21st Annual Report
2006-07

Restile®
The Original FULBODY Tiles

Restile®

The Original FULBODY Tiles

Restile - the pioneer in vitrified tiles, is the only FULBODY vitrified tile company in the country. Known for innovation & excellence, Restile now introduces India's latest tile finish - PearlRock, the first-of-its-kind surface in vitrified tiles.

Restile offers you a choice of three exciting finishes in vitrified tiles.

PEARLROCK - *A silky surface that has the qualities of a tough* matt surface plus the smoothest of finishes!

GRANAMITE - The toughest surface of all vitrified tiles, hence it is very useful for floors where there's extreme abuse & heavy traffic.

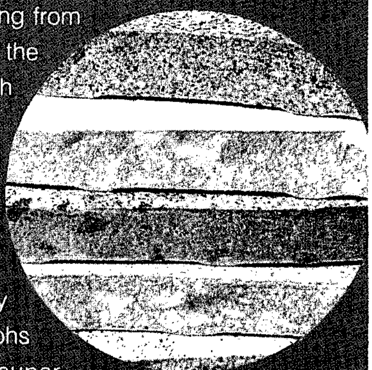
MIRRORSTONE - A tile with a glossy finish that adds an *unparalleled exquisiteness. Just like the beauty of marble,* through & through.

Restile's other offerings include

IMPACTA - Industrial purpose tile for heavy industrial flooring.

EXPRESSIONS - An all-new royal color range to suit the contemporary look.

Benefits of FULBODY Vitrified Tiles



Restile FULBODY Vitrified Tiles are homogenous bodies, with designs running from the surface right down to the bottom. The designs with suitable variations in each tile give a natural look to your floor, just like marble or granite. These tiles are incredibly tough right through, with an extremely hard surface measuring Mohs and processed for a super-smooth finish with a low porosity of 0.03%.

Restile FULBODY Vitrified Tiles are highly resistant to abrasion, *stain and scratch which means* that when you install your floor with them, your floor retains its natural and elegant looks for a lifetime.

Chairman's Speech

Ladies and Gentlemen

It is my privilege to address you again this year at a time when the country is progressing in our direction and industry dynamics are changing fast.

There have been many developments in the Indian Economy since I addressed you last year. Indian Economy has grown at 9% per annum in the last year recording impressive performance of both manufacturing and service sectors. The investments in infrastructure and real estate sectors has increased in geometric proportions, giving boost to industries engaged in manufacture of construction related materials. The Indian economy is poised to grow at 8.5% during the current financial year assisted by high growth rates in all sectors of the economy including around 4% growth in agriculture sector. This is going to be further lifted by large natural gas resource that had been found by both public sector and private sector companies in India. Exploration, development and distribution of this gas resource will enable our energy hungry country to achieve cost effective growth particularly in high fuel/ energy consuming industries like power sector, fertilizer and manufacturing industries including tile manufacturing industry.

The health of our economy is further reflected by the substantial growth in the foreign exchange reserves, which are currently at a level of 230 billion US Dollars.

The economic growth of the country especially in the urban real estate, industrial developments as well as the growth of agriculture sector is creating a considerable gap in demand and supply of premium quality vitrified ceramic floor tiles. Your Company has embarked on further expansion of the production facilities by enhancing the installed capacity from 4000 sq. mtrs. per day to 10000 sq. mtrs. per day. This project is expected to be completed during the third quarter of the current financial year.

The natural gas supply to your company's manufacturing facility situated at Medak District, Andhra Pradesh, is expected to commence from December 2008 resulting in major savings in power and fuel costs.

On completion of Line II Expansion Programme, the net turnover of the Company has increased by 77.25% in the financial year 2006-2007, over the previous year. The performance of your company will improve multifold on completion of Line III Expansion Programme and utilization of natural gas as fuel.

Various further growth options-both organic and in-organic are being examined by your Company's Management to take your Company to the league of few selected industry leaders in the tiles business.

I wish to conclude my address with a positive note on company's performance and creating more value for all stakeholders.

With seasons greetings.

Thank you,

Nalinkant Amratlal Rathod
Chairman and Managing Director

BOARD OF DIRECTORS

Shri Nalinkant Amratlal Rathod	-	Chairman & Managing Director
Shri G.V.Ramana Murthy	-	Joint Managing Director & C.E.O.
Shri K.Rajendra Prasad	-	Director - Nominee APIDC
Dr. P.V.Lakshmipathy	-	Director
Shri V.Padmakar	-	Director
Shri G.Padmanabhan	-	Director
Shri Raj Mitta	-	Director
Shri P.Ramachandran	-	Manager (Fin) & Company Secretary

REGISTERED OFFICE AND FACTORY

Malkapur Village
Hatnoora Mandal
Narsapur Taluk
Medak District-502 296
Andhra Pradesh

ADMINISTRATIVE OFFICE

301&302, Aditya Trade Centre
Aditya Enclave Road
Ameerpet
Hyderabad – 500 038

AUDITORS

M/s.Lalith Prasad & Co.
Chartered Accountants
Flat No. 402, Golden Green Apts
Punjagutta, Erramanzil Colony,
Hyderabad – 500 082

BANKERS

State Bank of India
Industrial Finance Branch
Somajiguda
Hyderabad - 500 082

HDFC Bank Limited
Begumpet Branch,
Begumpet, Hyderabad – 500 003

HDFC Bank Limited,
Lakdikapool Branch,
Lakdikapool, Hyderabad – 500 004

State Bank of India,
Sanga Reddy Branch,
Sanga Reddy, Medak – 502 001

SHARE AND DEPOSITORY TRANSFER AGENTS

Sathguru Management Consultants Pvt. Ltd.
Plot No. 15, Hindi Nagar
Hyderabad – 500 034

NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the TWENTY FIRST ANNUAL GENERAL MEETING of the Members of the Company will be held on Saturday, the 29th day of September, 2007 at 11.30 A.M. at the Regd. Office of the Company at Malkapur Village, Hatnoora Mandal, Medak District-502 296, Andhra Pradesh to transact the following businesses:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2007, the Profit and Loss Account for the year ended 31st March, 2007, together with the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Shri V Padmakar who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri G Padmanabhan who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors and fix their remuneration. The retiring Auditors M/s. Lalith Prasad and Co., Chartered Accountants, Hyderabad, are eligible for re-appointment.

By Order of the Board

P RAMACHANDRAN
Manager (Fin) &
Company Secretary

Place: Hyderabad
Date: 27.07.2007

NOTES:

A. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY IN ORDER TO BE EFFECTIVE MUST BE RECEIVED BY THE COMPANY AT ITS REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.

B. Members/proxies are requested to bring their copies of Annual Report and the attendance slip duly filled in for attending the meeting. Copies of the Annual Reports will not be provided at the meeting.

C. The Register of Members and Share Transfer Books of the Company will remain closed from 22.09.2007 to 29.09.2007 (inclusive of both days).

D. Members are requested to notify any change in their addresses to the Company's Share and Depository Transfer Agents.

E. Members holding shares in physical form are requested to convert their holdings into Demat. The Company's ID with CDS (I) L and NSDL is INE298E01022. The Company's Share and Depository Transfer Agents are Sathguru Management Consultants Pvt. Ltd., 15, Hindi Nagar, Panjagutta, Hyderabad - 500 034.

BRIEF PROFILE OF DIRECTORS SEEKING RE-APPOINTMENT AT THE AGM

1. Shri V. Padmakar is a Graduate Engineer with 30 years of experience in marketing, production, commercial, administration etc., in the reputed companies in India. He has been associated with the Company since inception as Managing Director of the Company till February 2005.
2. Shri G. Padmanabhan is a Chartered Accountant and having rich experience of about 35 years of service in various public and private sectors in India and abroad. He was appointed as a Director – Finance in 'Dutch Multinational Construction Company' specialized in Infrastructure Projects. Since, 1999 he has been engaged in Audit and Systems Consultancy for Indonesian conglomerates for their operations and investments in Indonesia / Australia. His vast experience will be able to make valuable contribution to the Company's growth and prosperity.

DIRECTORS' REPORT

Your Directors present their Twenty First Annual Report together with the Audited Accounts of the Company for the year ended 31st March, 2007

FINANCIAL RESULTS

During the period under review, the Company's performance has been as under:

OPERATIONS :

Particulars	(Rs. in Lakhs)	
	2006-07	2005-06
Gross Sales	**2413.90**	1221.78
Other Income	**26.61**	33.33
EBITDA	**56.81**	(32.78)
Interest and Financial Charges	**94.77**	63.08
Depreciation	**235.82**	144.34
Profit/ (Loss) Before Taxes, Amortisation	**(273.78)**	(240.20)
Amortisation	**82.69**	106.09
Profit / (Loss) before Tax	**(356.47)**	(346.29)
Provision for Taxes	**3.46**	9.21
Profit / (Loss) carried to Balance Sheet	**(359.93)**	(355.50)

During the year under review, your Company has achieved a gross turnover of Rs.2413.90 Lakhs and EBITDA of Rs.56.81 Lakhs as against Rs.(32.78Lakhs) in 2005-06.

Net Loss of Rs (359.93 Lakhs) for the year is after amortisation of Rs. 82.69 lakhs expenditure relating to capital issue, brand building and New Product development costs.

The Loss during the Year 2006-2007 increased due to volume of Sales being lower than the production and the lower yields in the first half of the year.

Commissioning of the balancing equipment to optimize the production facilities was completed during second half of the year. The turnover and profitability has improved during the second half of the year.

The capital expenditure has started yielding benefits from the second half of the year.

CAPITAL PROJECTS

Your Company is embarking on a project for expansion of capacity during 2007-08 from the present 14 lakhs Sq.mtrs. to 35 lakhs Sq.mtrs with an investment in Buildings & Plant and Machinery of Rs.53 crores, partly to be financed through Rights Issue of Rs.41.89 crores.

FUTURE OUTLOOK

On completion of the capital project for Capacity Expansion during 2007-08, your Company is poised for a quantum leap in its operations. Continuing R&D activity in the areas of new product development, quality improvement, optimization of product mix and cost reduction will benefit the Company in improved market share and profitability.

COST REDUCTION AND CONTROL

Your Company is continuously focusing its efforts towards cost reduction, through improvement in yields, procuring better quality & alternate inputs and expanding sources while controlling overhead costs.

RESEARCH & DEVELOPMENT

During the year under review, an amount of Rs.298.76 lakhs has been incurred for development of new products. Considering the economic benefits for the Company over future, this expenditure is being amortised over a period of five years. The R&D activities are undertaken in the areas of New Product Development, quality improvement, optimization of product mix and cost reduction

PUBLIC DEPOSITS

Your Company has not accepted any deposits within the meaning of Section 58A of the Companies Act, 1956 and the Rules framed there under.

DIRECTORS

As per the provisions of the Companies Act, 1956 and Articles of Association of the Company, Shri V. Padmakar, and Shri G. Padmanabhan retire by rotation at this Annual General Meeting and being eligible, offer themselves for re-appointment.

The brief profiles of the Directors seeking re-appointment at this Annual General Meeting are presented in the Annual Report.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956, the Directors, based on the representation of the operating management confirm that:

i. The annual accounts presented to the members have been prepared on a going concern basis and applicable accounting standards have been followed with no material departure there from;

ii. In order to provide a true and fair view of the affairs of the Company as at March 31, 2007 and of the loss of the Company for the year ended on that date reasonable and prudent judgments and estimates have been selected and consistently applied.

iii. 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 have been taken;

AUDITORS

M/s. Lalith Prasad and Co., Chartered Accountants, Hyderabad, Statutory Auditors of the Company hold office until the conclusion of this Annual General Meeting. The Company has received a letter from them to the effect that their appointment, if made, would be within the prescribed limits under Section 224 (1B) of the Companies Act, 1956 and are eligible for reappointment.

CORPORATE GOVERNANCE

Pursuant to the provisions of the Listing Agreement and the Companies Act, 1956, Report on Corporate Governance together with the Auditors' Certificate on the compliance of the conditions of Corporate Governance are furnished in this Annual Report and a Report on Management Discussion and Analysis prepared and annexed to the Director's Report.

PARTICULARS OF EMPLOYEES AND INDUSTRIAL RELATIONS

The information as required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is NIL.

The industrial relations with its employees continue to be cordial. Development of Human Resources is taken at all levels and necessary training is imparted towards improving the productivity, quality, cost control, safety and environment protection.

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

Information pursuant to Section 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 and forming part of this report is given as Annexure to this report.

ACKNOWLEDGEMENTS

Your Directors place on record their deep appreciation of the continued co-operation and support extended by financial institutions, bankers, suppliers, dealers, C & F Agents, customers, employees and various State and Central Government Agencies. The Directors also take this opportunity to thank the shareholders for their continued confidence reposed in the Management of the Company.

On behalf of the Board

G.V. RAMANA MURTHY

Hyderabad
27.07.2007

Joint Managing Director &
Chief Executive Officer

ANNEXURE TO THE DIRECTORS REPORT

A. CONSERVATION OF ENERGY:

POWER: The company is continuously taking efforts to optimize energy utilization. During the year under review the Company has changed over its power supply from 11 KV line to 33 KV line for better quality power with less interruptions. This lead to lower dependence on D.G. Power.

FUEL: To meet the additional requirement of fuel the company proposed to have a second fuel storage system suitable for both Propane & LPG. This in built flexibility may help us to optimize the fuel consumption.

B. NEW PRODUCT DEVELOPMENT:

NEW PRODUCTS: Continuous efforts have been put to come out with new products viz.
Ultra White.
Royal Series.
Ivory Body.
New Marbles.

PEARL ROCK FINISH TILES:

Due to continuous R&D efforts Restile was able to launch new product range series with Pearl Rock finish (A finish which is in between un polished & polished). The product has excellent physical & mechanical properties which was well received by the market as a premium product.

C. NEW RAW MATERIALS: Continuous trials have been done and new / alternate raw materials have been introduced to improve the clarity and aesthetic appearance of tiles.

D. TECHNOLOGY UPGRADATION:

Procured & installed an electronic mould system SME to replace old & conventional mechanical SMU mould system.

BENEFITS:

Higher realization.
Improved long-term market share.
Cost reduction.
Quality improvement
Yield Improvement

FUTURE PLAN OF ACTION:

To release large format tiles using our line – III
To introduce new product range using our proposed Line – III
Upgrade R & D facilities & Quality control equipments

FORM A:

Form for disclosure of particulars with respect to Conservation of Energy:

	2006-07	2005-06
ELECTRICITY		
a) Purchase Units (KWH)	**41,22,787**	30,32,739
Total Amount (Rs in Lakhs)	**1,50,31,912**	1,18,34,838
Average Rate per Unit (Rs/Kwh)	**3.65**	3.90
b) Own Generation		
1) Through Diesel Generator Units (Kwh)	**7,35,595**	1,43,610
Units per liter of Diesel Oil (Kwh)	**3.00**	3.00
Average Cost per Unit (Rs/Kwh)	**11.27**	9.74
2) LPG		
Quantity (Tonnes)	**1,779.00**	1,185.88
Total Cost (Rs)	**5,16,99,619**	3,35,39,805
Average Rate (Rs/Tonne)	**29,061**	28,283

CONSUMPATION PER UNIT OF PRODUCTION

	2006-07	2005-06
Electricity (Kwh)	9.1	9.151
L.P.G (Tonnes)	0.00319	0.0034

FORM B

RESEARCH AND DEVELOPMENT 2006-2007

During the year 2006-2007 special emphasis and thrust has been given in the areas of cost reduction, quality improvement & new product development.

1. Cost Reduction: As a part of cost reduction drive the R&D has done the following activities.
   a) Introduction of new chemicals to reduce Green & Dry tiles losses.
   b) Introduction of special grades Raw Materials and New sources of better quality materials to improve the brightness & clarity of the body.
   c) Formulation of New body composition for Terra Cotta body.
   d) The marble Grids (Toolings) were Designed & Fabricated in-house, which were earlier made at vendor source.
2. Quality Improvement:
   a) Development of Gauges for checking out of flatness deviations of tile surface of tile i.e., convexity, concavity & warpage.
   b) Body preparation improved for better body clarity & brightness.
   c) Implemented in process controls in various production stages.
3. Product Development by way of continuous efforts new designs & patterns were developed.
   a) Developed large format 60x60 Un-polish version tile in various designs & patterns.
   b) Introduced new self design series under the name "LIFE STYLE SERIES".
   c) Developed various types of marble effect tiles.
4. Equipment Balancing: Detailed analysis of the existing capacity has been made and to balance both the Kiln-I & Kiln-II capacities, upstream & downstream equipment requirements have been worked out and procurement action has been initiated. As a part of this exercise, we have received "32" head Italian make Ancora Polishing Line in February' 2006. Other equipments like Ball Mills & Spray Drier were already procured. As part of technology absorption and training senior staff has been deputed to Italy.

Benefits:

All the above efforts have led to improved efficiencies, enhanced product range and production of consistent quality products.

Future plan of action:

To carry out the R & D activity to develop new products consistently and to reduce cost of production.

On behalf of the Board

Hyderabad
27.07.2007

G.V. RAMANA MURTHY
JOINT MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY STRUCTURE AND DEVELOPMENTS

Globally, the ceramic tile industry has grown at rates of around 8.5% per annum in the past few years. The global ceramic tile industry size is close to $32.5 billion. China dominates with 33.5% of world production, followed by Spain at 9.7%, Italy 9%, Brazil 8.6% and India at 4.1%. The largest exporters are Italy, China and Spain in that order, while the USA, Germany and France are major importers.

At present, there are 33 units in India in the organized sector, with an installed capacity of 851.50 lakhs metric tpa. The unorganized sector accounts for a significant chunk of the industry (44% of total production). Annual turnover of the industry is in the region of Rs.45 billion.

The Company's brand name "RESTILE" has earned good reputation in the tiles market and the market potential for our products is very encouraging. Keeping this in view, the installed capacity has been expanded to 1.40 million sq. mtrs. per annum and a further expansion program with an investment of approx. Rs. 5310.50 lakhs is being implemented on completion of which program the installed capacity would be 3.50 million sq. mtrs. per annum.

The market for vitrified tiles has been growing at around 15% per annum in India on account of strong growth of construction industry under booming Indian Economy and rising personal incomes.

The competition for our product is from a few other Indian companies and from imports. However, our brand name, quality, price competitiveness enables consistent year after year growth in the market share for our product.

DISCUSSION ON FINANCIAL/OPERATIONAL PERFORMANCE

The production during the year was 4,39,219 sq. mtrs. and the sales were 4,19,182 sq. mtrs. The capacity utilization and sales quantity were higher during the year.

Net Sales: Net sales for the year 2006-07 were Rs.2034.84 lakhs as compared to Rs.1148.02 lakhs in the previous year. The increase of 77.24% was due to increased capacity of the production facilities & thereby higher sales.

Increase in stocks: The closing stock in trade as on 31.03.2007 has increased by Rs.284.24 lakhs from the previous year on account of increase in the production.

Total Expenditure: Increase in expenditure in the year 2006-07 was due to revised product mix, new product development and higher production.

Manufacturing Expenses: Manufacturing expenses were Rs.1559.14 lakhs in the year 2006-07 compared to Rs. 917.50 Lakhs during the previous year. The increase has been on account of richer product mix and higher production quantities.

Administrative, Selling & Other Expenses: There has been an increase of Rs.149.47 lakhs on account of general rise in prices, increase in work/sales force and increased marketing activity.

Interest and Financial Charges: An amount of Rs.94.77 lakhs was incurred in the year 2006-07 against Rs. 63.08 lakhs incurred in the previous year due to utilization of enhanced working capital facilities.

Net Profit / (Loss): The loss during the year 2006-07 increased due to lower sales volume compared to production and the yields were low in the first half of the year. The benefits of capital expenditure realized only during second half of the year.