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MCL: SEC: 2020

Date: 22.05.2020

To,
Bombay Stock Exchange Limited
Floor 25, P J Towers, Dalal Street,
Mumbai 400 001.
STOCK CODE: 515037

To,
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai 400 051.
STOCK CODE: MURUDCERA.EQ

Dear Sir/ Madam,

Sub: Disclosures of material impact due to COVID-19 pandemic on the Company.

Ref.: Reg. 30 read with Schedule -III and the advisory issued by the SEBI

Please find enclosed disclosure of material impact due to COVID-19 pandemic on the company.

This is for your information and records.

Kindly acknowledge the receipt.

Thanking you.

Yours faithfully,

FOR MURUDESHWAR CERAMICS LIMITED



ASHOK KUMAR
COMPANY SECRETARY AND
COMPLIANCE OFFICER



An ISO 9001-2008 Certified Company

IMPACT DUE TO COVID – 19 PANDEMIC ON THE BUSINESS OF THE COMPANY:

The national lockdown due to Novel Covid-19 pandemic was imposed in India from 24th March, 2020, the market recession, particularly construction industry was witnessed from 3rd week of January, 2020 due to the spreading of the disease in China and other western countries during that period. Tiles market in India witnessed slowdown from January, 2020 and completely collapsed from last week of February, 2020 since the CORONAVIRUS started slowly spreading in India from that period. The productions in both the manufacturing units at Sira in Karnataka and at Karaikal in Pondicherry were in full swing till end January, 2020 were to be reduced to only one shift due to less labour attendance who started moving to their native places by that time. Demand from builders have also reduced with the fear of stopping of construction activities by them. The company also restricted supplies to the builders with the fear of not getting the payments on time. The total volumes supplied in the 4th quarter of the year has reduced to 1/4th of the normal peak supplies in the 4th quarter every year. The business activities of the company comes to stand still quite before imposition of lockdown from 24th March, 2020.

Ability to maintain operations including the factories/units/office spaces functioning and close down:

As said above the company was able to operate both the factories with 1/3rd capacity till imposition of national wise lockdown from 24th March, we had shutdown both the factories from 24th March, 2020. Since the lockdown now extended till 31st May, 2020 and even Government of Karnataka released some relaxation to start the manufacturing units in rural area from 18th May, 2020, the company could start the operation in Sira unit because of labour problems who could not return from their native places because of restriction on inter-state and inter-district movement. We will be able to restart the factory at Sira only on complete relaxation on movement of labours and interstate movement of goods and supplies.

The production at second unit at Karaikal also could not be commenced since the lockdown is now extended till 31st May, 2020 and the Government of Pondicherry not released any relaxation to start manufacturing unit in Pondicherry. Our marketing outlets and marketing staffs were functioning till 24th March, 2020 with less volume sales and order booking and completely closed from 24th March, 2020. Even though the marketing outlets started functioning from 18th March, 2020, there is no order received for sale because the construction activities not started yet.

Schedule, if any, for restarting the operations:

Restarting of operations in both the factories are depends on the market demand, since we are completely depend on building activities. Builders in almost all the places are facing labour shortage as the migrant workers have already moved to their native places and have not returned yet. In the present situation we do not for see any improvement in the construction industries in next 6 months and we may have to depend only on retails customers which will be less than 40% of total sales. Till that time it appears that we have to operate at about 30% to 40% of the capacity in both the factory. We have scheduled to restart the operation in both the factory's by 1st week of June, 2020 depending upon the market demand. Functioning of sales outlets and sales personals will also be lower level.

Steps taken to ensure smooth function of operations:

The company has taken all necessary steps to ensure smooth functioning of operations in the both the factory's. Except supply of labour which the company is facing problem, all other

facilities are provided for operation of the factory at full capacity. There is adequate supply of raw material, power, fuel and consumables. As said above the capacity utilisation is only depends of market demand which is not expected to improve at least next 6 months.

Estimation of the future impact of COVID-19 on its operations:

As stated earlier the future of tiles industry is largely depend up the construction activities. The builders are facing problems in demand and supply of labours for construction activity. We expect that this situation will continue at least for next 6 to 9 months. Till that time we may have to operation the production at less than 50% capacity. The bookings for flats may not expected to improve since the income tax exemptions on principal and interest payments on housing loans have been removed in the union budget for the year 2020-21. Even though there is an option to opt for new Tax rates or old. Tax rates for the year 2020-21, it is not sure whether the opting for old rates will continue in the future. Job loss or no increase in salary package due to the impact of COVID-19 in the IT and BT sectors are the other reasons for no improvement in booking for housing.

Details of impact of COVID-19 on listed entities:

- 1. Capital and Financial resources:** The Company has no plan to increase the Capital in the near future. As regards financial resources we would like to clarify that every year normally 40% of the annual sales coming from 4th quarter of the year. For the financial year 2019-20 we could achieve only 25% of the normal 4th quarter sales. Hence, the total sales turnover for the 2019-20 is 70% of the estimated sales. This has effected the Cash-Flow of the company for last 3 months. Since the COVID-19 lockdown is extended till 31st May, 2020 and we are not sure when it will get over. Whatever it may be the impact of COVID-19 on the financials of the company will be for over 1 year.
- 2. Profitability:** The profitability of the company for the year 2019-20 is not yet finalised but is expected to reduce by 50% of the estimate. The profitability for the year 2020-21 will also be at lower level because of reduction in sales due to the impact of COVID-19 lockdown and rescission in the real estate market.
- 3. Liquidity Position:** The above hit on the sales performance of the Company is effecting the liquidity of the company. The company is planning to restrict the production based on the market demand and also reduce the overhead cost proportionately. The banks as per the RBI guidelines have extended 3 months moratorium period for payment of principal and interest payments. This has given immediate and temporary relief for the liquidity position of the company. Even with present very tight liquidity position which the company is confident of overcome by various measures the company is planning to improve its retail market by aggressive approach using it wide spread sales outlets and man power. The various State and Central Government schemes like House for all by 2024, Smart City etc. is expected to increase the demand for tiles in the coming months. The company is in the process of bidding for government contract for supply of tiles aggressively. The company is confident of improve it liquidity position in the coming months.
- 4. Ability to service debt and other financing arrangements:** All the banks have extended 3 months moratorium for servicing of principal and interest on borrowings. The term loan outstanding as on date is Rs. 7.90 crores and the quarterly payment of principal is only Rs.0.79 cr. And including interest on term loan and working capital borrowings would be about Rs.3.00 crores per quarter which the company is confident of servicing in time.

5. **Assets:** The Company is not planning any addition to assets during the year.

6. **Internal Financial Reporting and control:**

The company is having adequate internal financial reporting and control system. The Company is using a sophisticated ERP system with different modules like material procurement, inventory control, production, costing, sales and distribution and finance accounting and control. The ERP system installed allows the management to view the performance and profitability at regular interval. Status of inventory, fast moving, slow moving and non-moving stocks are regularly viewed by the management and take necessary action for disposal. The status of Finished Goods at different plant and stock depots are also made available to all marketing personals to book the orders and arrange fast delivery of goods. The new ERP systems installed is enabling to dispatch the goods within an hour of booking the orders. The ERP has made the recovery fast and easy. The ERP is an integrated software integrating all different modules with minimum human intervention. Hence all financial reporting is accurate and well control.

7. **Supply Chain:** The major raw material used in the process are different clay like Feldspar, China Clay, Ball Clay etc. The company having long term contract with reliable suppliers for supply of Feldspar and ball clay with are dealing with us over a decade. Company is having its own quarry for China clay very near to the factory site. Hence company is not facing any problem is supply of raw material. Fuel used in the process of manufacturing is supplied by reputed public sector undertaking with whom the company is having long term contract. The power is supplied by stated owned corporation. Hence there is no impact of COVID-19 on supply chain of the company.

8. **Demand for its products:** Demand for tiles are coming from corporates, builders and retail customers. The demand from builders is expected to reduce temporarily because construction industry is facing recessions due to reduced demand and labour shortage. However this may be temporary effect and the industry is expected to overcome all these problems in the near future. However construction of commercial buildings, government projects and individual house are in full swing and the company is concentrating to tap these market. There are several government projects where in tiles are in demand. Construction of commercial complex and individual house are in progress and there will be increased demand for tiles from these sectors.

Existing contracts/agreements where non-fulfilment of the obligations by any party will have significant impact on the listed entity's business;

There is no major existing contracts or agreement where there will be significant impact on the company for non-fulfilment of obligations. The major customer for tiles are builders with whom the company is having long term contract for supply of tile. However, the builders themselves are not operating in full and non-supply of tiles during lockdown period makes no impact on their project. Hence, there is no significant impact on us for non-supply of tiles during lockdown period.

For **MURUDESHWAR CERAMICS LTD.**


ASHOK KUMAR
Company Secretary