

Directors' Report

DIRECTORS' REPORT

Dear shareholders,

Your Directors are pleased to present the 32nd Annual Report together with the audited financial statements of your Company for the financial year ended 31st March 2018.

FINANCIAL RESULTS

The Company's financial performance for the year ended 31st March 2018 is summarised below:

(₹ in crores)

Particular	Standalone		Consolidated	
	Year ended 31st March 2018	Year ended 31st March 2017	Year ended 31st March 2018	Year ended 31st March 2017
Revenue from Operations (net of Excise)	2581	2528	2711	2550
Profit Before Other Income, Depreciation, Interest and taxes	424	439	456	496
Profit before Tax	382	407	355	396
Tax Expense	129	137	127	142
Profit After Tax (before Minority interest)	252	270	229	254
Minority Interest	-	-	(6)	1
Profit After Tax (after Minority interest)	252	270	235	253
Transferred to General Reserve	-	75	-	75

Financial highlights & State of Affairs of the Company

(The financial discussion is based on Standalone Financial Statements)

The overhang of policy disruptions and upheaval in the banking sector continued to dampen consumer sentiment across India which resulted in postponing discretionary expenditure. Tiles purchases happen to feature in this basket. As a result, offtake of tiles remained subdued during 2017-18.

Against these headwinds, your Company registered a 6% growth in sales volumes while net revenue increased by 2% (not comparable due to inclusion of excise duty in outsourced products) from ₹2528 crore in 2016-17 to ₹2581 crore in 2017-18 – an increase driven by a prudent mix of growing volume and increasing value derived from the successful launch of innovative designs and larger sizes.

The Company reported an EBIDTA of ₹424 crore in 2017-18 against ₹439 crore in 2016-17. The profit after tax stood at ₹252 crore in 2017-18 against ₹270 crore in 2016-17.

The State of affairs of the Company is detailed in the "Management Discussion & Analysis" section which forms part of this report.

Outlook

The Government's efforts to improve lives and livelihood through employment generating initiatives coupled with an estimate for normal monsoon augurs well for uplifting consumer sentiment for discretionary purchases. In addition, the reduction in GST rates on tiles and implementation of the e-way bill is expected to improve prospects for national brands.

Growth drivers

India is forging ahead as the world's fastest growing major economy. Urban clusters are driving this growth, more consumers and more purchasing power is emerging beyond the metros, particularly in Tier II/III cities. A report by Ernst & Young titled 'India's Growth Paradigm – How Markets Beyond Metros Have Transformed' recognises 42 'new wave' cities – of these, there are two new metros – Jaipur and Surat, followed by 10 high potential cities and 30 emerging markets. Widening of the market potential across the expansive Indian landmass augurs well for the tile industry in general and the organised sector in particular.

During the year under review, there are no material changes and commitments affecting the financial position of the Company and also no change in the nature of business of the Company.

Dividend

Your Directors have recommended a dividend of ₹3 (i.e. 300%) on equity shares (previous year ₹3 per equity share) of a face value of ₹1 each fully paid up for the financial year ended on 31st March 2018. If approved, the total payout is expected to be ₹57.49 crore (including dividend distribution tax of ₹9.80 crore). The dividend payout for the year under review has been formulated in accordance with the Company's Policy, to pay sustainable dividend keeping in mind linked to its long-term growth aspiration of the Company.

Consolidated Financial Statements

The Company adopted Indian Accounting Standard (Ind-AS) from April 1, 2016 and accordingly, the Consolidated Financial Statements have been prepared in accordance with the Accounting Standard notified under Section 133 of the Companies Act, 2013 and the relevant rules issued thereunder read with the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 ('SEBI (LODR) Regulations, 2015') and the other accounting principles generally accepted in India. The Consolidated Financial Statements form part of the Annual Report.

Holding, Subsidiaries, Associate, Joint Venture Companies and their performance

During the year under review, Taurus Tiles Private Limited

ceased to be the subsidiary of the Company and no new company has become subsidiary of the Company.

A report on performance and financial position (Form AOC-1) of each of the subsidiaries as per the Companies Act, 2013 is provided as **Annexure-1**.

Share Capital

During the year under review, pursuant to the Scheme of Arrangement between Kajaria Securities Private Limited ('KSPL') and Kajaria Ceramics Limited (the 'Company') and their respective shareholders and creditors, as approved by the Hon'ble National Company Law Tribunal, Chandigarh Bench ('NCLT') on February 6, 2018, the Authorised Share Capital of the Company has been increased to ₹129,10,00,000 (Rupees One Hundred Twenty Nine Crore Ten Lakh only) divided into 52,00,00,000 (Fifty Two Crore) Equity Shares of ₹1/- each (Rupee One Only) aggregating to ₹52,00,00,000 (Rupees Fifty Two Crore Only) and 77,10,000 (Seventy Seven Lakh Ten Thousand) Redeemable Preference Shares of ₹100/- each (Rupees One Hundred Only) aggregating to ₹77,10,00,000 (Rupees Seventy Seven Crore Ten Lakh Only).

During the year under review, the paid up share capital of the Company is increased to 15,89,50,300 equity shares of ₹1 each (In previous year, the paid up share capital was 15,89,38,000 equity shares of ₹1/- each) due to allotment of 12,300 equity shares of ₹1 each, pursuant to the Kajaria Ceramics Employee Stock Option Plan 2015.

The Company has not issued shares with differential voting rights. As on 31st March 2018, none of the Directors of the Company hold instruments convertible into equity shares of the Company.

Employee Stock Option Scheme

Kajaria Ceramics Employee Stock Option Plan 2015 ('The ESOP Plan 2015') was approved by the Board of Directors and the shareholders on 7th September, 2015 for issue and allotment of options exercisable into not more than 10,62,000* equity shares of ₹1 each (Originally ESOP Plan 2015 was for 5,31,000 equity shares of ₹2 each) to eligible employees of the Company and its subsidiaries. The ESOP Plan 2015 is administered by the Nomination and Remuneration Committee of the Board of Directors of the Company. On 20th October 2015, the Nomination and Remuneration Committee of the Company had granted 4,58,000* equity shares of ₹1 each (Originally granted equity shares were 2,29,000 equity shares of ₹2 each) stock options to the employees of the Company and its subsidiaries. 53,000 equity shares of ₹1 each (40,000 equity shares during the year 2016-17 and 13,000 equity shares during the year 2017-18) had been forfeited due to resignation of ESOP Option holders. Details regarding the ESOP Plan 2015 are given at Note No. 40 to the financial statements.

During the year under review, there are no material changes in ESOP Plan 2015 and the ESOP Plan 2015 is in compliance with the SEBI (Share Based Employee Benefits) Regulations,

2014 ('ESOP Regulations') and options for 12,300 equity shares of ₹1 each were exercised and allotted pursuant to the ESOP Plan 2015. The disclosures under Regulations 14 of ESOP Regulations is uploaded on the Company's website viz: www.kajariaceramics.com

* During the year 2016-17, equity shares of the Company had been sub-divided from ₹2 per share to ₹1 per share.

Transfer to Reserves

During the year under review, there is no transfer of fund to the Company's General Reserve Account.

Directors' Responsibility Statement

In terms of the provisions of the Companies Act, 2013, the Directors confirm that:

- i) In the preparation of the annual accounts for the year ended on 31st March, 2018, the applicable accounting standards have been followed and no material departures have been made from the same;
- ii) Appropriate accounting policies have been selected and applied consistently and judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st March 2018 and the profit and cash flow of the Company for the period 31st March 2018;
- iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) The annual accounts have been prepared on a going concern basis;
- v) The Company is following up the proper Internal financial controls and such internal financial controls are adequate and are operating effectively; and
- vi) The Company has devised proper system to ensure the Compliance with the provisions of all the applicable laws and that such systems are adequate and operating effectively.

Corporate Governance

The Company has complied with the Corporate Governance requirements as stipulated under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulation'). A separate section on corporate governance, along with a certificate from the Practicing Company Secretary confirming the compliance, is annexed and forms part of the Annual Report.

Management Discussion and Analysis Report

Management Discussion and Analysis on matters related to the business performance as stipulated in the Listing

Regulations is given as a separate section in the Annual Report.

Related Party Transactions

For all related party transactions, prior omnibus approvals of the Audit Committee and the Board of Directors are obtained on a yearly basis for the transactions which are of a foreseen and repetitive nature and such approval is in the interest of the Company. The transactions entered into, pursuant to the omnibus approvals so granted, are audited and a statement giving details of all related party transactions is also placed before the Audit Committee for their review. All related party transactions are disclosed in Note No. 37 to the financial statements. Material related party transactions with subsidiaries which are at arm's length price are disclosed in Form AOC-2 annexed as **Annexure- 2**.

The Related Party Transactions Policy as approved by the Board is uploaded on the Company's website i.e. <https://www.kajariaceramics.com/pdf/RelatedPartyTransactionPolicy.pdf>

Corporate Social Responsibility Initiatives

In terms of provisions of Section 135 of the Companies Act, 2013 and the Companies (Corporate Social Responsibility Policy) Rules, 2014, the Corporate Social Responsibility (CSR) Committee has formulated a CSR Policy indicating the activities to be undertaken by the Company. The constitution of CSR Committee is disclosed in Corporate Governance Report.

The CSR policy may be accessed on the Company's website i.e. https://www.kajariaceramics.com/pdf/CSR_Policy.pdf

Your Company strives to make a difference in the lives of people with a special focus on neighboring and local areas of the Company's manufacturing locations. Your Company has implemented various CSR programmes / projects which made positive impacts mainly in the areas of health, sanitation, conservation of natural resources, sports and promoting education. During the year under review, the CSR programmes initiated by the Company includes taking steps for Swatch Bharat, preventive health care, constructing sanitation facilities in the schools near the manufacturing facilities, contributing to the education and social economic development of under privileged children and for slum area / rural area development. These CSR initiatives are implemented directly and through various trusts / societies / NGOs.

These projects are in accordance with Schedule VII of the Companies Act, 2013.

The Annual report on CSR activities as required under the Companies (Corporate Social Responsibility Policy) Rules, 2014 is set out as **Annexure-3** forming part of this Report. The Company has incurred CSR expenditure of ₹3.98 crore during the current financial year being about 59.40% of ₹6.70 crore (i.e. the amount to be spent during the year). The shortfall of 40.60% in the required expenditure on CSR was

due to non-identification of appropriate projects / activities / programmes in line with the CSR policy of the Company.

Scheme of Arrangement

During the year 2016-17, the Board of Directors had adopted a Scheme of Arrangement, which provides for, inter-alia, the amalgamation of Kajaria Securities Private Limited ('KSPL') with the Company with appointed date as closing hours of business on 31st March, 2017 ('Scheme') and the same was filed before the Hon'ble National Company Law Tribunal, Chandigarh Bench ('NCLT') vide application dated 16th March, 2017, for approval under Sections 230-232 and 66 read with other applicable provisions of the Companies Act, 2013 and the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016.

During the year under review, the Scheme has been approved by the NCLT on February 6, 2018. Pursuant to the Scheme, KSPL amalgamated into the Company and 6,46,69,867 fully paid up equity shares of face value ₹1 each of the Company held by KSPL, have been cancelled/extinguished. Further, 6,46,69,867 fully paid up equity shares of face value ₹1 each have been allotted, to the shareholders of KSPL, in proportion of their respective shareholding in KSPL. However, there is no change in the paid up share capital of the Company, after the above said cancellation/allotment.

Pursuant to the Scheme, all the properties, assets, rights, claims and obligations of KSPL have been transferred and vested in the Company on a going concern basis with effect from the Appointed Date, i.e. closing hours of business on 31st March, 2017.

Risk Management

Your Company understands the importance of various risks faced by it and has adopted a Risk Management Policy which establishes various levels of accountability within the Company. The Company had also constituted a Risk Management Committee which ensures that the Company has appropriate and effective risk management systems which carries out risk identification, assessment and ensures that risk mitigation plans are in place. The Risk Management Committee has identified various risks to which the Company is subject to and has accordingly aligned the concerned departments to take the necessary mitigating steps. Risk management has been interlinked with the annual planning exercise where each function and business carries out fresh risk identification, assessment and draws up treatment plans.

A Risk Management Policy in terms of provisions of Section 134(3)(n) of the Companies Act, 2013 is in place and is uploaded on the website of the Company i.e. www.kajariaceramics.com

Internal Control Systems and their adequacy

The Company believes that a strong internal control framework is necessary for business efficiency, management effectiveness and safeguarding assets. The Company has a well-defined internal control system in place, which

is designed to provide reasonable assurance related to operation and financial control. The Management of the Company is responsible for ensuring that Internal Financial Control has been laid down in the Company and that controls are adequate and operating adequately.

Internal Audit is carried out by external auditors and periodically covers all areas of business. The audit scope, methodology to be used and the reporting framework is defined in charter of the Internal Audit, which is approved by the Audit Committee. The Internal Auditors evaluates the efficacy and adequacy of internal control system, its compliance with operating systems and policies of the Company and accounting procedures at all the locations of the Company. Based on the report of the Internal Auditors, process owners undertake corrective action in their respective areas and thereby strengthen the controls. Significant audit observations and corrective actions thereon are placed before the Audit Committee. The Internal Audit also continuously evaluates the various processes being followed by the Company and suggests value addition, to strengthen such processes and make them more effective.

Internal Controls with respect to financial statements

The Company has an adequate system of internal financial control in place with reference to financial statements. The Company has policies and procedures in place for ensuring proper and efficient conduct of its business, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information.

Directors and Key Managerial Personnel

Mr. Chetan Kajaria and Mr. Rishi Kajaria, who are liable to retire by rotation, offered themselves for re-appointment at the ensuing Annual General Meeting ('AGM'). The Board recommends for their re-appointments in the ensuing Annual General Meeting.

The term of Mr. Chetan Kajaria and Rishi Kajaria as the Joint Managing Directors of the Company expired on 31st March, 2018. The Board has re-appointed them as the Joint Managing Directors of the Company for the further period of 3 years w.e.f. 1st April, 2018 to 31st March, 2021, subject to the approval of members of the Company at the ensuing Annual General Meeting.

The tenure of Mr. H. Rathnakar Hegde as the Independent Director of the Company will expire on 31st March, 2019. Subject to the approval of shareholders by way of a special resolution, it is proposed to re-appoint Mr. H. Rathnakar Hegde as the Independent Director for a further period of 5 consecutive years effective from 1st April, 2019 to 31st March, 2024. The requisite disclosures/declarations including a declaration that he meets the criteria for independence as provided in Section 149(6) of the Companies Act, 2013 read with the Listing Regulations, have been received.

The Nomination and Remuneration Committee and

the Board have also recommended re-appointment of Mr. H. Rathnakar Hegde for the second term for a period of 5 consecutive years effective from 1st April, 2019 upto 31st March, 2024.

All other Independent Directors have given declarations that they meet the criteria of independence as prescribed under Section 149(6) of the Companies Act, 2013 read with the Listing Regulations.

Mr. Dev Datt Rishi resigned from the position of 'Director-Technical' and continued to be the Non-executive Director of the Company effective from 1st July, 2017.

Further, there is no change in the composition of Key Managerial Personnel of the Company.

Board Evaluation

The Board has carried out an annual performance evaluation of its own performance, its Committees and the Directors including Chairman.

The manner in which the evaluation has been carried out has been explained in the Corporate Governance Report.

Nomination and Remuneration Policy

On the recommendation of the Nomination and Remuneration Committee, the Board has framed a policy for selection and appointment of Directors, Senior Management including Key Management Personnel and other Senior Management and their remuneration. The Nomination and Remuneration Policy including the criteria for determining qualification, positive attributes & independence is placed on the website of the Company i.e. http://www.kajariaceramics.com/pdf/nomination_remuneration_policy.pdf

Details of remuneration under Section 197 of the Companies Act, 2013 and read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is stated in **Annexure- 4** which forms part of this report.

Statutory Audit

The report given by M/s Walker Chandiook & Co. LLP, Chartered Accountants, (Firm Registration Number 001076N/N500013), the Statutory Auditors of the Company on the financial statements of the Company for the financial year ended 31st March, 2018 is a part of the Annual Report. There has been no qualification, reservation, adverse remark, comments, observations or disclaimer given by the Auditors in their report. There were no frauds reported by the Statutory Auditors under sub-section 12 of Section 143 of the Companies Act, 2013.

In compliance with the applicable provisions of the Companies Act, 2013 and rules made thereunder (including statutory modification (s) or re-enactment(s) thereof, for the time being in force, the Board recommends for ratification of appointment of M/s Walker Chandiook & Co LLP as the

Statutory Auditors of the Company to hold the office from the conclusion of the ensuing Annual General Meeting ('AGM') till the conclusion of the 33rd AGM and they have consented for the said ratification of appointment and confirmed their eligibility under Sections 139 & 141 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014.

Secretarial Audit

Pursuant to the provisions of Section 204 of the Companies Act, 2013 read with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, M/s Chandrasekaran Associates, a firm of Company Secretaries in Practice, were appointed, to undertake the Secretarial Audit of the Company for the year ended 31st March 2018. The Report of the Secretarial Audit is annexed herewith as **Annexure 5**.

There are no qualifications, reservations, adverse remarks, comments, observations or disclaimer made by the Secretarial Auditors in their report.

Disclosures under the Companies Act, 2013 and rules thereunder:

Extract of Annual Return

The extract of the Annual Return in form MGT 9 is annexed herewith as **Annexure- 6**.

Compliance of the Secretarial Standards

During the year under review, the Company has complied with the applicable provisions of the Secretarial Standard on meetings of the Board of Directors ('SS-1') and the Secretarial Standard on General Meetings ('SS-2') issued by the Institute of Company Secretaries of India.

Particulars of Loans, Guarantee and Investments

Particulars of Loans, Guarantees and Investments, covered under the provisions of Section 186 of the Companies Act, 2013 are given in the Notes Nos. 6, 7, 35 to the Financial Statements.

Conservation of energy, technology absorption and foreign exchange earnings/ outgo

The particulars relating to conservation of energy, technology absorption, foreign exchange earnings and outgo as required to be disclosed under the Companies Act, 2013 are provided in **Annexure - 7** to this report.

Meetings of Board

The Board of Directors met 7 (Seven) times during the financial year 2017-18 on 15th May 2017, 29th June 2017, 10th August 2017, 30th October 2017, 8th December 2017, 31st January 2018 and 14th March 2018. Details of the meetings of the Board of Directors held during the financial

year 2017-18 and attendance thereof is disclosed in the Corporate Governance Report.

Audit Committee

The Composition of Audit Committee is disclosed in the Corporate Governance Report. All the recommendations made by the Audit Committee were accepted by the Board.

Vigil Mechanism

The Company has established a Vigil Mechanism for directors and employees by adopting the Whistle Blower Policy to report genuine concerns or grievances. The Whistle Blower Policy may be accessed on the website of the Company i.e. https://www.kajariaceramics.com/pdf/whistle_blowing_policy.pdf

Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013

The Company has in place a Policy on Prevention of Sexual Harassment at the Workplace in line with the requirements of the Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013. This policy may be accessed on the Company's website i.e. https://www.kajariaceramics.com/pdf/prevention_of_sexual_harassment_at_workplace.pdf

Internal Complaints Committee has been set up to redress complaints received regarding sexual harassment. All employees (Permanent, Contractual, Temporary, Trainees) are covered under this Policy. The Company has not received any sexual harassment complaints during the year 2017-18.

Particulars of Employees

The information required pursuant to Section 197 read with Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 in respect of employees of the Company is attached as **Annexure- 8** to the Directors Report.

Deposits

The Company did not invite/accept any deposit within the meaning of Section 73 of the Companies Act, 2013, and the rules made thereunder.

Significant and material orders passed by the regulators or courts

There is no significant and material order passed by the

regulators or courts or tribunals impacting the going concern status and the Company's operations in future.

Cautionary Statement

Statements in this 'Director's Report' & 'Management Discussion and Analysis' describing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make difference to the Company's operations including raw material/ fuel availability and its prices, cyclical demand and pricing in the Company's principle markets, changes in the Government regulations, tax regimes, economic developments within India and the countries in which the Company conducts business and other ancillary factors.

Appreciation and Acknowledgement

The Directors take this opportunity to express their deep sense of gratitude to the Banks, Central and State Governments and their Departments and the Local Authorities for their continued guidance and support.

Your Directors would also like to record their appreciation for the support and cooperation your Company has been receiving from its suppliers, dealers, business partners and others associated with the Company.

Your Directors place on record their sincere appreciation to the employees at all levels for their hard work, dedication and commitment. The enthusiasm and unstinting efforts of the employees have enabled the Company to remain as industry leader.

And to you, our shareholders, we are deeply grateful for the confidence and faith that you have always reposed in us.

For and on behalf of the Board

Place: New Delhi
Date: May 8, 2018

Ashok Kajaria
Chairman & Managing Director
DIN: 00273877