

K G DENIM LIMITED



**Seventeenth Annual Report
2008 - 2009**



K G DENIM LIMITED

BOARD OF DIRECTORS

Executive Chairman Shri KG Baalakrishnan

Managing Directors Shri B Sriramulu
Shri B Srihari

Directors Shri G V S Desikan
Shri G P Muniappan
Shri K N V Ramani
Shri V Jagadisan
Smt T Anandhi
Shri M J Vijayaraaghavan
Shri Surinder Chhibber
Shri A Velusamy
Shri S Muthuswamy
Director & Company Secretary

Registered Office
Then Thirumalai
Coimbatore - 641 302
Phone : (04254) 304401 / 304000
Website : www.kgdenim.com
E-mail : cskgdl@kgdenim.in

Registrar and Share Transfer Agent
Cameo Corporate Services Ltd
"Subramanian Building"
No.1 Club House Road
Chennai - 600 002
Phone : (044) 28460390 (6 lines)

Auditors M/s Gopalaiyer and Subramanian
Chartered Accountants
Coimbatore

Bankers Indian Bank
Bank of India
State Bank of India
Allahabad Bank
Indian Overseas Bank
State Bank of Indore
State Bank of Hyderabad

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K G DENIM LIMITED**DIRECTORS' REPORT**

Dear Shareholders,

We have pleasure in presenting the Seventeenth Annual Report of the Company together with the Audited Statement of Accounts for the year ended 31st March 2009.

FINANCIAL RESULTS

(Rs. in lakhs)

| PARTICULARS | For the year ended 31st March 2009 | For the year ended 31st March 2008 |
|---|--|--|
| Gross Profit | 1872 | 1980 |
| Less: Interest | 1978 | 1763 |
| Loss due to exchange variation | 277 | -73 |
| Profit prior to Depreciation and write off | -383 | 291 |
| Less: Depreciation | 1306 | 1278 |
| Add : Prior Year Income / (Expenditure) (Net) | 20 | 56 |
| Net Profit / (Loss) | -1709 | -1043 |
| Current, Deferred, FBT Tax & earlier year tax | -493 | -358 |
| Net Profit / (Loss) for the year | -1216 | -685 |
| Balance Brought forward | 901 | 1586 |
| Balance carried forward | -315 | 901 |

REVIEW OF OPERATIONS

During the year ended 31.3.2009, the Company achieved an overall production of 215 lakh meters of fabrics against the previous year's production of 213 lakh meters. The sales for the year ended 31.03.2009 was Rs.22054 lakhs as against sales of Rs.20867 lakhs during the previous year, representing an increase of 6%.

Exchange fluctuations mainly affected the profitability for the year along with increase in cost of inputs namely cotton, yarn, chemicals, power & fuel especially for the fabric segment. Apparel exports were maintained at near previous year levels with improved profitability.

PROSPECTS FOR THE NEXT YEAR

During 2009-10, the demand for denim has picked up in both the domestic as well as exports. The price realization are expected to improve with benefits from better exchange rates for exports. The company is focusing on achieving higher growth rate in processed fabrics including home textiles. Apparel exports are expected to increase marginally.

FINANCE

Your Directors acknowledge with gratitude, the valuable assistance and support extended by our Bankers for term loans and working capital ie., Indian Bank, State Bank of India, Bank of India, Allahabad Bank, Indian Overseas Bank, State Bank of Indore and State Bank of Hyderabad.

PERSONNEL

The Directors wish to place on record their appreciation for the co-operation extended by all sections of the employees.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm that:

- a) In the preparation of the annual accounts, the applicable accounting standards had been followed.
- b) The Directors had selected such accounting policies and applied them consistently and 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 the financial year and of the Profit or Loss of the Company for that period.
- c) The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and irregularities.
- d) The annual accounts have been prepared on a going concern basis.

CONSOLIDATED ACCOUNTS

In accordance with the requirements of Accounting Standard (AS-21) prescribed by The Institute of Chartered Accountants of India, the Consolidated Accounts of the Company and its subsidiaries are annexed to this Report.

SUBSIDIARIES

The Annual Report of the Subsidiaries of the Company Viz., Trigger Apparels Limited and KG Denim (USA) Inc., is annexed to this report. The Company has invested Rs.195 lakhs in its subsidiary Trigger Apparels Limited during the year. Trigger Apparels Limited is expected to consolidate its market position with improved sales and profitability. No activity has taken place at KG Denim (USA) Inc. during the year.

CEO/CFO CERTIFICATION

The Managing Directors and Director & Company Secretary of the Company have submitted a certificate to the Board as required under Clause 49 of the Listing Agreement for the year ended 31st March, 2009.

CORPORATE GOVERNANCE

A separate section on Corporate Governance and a Certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchange, forms part of the Annual Report.

LISTING

The Company's shares are listed in the Bombay Stock Exchange Ltd., Mumbai.

CAPITAL EXPENDITURE

The Company incurred a capital expenditure of Rs.518.61 lakhs during the year.

K G DENIM LIMITED

DIRECTORS

Shri G V S Desikan, Shri K N V Ramani and Shri V Jagadisan retire by rotation and being eligible offer themselves for reappointment at the ensuing Annual General Meeting.

Shri S R Rajasekaran passed away on 05.10.2008 and Shri G P Muniappan was appointed as director in the resulting casual vacancy. The Board wishes to record its appreciation for the services rendered by Shri S R Rajasekaran.

AUDITORS

The present Auditors M/s Gopalaier and Subramanian retire at the ensuing Annual General Meeting and are eligible for re-appointment. Cost Audit report for the financial year ending 31st March 2009 will be submitted to the Central Government in accordance with Cost Audit Report Rules, 2001.

INFORMATION PURSUANT TO SECTION 217 OF THE COMPANIES ACT, 1956.

The information required as per Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is enclosed. The particulars of employees covered under Section 217 (2A) of the Companies Act, 1956 during the period under review is enclosed.

Our humble prayers to **Sri Venkateswaraswamy Vari of Then Thirumalai** for the continued prosperity of the Company.

Coimbatore
25.06.2009

On behalf of the Board

KG Baalakrishnan
Executive Chairman

ANNEXURE TO DIRECTORS' REPORT

Conservation of energy, technology absorption and foreign exchange earnings and outgo required under Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 for the year ended 31st March, 2009.

CONSERVATION OF ENERGY :

- a) Energy conservation measures taken : The Company has set up a steam-driven co-generation power unit with use of biomass fuel.
- b) Additional Investments and proposals, if any, being implemented for reduction of consumption of energy: Energy audit has been done and various proposals are under implementation.
- c) Impact of the measures at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods : During the year the fuel input costs had gone up. Hence there is a significant increase in costs.
- d) Total energy consumption and energy consumption per unit of production:

FORM - A**A. POWER AND FUEL CONSUMPTION**

| | 31.03.2009 | 31.03.2008 |
|--------------------------------------|------------|------------|
| I Electricity | | |
| (a) Purchased | | |
| Units in lakhs | 48.06 | 57.60 |
| Value in lakhs (Rs.) ** | 219.78 | 264.00 |
| Cost/Unit (Rs.) | 4.57 | 4.58 |
| **Excludes fixed demand charges | | |
| (b) Own Generation | | |
| (i) Through Diesel Generator | | |
| Units in lakhs | 8.14 | 6.20 |
| Units / Ltr. | 3.10 | 2.70 |
| Cost/Unit (Rs.) | 9.64 | 9.61 |
| (ii) Through steam turbine/generator | | |
| Units in lakhs | 197.76 | 194.38 |
| Units/Ton of fuel mix | 415.00 | 424.00 |
| Cost/Unit (Rs.) | 4.58 | 3.62 |
| II Coal | | |
| Quantity (Tonnes) | 18948 | 19253 |
| Total Cost (Rs. in lakhs) | 841.68 | 644.99 |
| Average Rate (Rs) | 4442.00 | 3350.00 |
| III Saw Dust etc., | | |
| Quantity (Tonnes) | 24305 | 24672 |
| Total Cost (Rs. in lakhs) | 275.62 | 268.19 |
| Average Rate (Rs) | 1134.00 | 1087.00 |

B. CONSUMPTION/UNIT OF PRODUCTION

| | | |
|----------------------------------|------|------|
| Electricity Unit/ Mtr. of Fabric | 1.40 | 1.32 |
|----------------------------------|------|------|

K G DENIM LIMITED**FORM - B****C. TECHNOLOGY ABSORPTION****I. Research and Development (R & D) :**

1. Specific areas where R&D is carried out by the Company.
The R&D efforts of the Company are directed towards quality control improvement of existing methods and product developments/diversifications.
2. Benefits derived as a result of the above R&D :
Cost reduction and improved quality and new product development enhanced performance in Export and Domestic Market.
3. Future plan and action :
The R&D efforts will continue to meet the present and future needs of the end-users.
4. Expenditure on R & D :

Rs.Lakhs

- | | |
|---|-------------|
| a) Capital | |
| b) Recurring | 9.94 |
| c) Total | 9.94 |
| d) R & D Expenditure as % of Total Turnover | 0.04 |

- II. Technology absorption, adaptation and innovation :**
Continuous efforts are made towards technology innovation.

D. FOREIGN EXCHANGE EARNINGS AND OUTGO

- a) Efforts : The Company will continue to push up its volume of exports and maintain its price realization.
- b) Total Foreign exchange used and earned :

| | |
|-------------------------|---------------|
| Foreign Exchange : Used | Rs.3786 Lakhs |
| Earned | Rs.7567 Lakhs |

On behalf of the Board

Coimbatore
25.06.2009**KG Baalakrishnan**
Executive Chairman**ANNEXURE TO DIRECTORS' REPORT**

Statement of pursuant to Section 217 (2A) of the Companies Act, 1956 & Companies (Particulars of Employees) Rules, 1975.

Details of Remuneration paid during the year ended 31.03.2009.

| Sl. No. | Name & Designation | Age | Remuneration (Rs. in lakhs) | Qualification & Experience | Date of Commencement of Employment |
|---------|---------------------------------------|-----|-----------------------------|---|------------------------------------|
| 1. | Shri B Sriramulu Managing Director | 42 | 18.70 | BE (Textile Technology) MS(Textile Technology) 20 Years | 03.11.2003 |
| 2. | Shri B Srihari Managing Director | 40 | 18.70 | BE (Chemical Technology) MS(Chemical Technology) 18 Years | 03.11.2003 |

Notes :

1. Nature of employment in all cases are contractual.
2. Shri B Sriramulu and Shri B Srihari are the Directors of the Company and are related to each other and to Shri KG Baalakrishnan, Executive Chairman and Smt T Anandhi, Director.

Coimbatore
25.06.2009On behalf of the Board
KG Baalakrishnan
Executive Chairman



CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY

Your Company is committed to building long term shareholders' value with full emphasis on Corporate Governance – Your company communicates corporate, financial and product information on line on its website – www.kgdenim.com. Your Company believes that all its operations and actions must serve the goal of enhancing overall shareholder value, over a sustained period of time. Company's philosophy envisages transparency, accountability and equitable benefits of highest level in its maximum possible operating fields, interaction with all its related orders including esteemed Shareholders, Workmen, Officers, Governments, Banks and other lenders.

2. BOARD OF DIRECTORS

The current financial year of the company covers a period of 12 months from 1st April 2008 to 31st March 2009.

The present strength of the Board is 12 Directors, out of which 6 are independent directors.

6 (Six) Board Meetings were held during the year, as against the minimum requirement of 4 meetings. The dates on which the meetings held were as follows: 14th May 2008, 23rd June 2008, 28th July 2008, 31st October 2008, 31st January 2009 and 31st March 2009. The Annual General Meeting was held on 24th September 2008. The table below gives the particulars of attendance of each Director at the Board Meetings held during the financial year and during his respective tenure of Directorship and at the last AGM, as also the number of Directorships in other Companies and membership in other Board Committees.

| Name of the Director | No. of Board Meetings held during the tenure of Directorship | No. of Board Meetings attended | Attendance of Last AGM | No. of Directorship in other Companies | No. of Membership in Board Committees of other Companies as | |
|--------------------------|--|--------------------------------|------------------------|--|---|--------|
| | | | | | Chairman | Member |
| Shri KG Baalakrishnan | 6 | 6 | Present | 7 | - | - |
| Shri B Sriramulu | 6 | 6 | Not Present | 12 | - | - |
| Shri B Srihari | 6 | 5 | Present | 9 | - | 1 |
| Shri S R Rajasekaran * | 3 | 2 | Not Present | - | - | - |
| Shri G P Muniappan ** | 3 | 3 | NA | 1 | - | - |
| Shri G V S Desikan | 6 | 6 | Present | 5 | - | 2 |
| Shri V Jagadisan | 6 | 4 | Present | 2 | 1 | 5 |
| Shri K N V Ramani | 6 | 6 | Present | 8 | 3 | 3 |
| Smt T Anandhi | 6 | 5 | Not Present | 4 | - | - |
| Shri M J Vijayaraaghavan | 6 | 5 | Present | 2 | 3 | 2 |
| Shri Surinder Chhibber | 6 | 1 | Not Present | 1 | - | - |
| Shri A Velusamy | 6 | 6 | Present | 7 | 1 | 4 |
| Shri S Muthuswamy | 6 | 6 | Present | - | - | - |

* Shri S R Rajasekaran demised on 05.10.2008

** Shri G P Muniappan appointed as a Director on 31.10.2008 for casual vacancy of Shri S R Rajasekaran. Shri B Sriramulu and Shri B Srihari are sons of, and Smt T Anandhi, daughter of Shri KG Baalakrishnan. None of the other directors are related to each other.

Profile of Directors retiring by rotation and eligible for reappointment

Shri G V S Desikan, a B.Sc., B.Sc.(Tech) graduate, aged 76 and has rich experience in the management of textile industry. He was formerly Technical Advisor for National Textile Corporation, New Delhi, Chairman and Managing Director of Kerala State Textile Corporation Ltd., Trivandrum and Managing Director of Binny Limited.

Shri K N V Ramani, M.A., B.L., aged 77 is a leading Advocate specialized in Corporate Laws. He has rich experience in Corporate Laws for more than four decades and has been on the Board of several Companies. M/s.Ramani & Shankar, firm of Advocates headed by him consists of panel of Advocates specialized in different fields of law.

Shri V Jagadisan, B.Com., FCA., aged 76 is the Senior Partner of M/s V Jagadisan & Co., Chennai one of the leading CA firms of South India. He was elected as Central Council Member of Institute of Chartered Accountants of India, New Delhi for 3 terms (1976 to 1985) and is a Director on the Board of two other Companies.

K G DENIM LIMITED

Code of Conduct

In pursuance of Clause 49 of the listing agreement, the Board has approved the Code of Conduct for Board of Directors and Senior Management and the same has been circulated and posted on the Company's website. The Board of Directors and the Senior Management staff have given their declarations confirming compliance of the provisions of the above code of conduct.

3. COMMITTEES OF THE BOARD

a. Audit Committee

The terms of reference of the Audit Committee include the matters specified in Clause 49 of the Listing Agreement with the Stock Exchanges and in Section 292A of the Companies Act, 1956 as follows:-

- ✦ Oversight of the Company's financial reporting process and the disclosure of its financial information.
- ✦ Recommending the appointment and removal of external auditors, fixation of audit fee and also approval for payment for any other services.
- ✦ Reviewing with management the quarterly, half-yearly and annual financial statements before submission to the Board, focussing primarily on (i) any changes in accounting policies and practices, (ii) major accounting entries based on exercise of judgment by management, (iii) qualifications in draft audit report, (iv) significant adjustments arising out of audit, (v) the going concern assumption, (vi) compliance with accounting standards, (vii) compliance with Stock Exchange and legal requirements concerning financial statements and (viii) related party transactions i.e., transactions of the Company of material nature, with promoters or with the management, their subsidiaries or relatives etc, that may have potential conflict with the interests of company at large.
- ✦ Reviewing with the management, external and internal auditors, the adequacy and compliance of internal control systems.
- ✦ Reviewing the adequacy of internal audit functions.
- ✦ Discussion with internal auditors any significant findings and follow up thereon.
- ✦ Reviewing the findings of internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- ✦ Discussion with external auditors before the audit commences nature and scope of audit as well as have post-audit discussion to ascertain any area of concern.
- ✦ Reviewing the Company's financial and risk management policies.

During the year, the Committee has met four times, as against the minimum requirement of 3 meetings and the Audit Committee meetings were held on 23.06.2008, 28.07.2008, 30.10.2008 and 31.01.2009.

Composition of the Audit Committee as on 31st March, 2009 and the attendance during the year are as under:

| Name of the Director | Position | Category | No. of Meetings held | No. of Meetings Attended |
|----------------------|----------|---------------------------------|----------------------|--------------------------|
| Shri V Jagadisan | Chairman | Independent, Non - Executive | 4 | 4 |
| Shri G V S Desikan | Member | Independent, Non - Executive | 4 | 4 |
| Shri K N V Ramani | Member | Independent, Non - Executive | 4 | 4 |

All the members of the Audit Committee are financially literate with knowledge in finance and accounts.

The head of finance function, head of internal audit and the representative of the Statutory Auditors were invited to be present at the Audit Committee meetings.

The Cost Auditors appointed by the Company under Section 233B of the Companies Act, 1956 were also invited to attend the Audit Committee Meetings.

The Director and Company Secretary acts as the Secretary to the Committee.

b. Remuneration Committee

The Board of the Company has constituted a Remuneration Committee, comprising of 3 Independent Non-Executive Directors viz., Shri K N V Ramani, Chairman, Shri G V S Desikan and Shri V Jagadisan as members.

The Remuneration Committee has been constituted to recommend/review the remuneration package of the Executive Chairman/Managing Directors/Whole-Time Directors.

The detail of remuneration to Directors for the year is furnished in paragraph 7.

c. Shareholders'/Investors Grievance Committee

The Board of the Company has constituted a Shareholders'/Investors' Grievance Committee, comprising of Shri G P Muniappan, Chairman with Shri G V S Desikan and Shri K N V Ramani as members. The Committee also looks into redressal of shareholders' complaints like transfer of shares, non-receipt of balance sheet, etc.

The Committee oversees the performance of the Registrar and Transfer Agents and recommend measures for overall improvement in the quality of investor services.

During the year, the Shareholders'/Investors Grievance Committee meetings were held on 23.06.2008, 28.07.2008, 31.10.2008 and 31.01.2009.

Shri R K Sridhar, Asst. General Manager (Accounts) is the Compliance Officer for complying with the requirements of the Securities and Exchange Board of India and requirements of the Listing Agreement with the Stock Exchange.

The total number of complaints received and replied to the satisfaction of shareholders during the year under review, was 38. Outstanding complaints as on 31st March 2009 were 'Nil'.

4. GENERAL MEETINGS

Location and date/time of the last three Annual General Meetings.

| | | | |
|----------------------|---------------------------------|-----------|---|
| 16 th AGM | 24 th September 2008 | 2.00 p.m. | Registered Office premises, Then Thirumalai, Jadayampalayam, Coimbatore 641 302 |
| 15 th AGM | 27 th August 2007 | 9.30 a.m. | - do - |
| 14 th AGM | 28 th September 2006 | 4.00 p.m. | - do - |
| EGM | 28 th March 2007 | 4.00 p.m. | - do - |

No postal ballots were required to be used for voting at these meetings.

5. DISCLOSURES

There are no materially significant related party transactions that would have potential conflict with the interest of the Company at large. Details of related party transactions are given elsewhere in the Annual Report. The Register of Contracts containing the transactions in which the Directors are interested is placed before the Board regularly.

No penalty or strictures have been imposed on the Company by any regulatory authority for non-compliance of any laws.

The Company has complied with the Accounting Standards prescribed by the Institute of Chartered Accountants of India and as referred u/s 211 (3C) of the Companies Act, 1956.

6. MEANS OF COMMUNICATION

The Quarterly and Half yearly results are published in local dailies such as "Dinamani" and "The Financial Express" and on the company's website.

The Management Discussion and Analysis Report forms part of this Annual Report.

7. REMUNERATION TO DIRECTORS

For the financial year ended 31st March 2009, the remuneration paid to the Directors as indicated below:-

| Name of the Director & Designation | Salary Amount (Rs.) | Perquisites and other benefits (Rs.) | Total (Rs.) |
|---|---------------------|--------------------------------------|-------------|
| Shri B Sriramulu, Managing Director | 18,70,000 | - | 18,70,000 |
| Shri B Srihari, Managing Director | 18,70,000 | - | 18,70,000 |
| Shri A Velusamy, Director | 5,34,000 | 55,536 | 5,89,536 |
| Shri S Muthuswamy Director & Company Secretary | 6,67,500 | 60,552 | 7,28,052 |