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AMBIKA COTTON MILLS LIMITED

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ANNUAL REPORT
2005 - 2006

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AMBIKA COTTON MILLS LIMITED

ANNUAL REPORT 2005 - 2006

BOARD OF DIRECTORS	Sri P.V. Chandran Sri P.K. Ganeshwar (upto 12.01.2006) Sri M. Rathanasamy (upto 12.01.2006) Sri K.N. Sreedharan Sri D. Balasundaram Sri K. Venkatachalam Sri K. Davidson, Nominee Director IDBI LTD. Sri. Srinivas Baratam, Nominee Director UTI Venture Funds Management Company Pvt. Ltd. R. Soundararaja Perumal
Registered Office	9A, Valluvar Street Sivanandha Colony Coimbatore - 641 012.
Plant	Kanniyapuram Dindigul
Auditors	M/s. L. Venkatasubbu & Co Chartered Accountants, Coimbatore
Bankers	IDBI LTD. The Bank of Nova Scotia Bank of Baroda State Bank of India Indian Bank Corporation Bank Indusind Bank Ltd. UCO Bank UTI Bank

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DIRECTORS' REPORT

Your directors have great pleasure in submitting the Eighteenth Annual Report together with the audited accounts for the year ended 31st March 2006.

FINANCIAL RESULTS

The Financial results for the year ended 31st March 2006 are furnished below:

	CURRENT YEAR 2006 Rs.	PREVIOUS YEAR 2005 Rs.
SALES AND OTHER INCOME	1,06,91,49,349	88,39,44,021
GROSS PROFIT FOR THE YEAR	29,10,71,898	18,77,51,502
LESS : DEPRECIATION	8,52,03,115	5,54,44,049
	20,58,68,783	13,23,07,453
ADD : BALANCE IN PROFIT & LOSS ACCOUNT (BROUGHT FORWARD FROM THE PREVIOUS YEAR)	3,43,23,159	2,88,31,045
AMOUNT TRANSFERRED FROM INVESTMENT ALLOWANCE UTILISED RESERVE	27,43,027	0
PRIOR PERIOD INCOME	2,87,351	72,778
EXCESS PROVISION WRITTEN BACK	0	11,25,000
	24,32,22,320	16,23,36,276
LESS : PROVISION FOR INCOME TAX	1,61,43,201	55,00,000
PRIOR PERIOD INCOME TAX	27,91,899	11,89,529
PRIOR PERIOD EXPENSES	3,99,010	73,588
	22,38,88,210	15,55,73,159
APPROPRIATIONS :		
GENERAL RESERVE	12,00,00,000	11,00,00,000
PROPOSED DIVIDEND	1,17,50,000	1,00,00,000
TAX ON DIVIDEND	16,47,938	12,50,000
BALANCE CARRIED OVER IN PROFIT AND LOSS ACCOUNT	9,04,90,272	3,43,23,159
	22,38,88,210	15,55,73,159

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DIRECTORS' REPORT (Contd...)

DIVIDEND

Your directors are pleased to recommend for your approval payment of dividend for the year ended 31st March 2006 at 20% on the Equity Shares of the Company. The outflow on account of Equity Dividend would be Rs. 134.00 Lakhs including tax on dividend.

OPERATIONS:

The Company's Total Income and Gross profit amounted to Rs.10691 Lakh and Rs.2911 Lakh. This represents growth in total income of 20.95% and Gross Profit of 55.01% as compared to the previous year.

For the year Company's Direct Export Turnover amounted to Rs.4376 Lakh as compared to Rs.3999 Lakh in the previous year representing a growth of 9.43%. In terms of percentage the export turnover constituted 41.72 % of the net sales as against 47.14% in the previous year.

The Company is constantly working on value added products and focusing on increasing the margins of the company without orienting operations of the company to market specific viz., export / domestic markets.

The Domestic Market equally offers good opportunities and margins as compared to the export market to be exploited in the case of value added products and constant demand exists for the same. The export market is slowly catching up in respect of the value added products and this will deepen the market base of the Company.

The Company has initiated a major move for its value added products in the two important domestic markets viz., Kolkata and Mumbai. While in Kolkata the company organized its own customer meet and in the case of Mumbai it participated in a textile exhibition. The response and demand for the products is on the increase. The Constant market awareness is being created for the products of the company which in the long term will considerably enhance the demand.

The first phase of Unit III of the Company viz., 14,112 Spindles along with 100% Wind Energy Captive power is fully operational during the current year for manufacture of Elitwist Yarn. The plant is further expanded for installing additional 10,080 Spindles at an estimated cost of Rs.28.42 Crores, which is in the advanced stage of implementation and the expansion is expected to be commissioned in September 2006. The Scheme is assisted by a Term Loan of Rs.22.73 Crores under the TUF Scheme by UCO Bank and the balance cost is met out of internal accruals. The Company is modernizing its existing plants by an investment of Rs. 7.12 Crores and assisted by

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DIRECTORS' REPORT (Contd...)

UCO Bank under a TUF Term Loan of Rs. 5.69 Crores. The company has also initiated necessary steps for setting up another 43200 Spindles including doubling of yarn for 9600 Spindles along with back processing machinery in a separate plant at an estimated cost of Rs.125.00 Crores. The tying up of funds for the project is in the advanced stage of negotiation. On completion of the project, the total installed Spindle capacity would go upto 1.10 Lakh Spindles and of which the compact facility would constitute 68.45% of the total installed capacity. In order to meet certain demands of the market, the doubling of yarn facility is also added to the extent as stated above.

PLACEMENT OF EQUITY SHARES UNDER PREFERENTIAL ISSUE AND DETAILS OF DEPLOYMENT OF THE SAME.

During the year, the company has raised Rs.15.60 Crores (Net of Expenses) by placement of 875000 Equity shares of Rs. 10/- each under a preferential issue with Ascent India Fund managed by UTI Venture Funds, Bangalore. The funds were deployed in Fixed Assets to the extent of 0.59 Crores (Total Investments in Fixed Assets for the year Rs. 59.25 Crores) and in working capital to the extent of 15.01 Crores (Total investment in working capital for the year Rs.17.63 Crores). In view of the specific disclosure in the Directors Report in respect of utilization of the Funds raised under the Preferential Issue no separate disclosure is made in the financial statements as required under SEBI Guidelines.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis Report covering matters listed in Clause 49 of the Listing Agreement for the year under review is given as a separate statement in the Annual Report.

DEPOSITS:

The Company has not accepted any deposits from the public.

DIRECTORS:

Sri, K.N.Sreedharan Director retires by rotation and being eligible offers himself for re-appointment.

Sri, K.Venkatachalam, Director retires by rotation and being eligible offers himself for re-appointment.

The Directors Sri.P.K.Ganeshwar & Sri M.Rathanasamy have vacated the office of the Directorship in terms of Section 283(g) of the Companies Act, 1956 with effect from 12.01.2006. The Board places its appreciation on record for the services rendered by them during their tenure of office.

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DIRECTORS' REPORT (Contd...)

Sri P.V.Chandran was appointed as the Chairman of the Company and the Board with effect from 08.09.2005.

Sri.R.Soundararaja Perumal was co-opted as an additional Director of the Company by the Board of Directors of the Company at the meeting held on 08.09.2005.

AUDITORS:

M/s. L.Venkatasubbu & Co., Chartered Accountants, Auditors of the Company are to retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. They have furnished the necessary certificate in terms of Section 224 of the Companies Act, 1956.

DIRECTORS RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act 1956, your directors state that: -

1. In the preparation of the Annual Accounts, the applicable accounting standards have been followed.
2. The Company has selected such accounting policies, applied them consistently, made judgments 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 financial year and of the profit of the company for that period.
3. The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provision with Companies Act 1956, for safe guarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. The Company has prepared the attached annual statement of accounts for the year ended 31st March 2006, on a going concern basis.

PARTICULARS OF EMPLOYEES:

The Company has no employees of the category specified in Section 217(2A) of the Companies Act, 1956.

DISCLOSURES OF PARTICULARS:

Particulars relating to conservation of energy, Technology absorption, Foreign Exchange Earning and outgo pursuant to the Companies (Disclosure of particulars in the Report of Board of Directors) Rules 1988 are set out separately and form part of this report.

By order of the Board

Sd/-

(P.V.CHANDRAN)

Chairman Cum Managing Director

PLACE: Coimbatore

DATE: 24.06.2006

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AMBIKA COTTON MILLS LIMITED

ANNEXURE TO DIRECTORS' REPORT

Particulars pursuant to the Companies (Disclosure of particulars in the Report of Board of Directors) Rule 1988.

A. CONSERVATION OF ENERGY

a) Energy Conservation measures taken:Usage of Energy is constantly monitored and the need to conserve the same is emphasised.

b) Additional Investments and proposals being Implemented for reduction of consumption of Energy: During the year 8 Nos. of Wind Electric Converters of 800 KWA of Enercon Make was installed so as to reduce the cost of electricity. The additional wind energy capacity (6.4 MW) coupled with the existing capacity (6.6 MW) totaling 13 MW would cover to the extent of 75% to 80% of the power requirement of the existing operations. These measures will bring substantial savings and advantage in the form of reduction in energy cost.

c) Impact of measures (a) & (b) above for reduction of Energy Consumption and consequent impact on cost of production.

i) The consumption of energy has been closely monitored and as a result wastage is avoided.

ii) Efficiency of the Internal Generation of Electricity is maintained.

d) Total energy consumption and energy consumption per unit of production as prescribed in Form A:

		YEAR ENDED 31-03-2006	YEAR ENDED 31-03-2005
1.	**ELECTRICITY :**		
a.	Purchased :		
	Units (in Lakhs)	164.37	66.16
	Total Amount (Rs. in Lakhs)	740.67	273.80
	Rate per Unit	4.51	4.14
b.	Own Generation :		
1.	Through Diesel Generator:		
	Units (In Lakhs)	11.83	22.77
	Units per litre of Diesel Oil	3.20	3.48
	Rate per Unit	8.35	5.41
2.	Wind Energy	139.50	153.11
3.	Coal	Nil	Nil
4.	Furnace Oil	Nil	Nil
5.	Others/Internal Generation	Nil	Nii
c.	Consumption per unit of Production Electricity Units per Kg.	7.22	4.54
d.	Technology Absorption :	Indigenous Technology alone is used.	
		(Rs. in Lakhs)	(Rs. in Lakhs)
e.	Foreign Exchange Earnings	4,376	3,999
	Foreign Exchange Outgo	6,916	2,278

By order of the Board

Sd/-

(P.V.CHANDRAN)

Chairman Cum Managing Director

PLACE: Coimbatore

DATE: 24.06.2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

1. Overall Review

Favourable demand existed for the Cotton Yarn during the year resulting in firming up of the prices more particularly for the value added cotton yarn meant for manufacturing premium branded shirts and T Shirts. Equally the prices of ELSS Cotton both Imported and Indigenous exhibited a firm trend consequent to heavy demand for extra long variety cotton. This feature of demand for ELSS Cotton had impacted the performance of the company to certain extent.

2. Industry Outlook

The quota system in the Textile sector came to an end with effect from 01st January 2005 meaning thereby global trade in textiles is non discriminatory between WTO members. This provides an opportunity of expanded market for all the textile players including India. However the competition emerging from China will be crucial so as to derive the full benefits of Quota deregulations. The other fall out of WTO frame work would be radically scaling up of the productivity so as to successfully compete with imports and to increase the presence in the foreign market. Keeping this in view, the TUFs scheme which is in vogue have to be continued for quite some time beyond 2007 so as to derive the long term benefits.

The Outlook for the cotton textile industry is positive and the demand for the products is on the upswing from USA and European countries due to freeing of the quota system. The growth in the weaving sector has also boosted the demand for high value quality cotton yarns.

3. Opportunities

The market demand for compact Cotton yarn both in the International and Domestic market is on the rise and the company is also fast expanding into this segment so as to take advantage of the emerging demand for Compact yarn.

4. Challenges

The availability of quality ELSS Cotton at reasonable prices and manufacturing of cotton yarn without market orientation by the other manufacturers will be the critical factors which will have an impact over the margins and overall performance of the company.

5. Company Outlook.

The Cotton being the critical input requires well established relationship with the suppliers of Cotton all around the world which in turn would ensure required quantity at competitive prices and without any interruption in its supply. The Company has a strong relationship with the established cotton suppliers all around the world to procure any quantity of the requirement so as to plan the production plan and facilitate the company focusing into manufacturing of value added high quality cotton yarn thereby ensuring consistent orders for the products of the company.

6. Risks and Concerns

Change in Policies of the government which will have an impact over the operations of the company will be the critical risk and the sudden increase in the cost of finance and closure of the TUF Scheme by March 2007 will be the major factors having a bearing on the operations of the company.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Contd...)

7. Discussion on Financial Performance with Respect to Overall Performance

1.	Increase in Net Sales (Rs. in Lakhs)	2007
2.	Increase in Net Sales (%)	23.66
3.	Increase in Net Profit over the Previous Year (Rs. in Lakhs)	629.00
4.	Increase in Net Profit over the Previous Year (%)	49.61
5.	Increase in Exports (Rs. in Lakhs)	377.00
6.	Increase in Exports (%)	9.43
7.	Decrease in Exports as Percentage of Net Sales (%)	5.42
8.	Net Profit margin as percentage of Net sales (%)	18.08
9.	Increase in Net Profit Margin as Percentage of Net Sales (%)	3.13
10.	Cash Profit margin as percentage of Net sales (%)	26.21
11.	Increase in Cash Profit Margin as percentage of Net Sales (%)	4.72
12.	Operating Profit Margin as percentage of Net sales (%)	32.20
13.	Increase in operating profit margin as Percentage of Net Sales (%)	5.98

8. Internal control, systems and adequacy.

The company has put in place effective control systems in respect of all its operations and such systems are continuously reviewed and upgraded.

9.Human Resources Development

The company places its utmost value on the human resource and contribution from the employees is always fine-tuned towards to achieve the overall organisation performance by constant education, training and various incentive schemes, which are in vogue.

10. Safety and Environment

The company ensures high safety and environmental standards in all its operations at all the units. Safety needs are continuously monitored and preventive actions are initiated thorough departmental safety committees consisting of plant staff and workmen.

11. Cautionary Statement

Certain Statements in this report on Management's Discussion may be forward looking statements and which have been issued as required by applicable Securities Laws and Regulations. There are several factors which would be beyond the control of Management and as such, may affect the actual results which could be different from that envisaged.

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AUDITORS' REPORT

To

The Members of Ambika Cotton Mills Limited,

1. We have audited the attached Balance sheet of Ambika Cotton Mills Limited as at 31st March 2006 and also the Profit and Loss Account for the year ended on that date annexed thereto and the cash flow statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that :.

a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes 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 examination of such books.
c. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account.
d. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the requirements of the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.
e. On the basis of written representations received from the Directors as on, 31st March 2006 and taken on record by the Board of Directors we report that none of the Directors is

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