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AMBIKA COTTON MILLS LIMITED

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ANNUAL REPORT
2004 - 2005

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AMBIKA COTTON MILLS LIMITED

ANNUAL REPORT 2004 - 2005

BOARD OF DIRECTORS	Sri P.V. Chandran Sri P.K. Ganeshwar Sri M. Rathanasamy Sri K.N. Sreedharan Sri D. Balasundaram Sri K. Venkatachalam Sri R. Srikanth (IDBI LTD. Nominee up to 29-04-2005) Sri K. Davidson (IDBI LTD. Nominee from 29-04-2005) Sri. Srinivas Baratam (UTI Venture Funds Management Company Pvt. Ltd. Nominee from 27-05-2005)
Registered Office	9A, Valluvar Street Sivanandha Colony Coimbatore - 641 012.
Plant	Kanniya Puram 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.

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AMBIKA COTTON MILLS LIMITED

DIRECTORS' REPORT

Your directors have great pleasure in submitting the Seventeenth Annual Report together with the audited accounts for the year ended 31st March 2005.

FINANCIAL RESULTS

The Financial results for the year ended 31st March 2005 are furnished below:

	CURRENT YEAR 2005 Rs.	PREVIOUS YEAR 2004 Rs.
SALES AND OTHER INCOME	88,39,44,021	91,62,55,086
GROSS PROFIT FOR THE YEAR	18,77,51,502	17,45,93,223
LESS : DEPRECIATION	5,54,44,049	4,76,25,547
	13,23,07,453	12,69,67,676
ADD : BALANCE IN PROFIT & LOSS ACCOUNT (BROUGHT FORWARD FROM THE PREVIOUS YEAR)	2,88,31,045	2,48,26,165
PRIOR PERIOD INCOME	72,778	0
EXCESS PROVISION WRITTEN BACK	11,25,000	0
	16,23,36,276	15,17,93,841
LESS : PROVISION FOR INCOME TAX	55,00,000	38,50,000
PRIOR PERIOD INCOME TAX	11,89,529	1,12,796
PRIOR PERIOD EXPENSES	73,588	0
	15,55,73,159	14,78,31,045
APPROPRIATIONS :		
GENERAL RESERVE	11,00,00,000	11,00,00,000
PROPOSED DIVIDEND	1,00,00,000	80,00,000
TAX ON DIVIDEND	12,50,000	10,00,000
BALANCE CARRIED OVER IN PROFIT AND LOSS ACCOUNT	3,43,23,159	2,88,31,045
	15,55,73,159	14,78,31,045

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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 2005 at 20% on the Equity Shares of the Company.

OPERATIONS:

The Company's Total Income and Gross profit amounted to Rs.8839 Lakhs and Rs.1878 Lakh. Though the Total Income registered a small decline of 3.53%, the Gross Profit increased by 7.54% as compared to the previous year.

For the year Company's Direct Export Turnover amounted to Rs.3999 Lakhs as compared to Rs.5276 Lakhs in the previous year representing a decline of 24.20%. In terms of percentage the export turnover constituted 47.14% of the net sales as against 60.07% in the previous year.

This reduction is primarily due to broad basing of the domestic market by focusing into the high end segment of the market and the consistent demand for such products offering better margins as compared to the export market. Besides the tax benefits available for Exports are completely withdrawn thereby reducing the effective margins. This has made the Company to divert partially its attention to the domestic market rather than fully concentrating on Exports.

The Company has strengthened and widened its Market base by offering different products to suit the needs of the upstream Manufacturers who in turn were able to offer variety in their finished goods made by them. The Company is constantly working on its products so as to maintain the leadership position in the market. After the freeing of quota system, the company commenced its exports to USA and projects a good and sustained demand from this market during the current year.

The expansion project of setting up additional production facility of 14,112 Spindles for manufacture of Compact Yarn and Wind Energy for 100% Captive Consumption (Capacity 4MW) at an estimated cost of Rs. 71.00 Crores is in the advanced stage of implementation and the plant is expected to be commissioned shortly. The Scheme is assisted by a Term Loan of Rs. 50.00 Crores under the TUF Scheme and the balance cost to be met out of internal accruals. The plant capacity is set up to accommodate 24,192 Spindles. The Company would take up the installation of another 10,080 Spindles immediately after completion of the present Scheme. These measures would strengthen considerebly the operational base of the Company and further will facilitate in meeting the growing demands for the products of the Company.

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DIRECTORS' REPORT (Contd...)

In order to strengthen the financial base, the Company placed 8,75,000 Equity Shares of Rs.10/- each at a premium of Rs. 175 per share aggregating Rs.16.19 Crores on Preferential basis to Unit Trust of India Investment Advisory Services Limited - A/c. Ascent India Fund in accordance with SEBI (Disclosure and Investor Protection) Guidelines, 2000. Pursuant to the Resolution passed by the members of the Company U/s.81(1-A) of the Companies Act, 1956 at the Extraordinary General Meeting held on 14-05-2005, the allotment of Shares was completed on 27-05-2005 with a lock-in period of one year. The respective listing applications have been made with all the Stock Exchanges wherein the Equity Shares of the Company are listed and the permission is awaited as on date. This strengthening of the Capital base will help the Company in completing the projects on hand and meeting the long term working Capital requirements of the Company besides facilitating undertaking of additional and faster implementation of the projects as and when drawn up and taken for implementation in future.

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 D. Balasundaram, Director retires by rotation and being eligible offers himself for reappointment.

IDBI LTD. has appointed Sri. K. Davidson as its Nominee Director with effect from 29-04-2005 in the place of Sri. R. Srikanth. The Board wishes to place on record the services rendered by Sri. R. Srikanth during the tenure of his office.

Sri. Srinivas Baratam was co-opted as an additional Director of the Company by the Board of Directors of the Company at the meeting held on 27-05-2005 pursuant to the allotment of Equity Shares to UTI IASL on Preferential basis and he comes in to the Board representing the said institutions' interest as a Nominee Director.

AUDITORS :

M/s. L.Venkatasubbu & Co., Chartered Accountants, Auditors of the Company are to retire at the ensuring 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.

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DIRECTORS' REPORT (Contd...)

DIRECTORS RESPONSIBILITY STATEMENT

In terms of Section 217 (2AA) of the Companies Act 1956, your director 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 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 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 2005, 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.

For and on behalf of the Board

Sd/-
(P.K. GANESHWAR)
CHAIRMAN

PLACE : Coimbatore
DATE : 22-06-2005

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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 : NIL

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 31-03-2005	YEAR ENDED 31-03-2004
1. ELECTRICITY :		
a. Purchased :		
Units (in Lakhs)	66.16	92.20
Total Amount (Rs. in Lakhs)	273.80	299.72
Rate per Unit *	4.14	3.25
(Net of Demand charges relating to Wind Energy)		
b. Own Generation :		
1. Through Diesel Generator:		
Units (In Lakhs)	22.77	139.89
Units per litre of Diesel Oil	3.48	3.60
Rate per Unit	5.41	3.47
2. Wind Energy	153.11	43.65
3. Coal	Nil	Nil
4. Furnace Oil	Nil	Nil
5. Others/Internal Generation	Nil	Nil
c. Consumption per unit of Production Electricity Units per Kg.	4.54	4.83
d. Technology Absorption :	Indigenous Technology alone is used.	
	(Rs. in Lakhs)	(Rs. in Lakhs)
e. Foreign Exchange Earnings	Rs. 3,999	Rs. 5,276
Foreign Exchange Outgo	Rs. 2,278	Rs. 2,358

For and on behalf of the Board

Sd/-
(P.K. GANESHWAR)
CHAIRMAN

PLACE : Coimbatore
DATE : 22-06-2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

1. Overall Review

The Cotton & Cotton Yarn prices move in tandem with each other. The selling price of cotton yarn normally gets adjusted in tune with the prevailing market prices of Cotton. The prices of Cotton ruled soft during the year as compared to the previous year, which in turn as in the past caused overall reduction in selling prices of cotton yarn. This has resulted in lower sale value for the year, though the plants of the company operated at its full capacity. Besides the company is scaling up its operation to high counts of yarn testing newer markets and to certain extent this has caused volume decline.

2. Industry Outlook

The textile industry is witnessing lot of activities based on the emergence of newer markets after freeing of quota system and more particularly the emerging demand from USA. The weaving sector is also expanding by installing high speed Auto looms, which operates at a very high speed and demands high quality yarn to avoid breaks of the input material.

3. Opportunities

The company has already commenced its exports to USA. The Volume growth in the weaving sector in new facilities would considerably boost the demand for the products of the company as they are designed for this vital sector. The additional facility which is nearing completion would come in handy to exploit the emerging opportunities.

4. Challenges

The consistent demand for the cotton yarn from the market and offering of the products by the several manufactures without specific market orientation would cause serious challange and considerably affects the margins.

5. Company Outlook

The company is offering new products for the market for use and exploitation and thus pioneers the productive process of the end users equally besides at its own facilities. This would insulate the company from the perceived challange as the market would appreciate the difference easily to the committed quality manufacturers.

6. Risks and Concerns

The management does not perceive existence of any such factors as on date affecting the operations of the company, except sudden change of policies of the Government and more particularly the sudden withdrawal of TUF eligibility for wind energy and complete withdrawal of concessions for exports.

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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)	-299.00
2.	Increase in Net Sales (%)	-3.40
3.	Increase in Net Profit over the Previous Year (Rs. in Lakhs)	37.00
4.	Increase in Net Profit over the Previous Year (%)	3.01
5.	Decrease in Exports (Rs. in Lakhs)	1277.00
6.	Decrease in Exports (%)	24.20
7.	Decrease in Exports as Percentage of Net Sales (%)	12.94
8.	Increase in Net Profit Margin (%)	0.93
9.	Increase in Operating Profit Margin (%)	1.29
10.	Increase in Raw Material Cost as Percentage of Net Sales (%)	+3.41
11.	Decrease in Power Cost as Percentage of Net Sales (%)	3.90
12.	Decrease in Interest Charges as Percentage of Net Sales (%)	0.87

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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 both the units. Safety needs are continuously monitored and preventive actions are initiated through 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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AMBIKA COTTON MILLS LIMITED

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 2005 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.

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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.

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