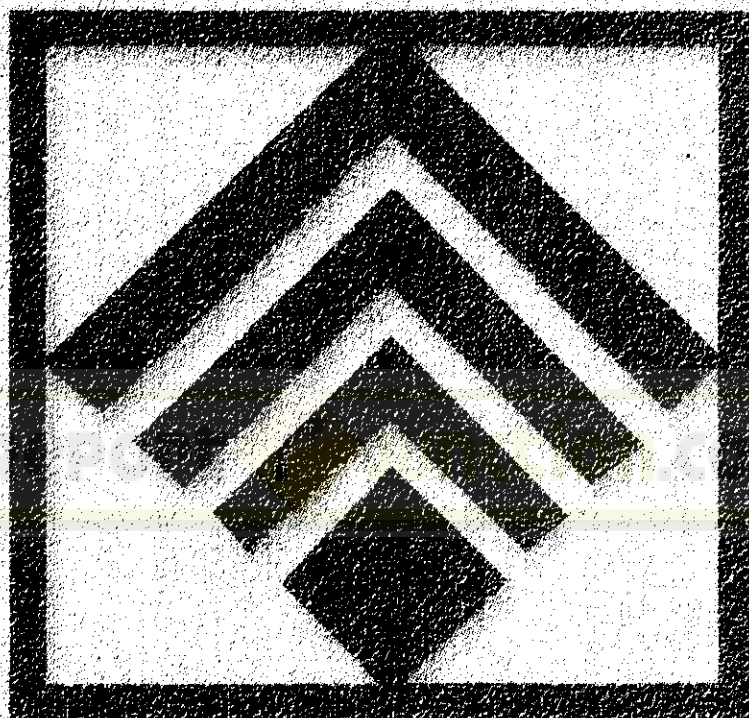


16th Annual Report



**BOARD OF DIRECTORS**

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

**GROUP MANAGER (LEGAL) &
 COMPANY SECRETARY**

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.
 Chandiragiri Taluk
 Chittoor District
 Andhra Pradesh
 Pin 517 102

HEAD OFFICE

52, Chamiers Road,
 Chennai - 600 028.

CERAMICS DIVISION

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

GRANITES DIVISION

Gudapakkam Village
 Puduchatiram (Post)
 Chinglepet District
 Tamilnadu - 602 107

SHARE TRANSFER AGENTS

M/s. Integrated Enterprises (India) Ltd.
 Kences Tower, 2nd Floor,
 No.1, Ramakrishna Street,
 North Usman Road, T.Nagar,
 Chennai - 600 017.

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NOTICE TO MEMBERS

NOTICE is hereby given that the Adjourned Sixteenth Annual General Meeting of the Members of Spartek Ceramics India Limited will be held at 11.30 A.M. on Thursday, the 22nd day of February, 2001 at Hotel Mayura, 204-209, T.P. Area, Tirupati - 517 501 to transact the following business:

ORDINARY BUSINESS

To consider and adopt the Profit and Loss Account for 18 months period ended 30.09.2000 and the Balance Sheet as on that date and the Report of the Auditors' thereon and Directors' Report.

By Order of the Board
For **SPARTEK CERAMICS INDIA LIMITED**

R. JAYARAMAN

Place : Chennai
Date : 26.01.2001

Group Manager (Legal) &
Company Secretary

NOTES :

1. Adjourned Annual General Meeting is convened as approved by the shareholders at their Annual General Meeting held on 30.12.2000.
2. 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.
3. Members are requested to intimate to the Company any change in the address quoting their Ledger Folio numbers.





DIRECTORS' REPORT

To

The Members of Spartek Ceramics India Limited

Your Directors present the Sixteenth Report and Audited Accounts of the Company for 18 months period ended 30.09.2000.

FINANCIAL RESULTS

	(Rs. in lakhs)	
	1999 - 2000 (18 months)	1998 - 99 (12 months)
Gross Income	10814.75	5582.47
EBDLIT	944.16	1423.98
Profit / (Loss) before taxation	(766.15)	142.99
Provision for taxation	5.00	-
Profit/(Loss) after Tax	(771.15)	142.99
Extra-ordinary items	28.79	(41.12)
Net Profit (after Extra-ordinary items)	(799.94)	101.87
Surplus/(Deficit) brought forward from previous year	(1309.32)	(1411.19)

APPROPRIATIONS

Dividends	-	-
General Reserves	-	-
Debentures Redemption Reserve	-	-
Surplus/(Deficit) transferred to Balance Sheet	(2109.26)	(1309.32)

CERAMIC DIVISION

As in the past, this Division continued to contribute in a significant manner to the turn around of your Company during the year under review. Not only the production levels are maintained much above 100% capacity utilisation (116%) but also marketing efforts resulted in higher sales volumes. Continued quality improvements have enabled the products to maintain and improve their brand equity in a competitive market.

The increased competition in the market is being met in various ways. An emphasis on cost control has ensured that the pressure on the bottom line can be contained even though prices of key inputs such as HSD, LPG and power increased during the year under review.

Plans have been drawn up for the modernisation of the plant facilities. Upgradation of the Presses/Vertical Driers would enable improved productivity and reduce costs further. This, coupled with the introduction of new design and shades, is expected to result into higher realisation and better margins in the coming year.

GRANITE DIVISION

With the rapid conversion of the Indian Consumer to

vitrified tiles, this division represents great potential for growth in the future. During the year under review, significant progress was made in improving both the throughput as well as the percentage of first quality produced.

Management is working to increase the capacity utilising the current drier through improvement in body composition, moisture of powder and particle size alongwith modification in pressing and drying.

Polishing capacity is being steadily increased through modifications of equipment and training of personnel. Polishing quality is also improving as a percentage of total output through management work in improving overall quality of the product going into the polishing operation. This along with operators close attention to operating parameters is giving duly improvements to First Grade recovery.

FINANCE

In the past two years, your company received sanction for additional financial assistance for restart of Granite Division. However, due to different pre-disbursement conditions and the delays associated with the process, good portion of loans were adjusted towards past dues. The long process also resulted in new interest accumulated during the process being more than loan sanctioned.

Your Company approached the Financial Institutions led by IDBI for additional financial assistance for revamp of Ceramic plant, capital expenditure for granites plant and for pre-closure of high cost debts and has also sought relief and concessions. The above proposal has been in-principle approved by all the Financial Institutions/Banks. The salient features of the proposal are as follows:

- Sanction of new term loan Rs.650 lakhs.
- Waiver of all compound interest, liquidated damages and other charges unpaid upto 31.03.2000.
- Reduction of interest to 13% from the present rate of 17% p.a. on the existing loan, new term loans and working capital facilities.
- Fund interest at 0% interest upto 30.09.2000 repayable over six years commencing from April 2005 and
- Repayment of the existing and new term loans to commence from April, 2002.

The sanction letters conveying relief and concessions and additional financial assistance

has been received from IDBI and Army Group Insurance Fund and letters from UTI, ICICI and Banks are expected shortly.

Your company expects to normalise the Granite Division with this assistance and retain the earnings from completion of package implementation.

EXPORTS

During the year, the Company has achieved an export turnover of Rs.184 lakhs as compared to Rs.42 lakhs during the previous year.

NEYCER INDIA LIMITED

Neycer India Limited, subsidiary to Spartek, has performed well during the year ended 31.03.2000. Their losses have been contained at Rs. 43 lakhs (as against Rs.50 lakhs last year). Neycer Sanitaryware Division has undertaken an expansion programme which will help to increase the capacity to 12,500 MTs per annum from the present 8,500 MTs. Neycer has made arrangements for paying and settling OTS dues to the institutions.

Neycer India Limited's Balance Sheet, Profit and Loss Account, Auditors' Report and Director's Report are attached to this report for information.

STILES INDIA LIMITED

Your Directors are happy to inform you that the Industrial Development Bank of India (IDBI) had agreed to waive all the interest amounts payable on the balance OTS due to the Institutions.

The Institutions have consented to the proposal of converting your Company's loan to Stiles India Ltd., into equity at par. On conversion Stiles will become subsidiary to your Company.

Though Global Trust Bank has sanctioned working capital facility to Stiles India Ltd., it has not made full disbursement. As a result the plant had to be shutdown while in profitable operations due to cash flow constraints. Your Directors are confident of completing the OTS and restart the plant before the end of this current financial year.

FUTURE PROSPECTS

After having passed through a long recession, the building material industry was looking forward to improved demand in the year under review. The recovery has however proved to be short lived and

there are clear indications of the Indian Economy slowing down. If fears of a global startdown led by the US economy materialise, then the outlook for the building material sector is not too easy. Apart from a demand slump, there is also an influx of imported material (particularly vitrified tiles) into the Indian Market which can negatively impact the local industry.

It is however heartening to note that the Govt. of India is actively encouraging the sector through fiscal benefits of increased I.T. exemption for home building loans. The Government has clearly recognised that growth in the housing industry has a multiplier effect on overall economic growth and also improves public welfare by providing their own house to more people. There is also an indication that the Government is concerned about unfair competition from imports and is actively considering measures such as Anti Dumping to counter this trend of unfair imports and to improve the health of the industry.

HUMAN RESOURCES DEVELOPMENT

In our pursuit to become competitive in the market, your company has been focussing on its Human Resource as one of the key inputs. Policies embracing Performance Management System(PMS) with linkages to Business Plan, bringing in "performance oriented culture" have been in place. Further, process - driven initiatives are also being put in place in order to foster teamwork and team based performance. Major emphasis is laid on training enhancing Knowledge, Skill and Attitude at different levels.

FIXED DEPOSITS

Your Company has not accepted and renewed any deposits during the year under review.

INDUSTRIAL RELATIONS

During the period under review, industrial relations scenario has been cordial. In line with the company's track record of successful industrial relations, company has been able to negotiate and clinch a Four Years long term settlement with Employees Union with reference to revision of wages and other benefits.

DIRECTORS

Mr. Sadanand A Shetty and Mr. B. Sivaramakrishnaiah, Directors retired by rotation and being eligible offered themselves for reappointment and they were reappointed as Directors at the Annual General Meeting held on 30.12.2000.



AUDITORS

M/s. Brahmayya & Co., Chartered Accountants, Chennai the Company's Auditors retired at the conclusion of Sixteenth Annual General Meeting and being eligible offered themselves for reappointment and they were reappointed as Auditors at the Annual General Meeting held on 30.12.2000.

DEPOSITORY SYSTEM

The shares of the Company is proposed to be brought under compulsory dematerialisation effective from 24.03.2001 as prescribed by SEBI. Company has taken steps to complete the process required for this and shareholders will be separately informed. In view of the advantages of holding shares in the electronic form, the shareholders are requested to avail of this facility.

CORPORATE GOVERNANCE

SEBI has introduced comprehensive code on Corporate Governance. Substantial portion of code to Corporate Governance is already in vogue in our Company. The Company is regularly making adequate and timely corporate disclosures such as publishing of Quarterly Financial Results, convening more than requisite number of Board Meetings, holding Annual General Meetings within the prescribed time limit, placing before the Board, minutes of Audit Committee Meetings, Share Transfer Committee Meetings, Quarterly Statutory Compliances etc., An Audit Committee of Directors is structured in line with best practices headed by a Non-Executive Director as Chairman of the Committee has been in existence for several years. Internal Auditor has also been appointed who reports on a quarterly basis significant findings to the Audit Committee.

Your Company believes that a well enunciated, mature and effective system of Corporate Governance must be in place in order to achieve a good balance between the Management and the Board to encourage the Non-Executive Director to play a proactive and positive role in functioning of the Board and to ensure among other things, effective shareholders servicing and adherence of legal and regulatory compliance requirement.

Number of provisions regarding Corporate Governance have already been complied with and steps are being taken to comply with the balance provisions at the earliest.

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 in the annexure.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors Report

- i) that in the preparation of Annual Accounts, the applicable accounting standards had been followed alongwith proper explanation relating to material departures;
- ii) that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv) that the directors had prepared the annual accounts on a going concern basis.

AUDITOR'S REPORT

In respect of observations made by the Auditors in their Report pertaining to point nos. in :

- 1) Para 2(d): The Company is making all efforts to recover the dues from its debtors and it is hopeful of realising old debtors. Necessary provisions as may be required in terms of applicable and prudent standards will be made in the books of account in the event of non-recovery and it becoming doubtful.
- 2) Para 2(e): In view of non-availability of profits for appropriation, transfer of profit to Debenture Redemption Reserve could not be effected.
- 3) Para 2(g): The company's granites plant was not in operation during the earlier years and hence no provision for depreciation was made.

- 4) Para 2(h): The company has already received sanction letters conveying relief and concessions from the lead Institution viz., IDBI and from Army Group Insurance Fund and sanction letters from ICICI and UTI are in process and it is expected shortly. With all these sanctions received the credit for waiver of interest is taken.
- 5) Para 2(i): The Company is at present negotiating with creditors for waiver of penal interest and is confident of it fructifying. Therefore, provision for penal interest has not been accordingly made.
- 6) Para 2(j): The analysis of debtors and creditors and updation of the same is being taken up and accordingly it will be completed in due course.
- 7) Para 2(k): As regards non-compliance of provisions of section 372A of the Companies Act, 1956 the company is convening an Extraordinary General Meeting to obtain the approval of shareholders as required under the said Act. Approvals of Financial Institutions in this regard has already been obtained.
- 8) Para 2(l): With regard to the investments in Company's subsidiary and diminution in the value of such investments no provision was made having regard to the long term nature of the investments.

9) Para 2(m): As regards the loans outstanding from group companies, loan due from Stiles are being converted into share capital. An Extraordinary General Meeting has been convened for this purpose. As regards Neycer, subsidiary of your company, the Company has already made arrangements for paying OTS to financial institutions and the company is confident of recovering outstandings based on future prospects.

10) Para 2(n): In respect of dues from collaborators towards compensation legal remedies are being examined for recovering the said amount.

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 : 26.01.2001

KRISHNA PRASAD TRIPURANENI
Managing Director



Annexure to the Directors' Report

Information as per Section 217(2A) read with the companies (Particulars) Rules, 1975 and forming part of the Directors Report for the period of 18 months ended 30th September, 2000.

S. No.	Name	Designation of the Employee	Remuneration Rs.	Qualification Experience	Age	Date of Commencement	Last Employer	Last Designation
A. Employed throughout the year								
1.	Mr. Krishna Prasad Tripuraneni	Managing Director	6328229*	B.E., M.S.,(Illinois, USA) (16 Years)	44	04.12.1983	Central Corporation USA	Development Engineer
* An amount of Rs. 1561500 pertains to previous year.								
B. Employee Part the year								
1.	Mr. T. Venkatesan	Chief Financial Officer	329100	B.A., A.C.A., (21 Years)	46	01.09.1997	Indo Gulf Fertilisers & Chemicals Corpn. Ltd	Sr. Vice President
2.	Mr. G. Rajan	President	742259	B.Sc., PGDB (IIMC)	50	27.05.1999	Sterling Tree Magnum (I) Ltd.	President
C. i) Nature of Employment of all above employee are Contractual ii) Mr. Krishna Prasad Tripuraneni is related to Mr.T. V. Venkateswara Rao, Director iii) Mr. Krishna Prasad Tripuraneni is covered by the provisions of Section 217 (2A)(a)(iii) of the Companies Act, 1956.								

Annexure to the Directors' Report

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 which forms part of the Directors' Report.

Form A**Form for Disclosure of Particulars with respect to Conservation of Energy****Power and Fuel Consumption :**

	TIRUPATI		GRANITES	
	1999 - 2000 (18 months)	1998 - 99	1999 - 2000 (18 months)	1998 - 99
A) Electricity				
a) Purchased Units	6493587	4122883	5050711	374690
Amount paid - Rs.	26915496	15639758	19108637	43344928
Cost/Units (Rs./KWH)	4.14	3.79	3.78	8.92
b) Self Generation	3410630	-	1661954	286078
Units/ Lit. of Diesel	3.48	3.02	-	2.92
Cost/Units (Rs./KWH)	3.48	3.06	3.00	3.00
B) LPG Consumption (MTS)	3334.21	2002.02	1446.42	133.85
Total Cost	54006116	23188154	23571012	1990878.73
Cost/Unit (Rs./Mt.)	16197.56	11582.40	16296.16	14873
C) LDO/HSD Consumption	3338.63	2374.50	1558.06	67669
Total Cost	37113794	20311219	18116155	592780
Cost/Unit (Rs./KL)	11116.45	8553.90	11627.39	8760
D) Consumption/Unit of Production				
Total Production (in sq.m)	3126279	1909487	376977	15077
a) Power (Units)	3.17	3.44	17.81	43.82
b) LPG (Kg./sq.m)	1.07	1.05	3.84	8.87
c) LDO/HSD (Lit/sq.m)	1.07	1.24	4.13	4.89

Form B**Research & Development**

Continuous efforts are being made to improve product development keeping in view the market requirements from time to time and the Company has been successful in launching many new designs such as Milano, Omega, Open, Victoria & Satinmat on regular basis which are well accepted by the market.

Efforts are also made to introduce Topgloss tiles made with disc for cost reduction which are developed with

indigenous material. The product has been developed inhouse successfully and introduced in the market which was well received by the customers and the realisation also will be high. Now, to meet the special requirements of a segment of customers we are making efforts to introduce Group V tiles which are suitable for high traffic areas.

Benefits derived from R & D

More emphasis was given for development of value added products and also for producing higher percentage of printed tiles which resulted in better realisation.

Newly developed indigenous raw material have substituted imported frits, ultimately resulting in reduction of cost of production.

Future plan of action

To make continuous efforts for product development to meet domestic as well as international markets.

To explore possibilities for indigenous development of raw materials to substitute imports, for further cost reduction.

To promote energy saving measures in fuel as well as power consumption.

Foreign Exchange Earnings and outgo

	1999 - 2000 (18 months) (Rs. in lakhs)
Earnings	183.75
Outgo	12.35

For and on behalf of the Board
B. SIVARAMAKRISHNAIAH
Director

Place : Chennai
Date : 26.01.2001

KRISHNA PRASAD TRIPURANENI
Managing Director



Auditors' Report

To The Shareholders of Spartek Ceramics India Limited.

We have examined the attached Balance Sheet of Spartek Ceramics India Limited as at 30th September, 2000 and the annexed Profit and Loss Account for 18 months period ended on that date and report that :

1. As required by the Manufacturing and other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956 we enclose in the annexure a statement on the matters specified in Paragraphs 4 and 5 of the said order.
2. Further to the comments in the annexure referred to in paragraph 1 above:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examinations of the books.
 - (c) The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account.
 - (d) As mentioned in Note 8 of Notes on Accounts, no provision has been made for debts aggregating to Rs.3,46,50,321, which in our opinion are doubtful of recovery.
 - (e) No transfer has been made from the Profit and Loss account to the Debenture Redemption Reserve as required under the terms of issue of Debentures amounting to Rs.1,53,28,000/- relating to earlier years.
 - (f) The said Profit and Loss account and the balance sheet comply with the Accounting Standards referred to in Sec. 211(3C) of the Companies Act, 1956 except in the case of Accounting standards AS-6 - Depreciation Accounting as mentioned in para 2(g), accrual basis of accounting with respect to the items mentioned in para 2(h), 2(i) and AS-13 - Accounting for Investments as mentioned in para 2(l).

- (g) As mentioned in Note no.9 of Notes on Accounts, no provision for depreciation has been made for an amount of Rs.5,44,15,360 relating to earlier years.
- (h) As mentioned in note no.10 of notes on Accounts, the company has taken credit for interest of Rs.6,07,88,447 on account of waiver and reduction in interest rates which is subject to receipt of sanction letters from some of the institutions and fulfillment of conditions attached therewith.
- (i) As mentioned in note no.11 of Notes on Accounts, no provision for penal interest has been made for the current financial year amounting to Rs.44,17,878 and accumulated amount of Rs.1,37,85,749.
- (j) Some of the Debtors and Creditors accounts need to be updated. These accounts and amounts due on Inter-Company loans are subject to reconciliation and confirmation. The effect of those transactions cannot be ascertained and we are therefore unable to comment on the consequential effect on the loss for the year and the reserves and surplus as at the year end.
- (k) Loans, Investments and Guarantees to other body corporate exceeded the prescribed limits specified and is in contravention since introduction of the Section 372A of the Companies Act, 1956. These loans, investments and Guarantees to other body corporate is subject to approval of the members and prior approval of the Financial Institutions.
- (l) As regards the Company's investment in subsidiary amounting to Rs.5,58,77,110 and the diminution in the value of investments, having regard to the reasons mentioned in note no. 12 of notes on Accounts it is considered by the management that no provision is required. We are, however, unable to express any opinion on the possible diminution in the value of Investment and the consequential effect on the loss for the year and reserves and surplus as at the year end.
- (m) As regards the loans given to and amounts due from companies and advance towards share application money and shares amounting to Rs.27,79,63,353 inclusive of interest receivable of Rs.11,03,67,862, we are unable to express any opinion as regards recoverability of the same.