board

Place : Secunderabad
Date : 30th July, 2008

Gautam Chand Jain
Chairman & Managing Director



MANAGEMENT DISCUSSION AND ANALYSIS

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1. INDUSTRY STRUCTURE AND DEVELOPMENT

Granite

The word “Granite” is derived from the Latin word “Granum” meaning “grain” because of its granular nature.

Your Company’s granite segment activities can be broadly classified into the following.

Quarrying

Granite quarry is a pit or some open excavation from which granite is extracted. To extract granite from a quarry, digging, cutting or cracking process is undertaken. This process of extracting the stone is called as quarrying. Your Company extensively uses mining machinery, such as excavator, tam rock, compressor and drilling machine for drilling, wire saw for dressing the blocks, crane for lifting big blocks, and dumpers and truck for transport of the waste and finished product. Your company recognises the importance of using earth’s resources in a responsible manner as this makes greater business sense. To compliment this philosophy your Company carries out scientific quarrying operations using the most mechanized quarrying machinery and by extensively using environmental friendly, very safe and non-explosive cracking agent. Your Company’s endeavour is to quarry in a manner such that there is no impact whatsoever on the environment including men, flora and fauna.

Manufacturing of slabs and tiles

To transform the huge block of rough granite into smaller pieces for manufacturing, the block must be sawed into slabs. This operation is performed by gang saw. Gang saw use fine steel shot and dozens of thin blades powered by pitman drive and flywheel assemblies to operate the huge saw mechanisms primarily used to produce thin structural stone panels. Large pumps in pits below the saws maintain a constant flow of water and steel shot slurry onto the block being cut. After slabs are sawed, they are sent for leveling, grinding and polishing. Your Company has two manufacturing complexes with state-of-the-art equipment imported from the finest companies in the world. These machines extract the raw material; then cut and polish the granite with unmatched precision and efficiency thus ensuring a great finish.

Your Company exports mostly to U.S. and year 2007 saw a slowdown in the U.S. economy, and the housing market was particularly hard hit. The U.S. Census Bureau reports that new residential construction dropped ~23.7 percent in 2007, and forecasts ~10.3 percent plunge in 2008, before climbing ~13.2 percent in 2009.

Apparel

India’s garment exports witnessed a slowdown in 2007 due to appreciation of rupee and severe competition from other countries. While the export market will remain challenging, there are considerable opportunities in high premium fashion products. CRISIL expects garments exports to cross ~INR. 790 billion by 2012.

As per AT Kearney’s report Apparel retailing is the country’s second largest opportunity for the organised retailers after food and groceries, representing about ~10% of its retail market. Projected to reach ~US\$ 37 billion for 2008, apparel will be among the highest growth categories, with a CAGR of between ~12 and ~15 %. In 2008, organized retail will represent ~20% of the total apparel market. This is expected to reach ~35 to ~40 percent by 2013. This rapid growth is supported by the burgeoning Indian middle class. Mean annual disposable income is growing at ~6 percent CAGR; consumer spending is expected to increase ~8 percent per year, faster than the United States, the United Kingdom, Japan and China. Other factors supporting these brisk growth rates include more apparel-focused shopping malls, continued penetration of credit cards, organized apparel retailing in tier-two and -three cities, the popularity of ready-to-wear clothing and Western fashions for women. Still, India’s apparel market is highly fragmented. A key challenge for apparel retailers in India is to induce customers to purchase quickly, which means sales promotion tactics are important, including end-of-season sales, festival promotions and special events.