

14th Annual Report

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**BOARD OF DIRECTORS**

Sadanand A Shetty
 Kum. Kala S Pant (Nominee of IDBI)
 K. Bharathan (Nominee of ICICI)
 G. Sreeramamurthy (Nominee of UTI)
 P.C.D. Nambiar
 T. Venkateswara Rao
 B. Sivaramakrishnaiah
 Krishna Prasad Tripuraneni, Managing Director

COMPANY SECRETARY & MANAGER (LEGAL)

R. Jayaraman

AUDITORS

Brahmayya & Co.
 Chartered Accountants
 Chennai

LEGAL ADVISER

T. Raghavan
 Advocate
 Chennai

BANKERS

Central Bank of India
 State Bank of India
 Indian Bank

REGISTERED OFFICE

Mittapalem
 Narasingapuram P.O.
 Chandragiri Taluk
 Chittoor District
 Andhra Pradesh
 Pin 517 102

MD	✓	BKC	✓
CS	✓	DPY	NA
RO	✓	DIV	NA
TRA	✓	AC	✓
AGM	✓	SHI	✓
YE	✓		✓

CORPORATE OFFICE

52, Chamiers Road
 Chennai - 600 028

CERAMICS DIVISION

Mittapalem
 Narasingapuram P.O.
 Chandragiri Taluk
 Chittoor District
 Andhra Pradesh
 Pin 517 102

GRANITES DIVISION

Gudapakkam Village
 Puduchatiram (Post)
 Chinglepet District
 Tamil Nadu - 602 107

SHARE TRANSFER AGENTS

M/s. Integrated Enterprises (India) Ltd.
 46/3, Vijayaraghava Road
 T. Nagar
 Chennai - 600 017.

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Notice to Members

NOTICE is hereby given that the Fourteenth Annual General Meeting of the Members of Spartek Ceramics India Limited will be held at 12 Noon on 30.09.98 at Hotel Mayura, Tirupati to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Profit and Loss Account for the year ended 31.03.98 and the Balance Sheet as on that date and the Report of the Auditors thereon and Directors' Report.
2. To appoint a Director in place of Mr. B. Sivaramakrishnaiah, who retires by rotation and being eligible offers himself for reappointment.
3. To appoint a Director in place of Mr. Sadanand A Shetty, who retires by rotation and being eligible offers himself for reappointment.
4. To appoint Auditors and fix their remuneration. M/s. Brahmayya & Co., Chartered Accountants, Chennai retire at this Annual General Meeting and are eligible for reappointment.

SPECIAL BUSINESS:

5. To consider and if thought fit to pass with or without modification the following resolution as a Ordinary Resolution:

"RESOLVED THAT in term of Section 81 (1A) and other applicable provisions, if any, of the Companies Act, 1956 and subject to such guidelines, approvals and consents of the Government of India, Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and/or any other authority as may be applicable or required and subject to such terms, conditions and modifications, as may be considered necessary, proper or expedient by the Board of Directors (Board) of the Company and/or as may be imposed or prescribed by the Government of India, RBI, SEBI and/or other authority for granting such approvals and consents, the consent of the Company be and is hereby accorded to the Board to offer, issue and allot Foreign Currency Convertible Bonds (FCCBs) and the interest at LIBOR + 350 basis points to be paid in US\$/Swiss Franks or any currency and/or any other instrument or FCCBs at such coupon rate and subject to such terms and conditions as may be approved by Government and/or SEBI on preferential basis for an value of Rupees Fifty Crores, with further authorisation to retain and allot additional bonds upto 25% of the above value in the event of oversubscription to Sparta

Holdings (Mauritius) Limited and/or to other "Foreign Investors" (which term shall include NRIs, OCBs and Companies incorporated outside India) in one or more tranches, at such price (not being less than the minimum issue price as prescribed by SEBI's guidelines) on such terms and conditions and carrying such rights and obligations as the Board thinks fit."

"RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to alter, amend or modify any of the terms and conditions of the above including interest, tenure, conversion of the FCCBs subject to the approval of the concerned authorities such as Government, SEBI as may be necessary in this regard."

"RESOLVED FURTHER THAT for the purpose of giving effect to this resolution the Board or any Committee thereof or any director or other person which/who the Board may constitute or authorise for this purpose be and is/are hereby authorised to do all acts, deeds and things and to take all steps and give such directions as may be necessary and to settle all questions or difficulties that may arise in such manner as the Board or such Committee, Director or Authorised Person in its sole discretion may deem fit."

6. To consider and if thought fit to pass with or without modification(s) the following resolution as an Ordinary Resolution:

RESOLVED THAT in terms of Section 81 (1A) and other applicable provisions, if any, of the Companies Act, 1956 and subject to such guidelines, approvals and consents of the Government of India, Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and/or any other authority as may be applicable or required and subject to such terms, conditions and modifications, as may be considered necessary, proper or expedient by the Board of Directors (Board) of the Company and/or as may be imposed or prescribed by the Government of India, RBI, SEBI and/or other authority for granting such approvals and consents the consent of the Company be and is hereby accorded to the Board to offer, issue and allot Preference Shares of Rs.10/- each for cash at par on preferential basis for an aggregate value of Rupees Twelve Crores to Indian Resident Investors, Corporate Bodies, Sparta Holdings (Mauritius) Limited and/or to other "Foreign Investors" (Which term shall include NRIs, OCBs and Companies incorporated outside india) in one or more tranches, at such price (not being less than the minimum issue price as prescribed by SEBI's guidelines, if any) on such



terms and conditions and carrying such rights and obligations as the Board thinks fit."

"RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to apply for listing the above Preference Shares upon allotment at the Stock Exchanges where the shares of the Company are presently listed."

"RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to alter, amend or modify any of the terms and conditions of the above including interest, tenure of the above Preference Shares subject to the approval of the concerned authorities such as Government, SEBI as may be necessary in this regard."

7. To consider and if thought fit, to pass the following resolution with or without modification(s), as as a Special Resolution:

"RESOLVED THAT in terms of Section 81 (1A) and other applicable provisions, if any, of the Companies Act, 1956 and of the Articles of Association of the Company and subject to such approvals, permissions and/or sanctions of Financial Institutions, SEBI, RBI and other authorities, and subject to the Guidelines of SEBI issued from time to time the consent of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter called "Board" which term shall be deemed to include any committee which the Board may have constituted or hereinafter constitute to exercise its powers including the powers conferred by this resolution) to offer such number of Equity Warrants to Sparta Holdings Limited and or its/their Associates (hereinafter referred to as "Promoters"), which may include "Foreign Investors" (Which term shall include NRIs, OCBs and Companies incorporated outside India) entitling them to subscribe upto Forty Lakhs equity shares of Rs.10/- each in the Company in such manner and upon such terms and conditions as are herein after contained:

- i) The Equity Warrants as aforesaid, may be offered with an option permitting them to refuse/subscribe in cash for Forty Lakhs Equity Shares of Rs.10/- each (hereinafter referred to as "Warrant").
- ii) The holders of each warrant shall be entitled to apply for and obtain at their sole discretion One Equity share of Rs.10/- at such premium subject to SEBI guidelines, if any, applicable.

If such option is not exercised in the manner prescribed within the period of 18 months fixed by the Board in accordance with guidelines, if any, the warrants shall

lapse to the extent of the shares not so taken up or paid for.

- iii) The option attached to the warrants shall not be transferred or otherwise disposed off to any other party save and except to a party within the above persons and the option may be exercised in such manner and in such proportion as the above persons may at their absolute discretion decide.
- iv) The above persons shall be entitled to exercise their option in full or in part or may decline to exercise their right in which case offer shall be deemed to have lapsed.
- v) The new equity shares issued in pursuance of the exercise of the warrants shall be subject to the Memorandum and Articles of Association of the Company and shall rank paripassu in all respects with the existing issued and subscribed equity shares of the Company save and except that they shall qualify for dividends, if any, that may be declared for the financial year in which such equity shares are issued and allotted protata for the period during which such capital is paid-up.
- vi) In the event that prior to the allotment of Equity Shares to the above persons on exchange with the warrants, any Equity Shares are issued and allotted by the Company to the holders of its existing shares as Right Shares (hereinafter referred to as the said "Right Shares") and/or as Bonus Shares, the above persons holding the Warrants shall be issued by the Board such additional warrants (hereinafter referred to as "the Additional Warrants") entitling the holders, to the extent of all subject to their taking up and paying for the Shares offered under the warrants to further equity shares in the proportion and subject to the same conditions including conditions as to the price and the payment thereof mutatis mutandis as the Right Shares are offered and allotted to the holders of the existing shares of the Company and/or shall be allotted the said Bonus Shares in the same proportion as the holders of the existing equity shares of the Company and this resolution shall be deemed to have approval, in terms of Section 81 (1A) of the Companies Act, 1956 to offer and/or issue and/or allot as many Equity Shares of Rs.10/- each of the Company as are required to satisfy the allotment of Equity Shares in respect of the Additional Warrants over and above Forty lakhs Equity Shares comprised in the promoters issue and all such Equity Shares rank paripassu in all respects with

the existing Equity Shares of the Company except that with respect to dividends declared for the financial year of the Company in which the said Equity Shares are allotted, they shall qualify for dividends only on a pro-rata basis from the date of such allotment.

- vii) In the event of any new/fresh equity issue by the Company to persons other than the Members as on that date (not a Right Issue), the above persons shall be issued by the Board such Additional Warrants (hereinafter referred to as "the Additional Warrants") entitling the holders, to the extent of and subject to their taking up and paying for the shares offered under the Warrants, to further Equity Shares in the same proportion and subject to the same conditions at a price as per the then prevailing guidelines for such warrants and the payment thereof mutatis mutandis as the fresh shares are offered and allotted to such persons and this resolution shall be deemed to have the approval, in terms of Section 81(1A) of the Companies Act, 1956, to offer and/or issue and/or allot as may be required to satisfy the allotment of Equity Shares in respect of the Additional Warrants as referred to in clause (vi) above.

- viii) The Board of Directors be and are hereby authorised to alter, amend or modify any of the terms and conditions of the above including tenure, conversion of the Warrants subject to the approval of the concerned authorities such as Government, SEBI as may be necessary in this regard.

- ix) For the purpose of giving effect to this resolution the Board be and is hereby authorised to take all necessary steps and give such directions as may be necessary to settle any questions or difficulty which may arise in regard thereto in such manner as it may deem expedient.

The Register of Members of the Company will remain closed from 24.09.98 to 30.09.98 (both days inclusive)

By Order of the Board

Place : Chennai
Date : 31.07.98

R. Jayaraman
Company Secretary
& Manager (Legal)

NOTES:

1. A member entitled to attend and vote is entitled to appoint a Proxy to attend and vote instead of himself and The PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxy Form is enclosed herewith. Proxies to be effective should be deposited at the Registered Office of the Company or at its Head Office at 52, Chamiers Road, Chennai-600 028 not later than 48 hours before the Meeting.
2. Members are requested to intimate to the Company any change in the address quoting their Ledger Folio numbers.
3. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of Special Business is annexed hereto.



Explanatory Statement Pursuant to Section 173(2) of the Companies Act, 1956

Item No. 5 of the Notice to Members

The Company proposes to issue 10.5% Foreign Currency Convertible Bonds (FCCB) and/or any other instrument as may be approved by Central Government, on preferential basis to Sparta Holdings (Mauritius) Limited and/or other "Foreign Investors" (which term shall include NRIs, OCBs and Companies incorporated outside India) for an amount of Rs.50 crores, with further authorisation to retain and allot additional bonds upto 25% of the above value in the event of oversubscription, on such terms and conditions as may be prescribed by the Government and accepted by the Board subject to SEBI guidelines including on pricing and other approvals as may be required.

In fact this item of business was approved by the shareholders at their last Annual General Meeting. Under SEBI Guidelines the resolution was valid for only three months. Now the same item of business is presented to the shareholders for their approval as renewal of the resolution.

Any issue of Convertible Bonds to persons other than the existing Members of the Company need approval of the Members by a Special Resolution pursuant to Section 81(1A) of the Companies Act, 1956. Hence the proposed resolution.

None of the Directors of the Company is interested in the above resolution.

Item No. 6 of the Notice to Members

The Company proposes to issue on preferential basis Preference Shares of Rs.10/- each to Indian Resident Investors, Corporate Bodies, Sparta Holdings (Mauritius) Limited and/or other "Foreign Investors" (which term shall include NRIs, OCBs and

Companies incorporated outside India) for an aggregate value of Rupees Twelve Crores for raising interest free funds.

In fact this item of business was approved by the shareholders at their last Annual General Meeting. Under SEBI Guidelines the resolution was valid for only three months. Now the same item of business is presented to the shareholders for their approval as renewal of the resolution.

Any issue of preference shares to persons other than Members of the Company needs approval of the Members by means of Special Resolution under Section 81(1A) of the Companies Act, 1956. Hence the proposed resolution.

None of the Directors of the Company is concerned or interested in the resolution.

Item No.7 of the Notice to Members

For future expansion it is necessary to secure enough funds and the Boards has ascertained the willingness of the Promoters and Foreign Investors to make further investments and it is proposed to issue Forty Lakhs Equity Warrants of Rs.10/- each to Sparta Holdings Limited and/or its/their Associates (hereinafter referred as "Promoters") which may include "Foreign Investors" (which term shall include NRIs, OCBs and Companies incorporated outside India) by way of issue of Equity Warrants.

Any issue of shares/equity warrants to persons other than Members of the Company need approval of the Members by means of Special Resolution under Section 81(1A) of the Companies Act, 1956. Hence the proposed resolution.

None of the Directors of the Company is concerned or interested in the resolution.

DIRECTORS' REPORT

To

The Members of Spartek Ceramics India Limited

Your Directors present the Fourteenth Report and Audited Accounts of the Company for the period ended 31.03.98.

FINANCIAL RESULTS:

	(Rs. in Lakhs)	
	1997-98	1996-97
Gross Income	4672.38	4824.44
EBDLIT	916.25	220.51
Profit/(Loss) before taxation	(446.35)	(1040.12)
Provision for taxation	—	—
Profit/(Loss) after tax	(446.35)	(1040.12)
Surplus brought forward from previous year	(964.84)	75.29
Net Profit(Loss) for the year available for appropriation	(1411.19)	(964.84)

APPROPRIATIONS:

Dividends	—	—
General Reserve	—	—
Debenture Redemption Reserve	—	—
Surplus/(Deficit) transferred to Balance Sheet	(1411.19)	(964.84)

Performance during the year has improved with losses being contained to Rs. 4.46 crores. Despite the recession, in the economy and in the construction sector, in particular, and the overall capacity build up in the industry, the company has managed to keep up the level of sales volumes as well as the average realisation through improved product mix despite the pressure on selling prices due to the competitive situation.

While the ceramic division shows a profit, the delay in the commencement of production at the granite division continued to impact the operational results due to absorption of fixed overheads on the overall company's results.

CERAMIC DIVISION

The unit has continued to operate above its rated capacity with total production of 14.75 lac sq. mtr. in the current year as compared to 15.29 lac sq mtr. in the previous year. Volume sales also remained at the level of 17.6 lac sq.mtr. (including traded goods) for the current year as compared to 17.87 lac sq.mtr. in the previous year. Gross sales reported for the year was Rs.42.74 crores and the company pruned its losses to Rs.4.46 crores from a figure of Rs.10.40 crores in 1996-97. The Company has benefited from reduced cost of operations through increased operating efficiencies and reduction in cost of LPG and lower interest. The consistent move towards

higher value product mix and improved share of business in remunerative regions with lower cost of freight will further improve division's operating results in the coming year.

The trend in the first quarter of the current year is encouraging with volume sales level showing a 15% increase over the previous year. The company has started marketing tiles aggressively using its strong distribution network and brand equity.

At the end of the first quarter of 1998-99, the company has registered a net profit of Rs.45.52 lacs against a loss of Rs.1.18 crores in the same period last year despite the overheads of the inoperative granite division. Interest charges have dipped to Rs.2.23 crores and gross profit after interest but before depreciation and taxation came to Rs.75.52 lacs against a loss of Rs.88.79 lacs in the previous year. At a time when the ceramic industry is affected by a general slow down, the company's performance indicates first signs of regaining its once high profile growth. New premium and high value products like Antiskid and Gold Line have been introduced which are showing a very favourable response in the market and will contribute to better realisation.

GRANITE DIVISION

Subsequent to obtaining debonding permission from Government of India and payment of the applicable duties, the unit has been gearing up to recommence operations at short notice. The consortium led by IDBI has agreed to fund the restart of the granite division. Technicians from prospective equipment suppliers have studied the plant's manufacturing capability and submitted recommendations for upgradation of equipment as well as improved body formulations to facilitate a quick and effective restart. New product developments have are in advanced stage. It is proposed to introduce these new and value added products at the Gudapakkam plant immediately after stabilisation of the standard product range which was being manufactured before the suspension of operations for debonding. Plans have already been made to place orders for procurement of raw materials and spares. Capital expenditure proposals have already been put up for funding to enable expand the product range.

With the above established trends and operating plans for the granite division, the outlook for the ceramics division is very encouraging and we expect to increase the turnover substantially by the year 2000 with a range of ceramic tiles new sophisticated finishes in granite tiles as well as the opportunity to supplement these products with a range of wall tiles from the capacities made operational at the granite division and at



Stiles (for traded products). The inflow of funds which would provide relief from the cash crunch will also enable the company undertake renewed promotional and publicity measures beginning with the launch of granite tiles.

FINANCE

As informed in our last report, FIPB and Ministry of Finance approvals have been obtained for the proposed FCCB issue upto Rs.50 crores. The company is in the process of completing related formalities with Institutions / Banks. Alternatively institutions have considered additional rupee term loan. The institutions and banks have worked out a financial scheme with a total inflow of Rs.14.92 crores partly in Indian Rupee and partly through FCCBs. Also, concessional rate of interest is agreed on their existing term loans alongwith additional moratorium for repayment of the same.

Induction of Rupee Term Loan partially and FCCB proceeds will enable restart of Granite Division's operations and repayment of public debentures and some of the other debts.

With the re-start of operations of granite division coupled with reduced interest burden should result in enhancing the contribution to the company.

EXPORTS

The Company has during the year achieved an export turnover of Rs.85 lakhs compared to Rs.209 lakhs during the previous year. Company had to cut back the export orders due to the delay in banking facilities.

NEYCER INDIA LIMITED

Neycer India Limited is a subsidiary of your company. It continued to be under the purview of BIFR throughout the review period. As earlier informed Neycer is not able to raise any funds for its capacity expansion plans and continues to suffer for want of capacity expansion. During the period under review Neycer has converted Rs.2 crores due to your company into 20 lakh equity shares of Rs.10/- each at par as per scheme formulated by BIFR.

To fund the One Time Settlement of its dues to the financial institutions the company is proposing to issue Foreign Currency Convertible Bonds (FCCBs) on the lines of Spartek Ceramics India Limited. The necessary approvals from FIPB and MOF is already in place for the same. We have requested the monitoring agency i.e., ICICI for waiver of 100% interest dues on the institutional loans and the application of the company is under consideration. The company's bankers are processing the application for issuance of

guarantee. Due to various delays in getting investments into the company the company continues to suffer losses year after year. Neycer's sanitaryware plant which was closed for more than five and half months due to lock out has been reopened and the plant is operating in its full capacity. With the flow of investments, payment of OTS and capacity expansion, your directors are confident that Neycer will see once again its good days shortly.

Neycer India Limited's Balance Sheet, Profit and Loss Account, Auditors' Report and Directors' Report are attached with this report for further details.

FUTURE PROSPECTS

The ceramic division is already showing improved operational results this quarter and with the increased volumes anticipated from the traded products manufactured at Stiles, the prospects for improved profitability of the division look encouraging. The operations of the granite division will be a major contributing factor for the overall company's profitability. The planned thrust in marketing and promotional inputs will go a long way to reestablish the products in the market. The media plan for launch of granites has already been drawn up and will coincide with the reopening of the division. This will further reinforce the existing brand equity of Spartek. New sophisticated products from the Gudapakkam plant will be introduced to focus on premium market segments and enhance the image of the company with quality products.

FIXED DEPOSITS

Company has accepted and renewed during the year under review only one fixed deposit amounting to Rs.50 lakhs from Airforce Naval Housing Board.

INDUSTRIAL RELATIONS

The Industrial relations between the Management and the Employees at all levels continued to be cordial.

DIRECTORS

Mr. B. Sivaramakrishnaiah and Mr. Sadanand A Shetty, Directors retire by rotation and being eligible offers themselves for reappointment.

Mr. M. Narasimham, Chairman has resigned his directorship in view of his health condition. The Directors place on record their appreciation of services rendered by Mr. Narasimham during his long association with the Company and for his guidance and support.

Mr. A.P. Sarwan resigned his directorship. The Directors placed on record the appreciation of services rendered by Mr. Sarwan.

AUDITORS

M/s. Brahmayya & Co., Chartered Accountants, Chennai the Company's Auditors retire at the conclusion of the forthcoming Annual General Meeting and being eligible offer themselves for reappointment.

PARTICULARS OF EMPLOYEES

Information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report is given as Annexure enclosed.

AUDITORS' REPORT

In respect of the observation made by the Auditors in their Report pertaining to:

- 1) Para 2(d): Efforts are on for recovery of old dues. For dues outstanding more than six months, based on outcome necessary accounting treatment will be given effect in the current year.
- 2) Para 2(e): No transfer from the Profit and Loss Account to Debenture Redemption Reserve account was possible in view of loss situation.

- 3) Para 2(f): Depreciation has not been provided in view of non operation of Granite unit during the year 1997-98.
- 4) Para 2(g): The penal interest has been brought down and/or got waived in some of the cases and in respect of other pending cases efforts are being made to settle them.

ACKNOWLEDGEMENT

The Directors acknowledge the support received from various Government Departments, Financial Institutions, Banks, Shareholders, Debentureholders, Customers, Dealers and Employees.

For and on behalf of the Board

B. SIVARAMAKRISHNAIAH
Director

Place : Chennai
Date : 31.07.98

KRISHNA PRASAD TRIPURANENI
Managing Director

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