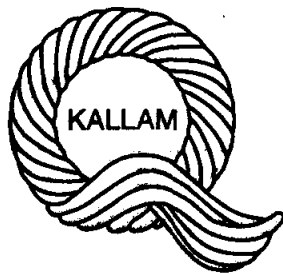


# **ANNUAL REPORT**

## **2001 - 2002**



Report  junction.com

**KALLAM SPINNING MILLS LIMITED**  
NH 5, CHOWDAVARAM  
GUNTUR, A.P. - 522 019

**KALLAM SPINNING MILLS LTD.****BOARD OF DIRECTORS**

T. R. Dhinakaran	Chairman
K. Haranadha Reddy	Managing Director
G.V. Krishna Reddy	Whol Time Director
K. Nagi Reddy	Director
L. Sreerama Murthy	Director
M.R.Naik	Director
M.V.Subba Reddy	Director
N. Prabhakara Rao	Director
V.S.N. Murthy	Nominee Director of IREDA
P. Venkateswara Reddy	Addl. Director

**BANKERS**

Andhra Bank  
Main Branch, Kothapet  
Guntur - 522 001.

**AUDITORS**

M/s. BRAHMAYYA & CO.,  
Chartered Accountants,  
10-3-21, Sambasivapet,  
Guntur - 522 001.

**COST AUDITORS**

M/s. Narasimha Murthy & Co.,  
3-6-365, 104, Pavani Estates  
Y.V. Rao Mansion, Himayat Nagar,  
HYDERABAD - 500 029

**REGISTRARS &  
SHARE TRANSFER AGENTS**

IKON VISIONS PRIVATE LIMITED,  
33, Sanali Heavens, Ameerpet,  
HYDERABAD - 500 073,  
Telephone: 3744138.

**REGISTERED OFFICE & FACTORY**

N.H.5, Chowdavaram.  
Guntur - 522 019.  
Phones: 512001, 512005, 512006.  
Grams: "GOLDENYARN".

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**KALLAM SPINNING MILLS LTD.****NOTICE TO SHARE HOLDERS**

NOTICE is hereby given that the Tenth Annual General Meeting of the Shareholders of **KALLAM SPINNING MILLS LTD** will be held on Saturday, the 28th September, 2002 at 3.00 P.M. at the Registered Office of the Company at N.H.5, Chowdavaram, Guntur - 522 019, Andhra Pradesh, to transact the following business.

**ORDINARY BUSINESS:**

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2002 and Profit and Loss Account for the year ended 31st March, 2002 and the report of Directors and Auditors thereon.
2. To elect a Director in place of Sri N. Prabhakara Rao who retires by rotation and being eligible, offers himself for re-election.
3. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting and to fix their remuneration.

**SPECIAL BUSINESS:**

4. To consider, and if thought fit, to pass with or without modification (s), the following resolution as an **Ordinary Resolution**:  
 "RESOLVED that Mr. T.R. Dhinakaran, who retires by rotation at the ensuing annual general meeting and expressed his unwillingness for reappointment, be and is hereby not considered for reappointment as a director of the company".
5. To consider, and if thought fit, to pass with or without modification(s), the following resolution as an **Special Resolution**:  
 "RESOLVED that Mr. P. Venkateswara Reddy who was appointed as an Additional director of the Company by the Board of directors and who holds office up to the date of this Annual General Meeting of the Company under Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the Company, not retiring by rotation and that the period of office of the Director shall be for a period of five years".
6. To consider, and if thought fit, to pass with or without modification(s), the following resolution as an **Special Resolution**:  
 "RESOLVED that in accordance with the provisions of Sections 198, 269 & 309 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded for the appointment of Mr. P. Venkateswara Reddy as a Managing Director of the Company for a period of five years with effect from 28th September, 2002, on such terms and conditions that are set out in the agreement executed by the said Mr. P. Venkateswara Reddy, a copy whereof initialed by the Chairman for the purpose of identification is placed before this meeting, with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and / or agreement as may be agreed to between the Board of Directors and Mr. P. Venkateswara Reddy.
7. To consider, and if thought fit, to pass with or without modification(s), the following resolution as an **Special Resolution**:  
 "RESOLVED that Mr. G.V. Krishna Reddy, who is a whole time director of the company till the ensuing Annual General Meeting of the Company under Section 260 of the Companies Act, 1956, be and is hereby appointed as a Director of the company, not retiring by rotation and that the period of office of the Director shall be for a period of five years"
8. To consider, and if thought fit, to pass with or without modification(s), the following resolution as an **Special Resolution**:  
 "RESOLVED that in accordance with the provisions of Sections 198, 269 & 309 read with Schedule XIII and all other applicable provisions, if any, of the companies Act, 1956, the consent of the Company be and is hereby accorded for the appointment of Mr. G.V. Krishna Reddy as a Joint Managing director of the

# **KALLAM SPINNING MILLS LTD.**

Company for a period of five years with effect from 28th September, 2002, on such terms and conditions that are set out in the agreement executed by the said Mr. G.V. Krishna Reddy, a copy whereof initialed by the Chairman for the purpose of identification is placed before this meeting, with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and / or agreement as may be agreed to between the Board of Directors and Mr. G.V. Krishna Reddy.

## **NOTES: (Forming part of the Notice)**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself and the proxy need not be a member of the company.
2. An explanatory statement pursuant to Section 173 (2) of the Companies Act, 1956, in respect of special business at item 4,5,6,7 & 8 of the above notice is annexed.
3. In case the members wish to seek any information about the accounts and operations of Company, the members are requested to send their queries in writing at least ten days before the date of the meeting so that the information can be made available at the time of meeting.
4. Members are requested to intimate their change of address and sent their share transfer deeds to the companies share transfer agents, **IKON VISIONS PRIVATE LTD. 33, Sanali Heavens, Ameerpet, HYDERABAD - 500 073, Tel: 3744138.**
5. Holding shares in electronic form : The company entered into agreement with National Securities Depository Limited as an issuer company for dematerialization of Company shares. Request for dematerialization of shares may be sent to through National Depository Services Limited to our Registrars and Transfer Agents M/s IKON VISIONS PRIVATE LIMITED as mentioned supra.
6. The share transfer books of the Company will remain closed from 21st September 2002 to 28th September 2002 (Both days inclusive)

Place: Guntur  
Date: 29th June, 2002

By order of the Board of Directors  
**K. HARANADHA REDDY**  
Managing Director

## **ANNEXURE TO NOTICE:**

### **EXPLANATORY STATEMENT pursuant to Section 173 (2) of the Companies Act, 1956.**

#### **Item No. 4:**

Mr. T.R. Dhinakaran, chairman of the company expressed his unwillingness to continue as a director of the company due to his personal reasons. Due to his unwillingness, it is expressly resolved not to reappoint him as a director of the company.

None of the directors except Mr. T.R. Dhinakaran is concerned or interested in the resolution.

Your directors recommended the resolution for your approval.

#### **Item Nos. 5 & 6:**

Mr. P. Venkateswara Reddy, who is a relative of Mr. K. Haranadha Reddy, Managing Director, was appointed as an Additional Director of your Company in the Board Meeting held on 29th June 2002 pursuant to Section 260 of the Companies Act, 1956 and he holds office up to the date of the ensuing Annual General Meeting. Your Company has received a Notice under Section 257 of the Companies Act, 1956 from a member proposing the appointment of Mr. P. Venkateswara Reddy as a Director of the Company

**KALLAM SPINNING MILLS LTD.**

To Provide for increased executive participation at the Board level, your Directors have, at their meeting held on 29th June, 2002 appointed Mr. P.Venkateswara Reddy as a additional director of your Company with effect from 29th June, 2002

Mr. P. Venkateswara Reddy has wide experience in various fields and the company wants to exploit the experience for the best interest of the company. Accordingly the board considered appointment of Mr. P. Venkateswara Reddy as an additional director of the company considering his abundant valuable experience in cotton procurement for last 20 years. Members approval is sought for the appointment of Mr. P. Venkateswara Reddy, designated as a Managing Director for a period of five years with effect from 28th September, 2002 and for the payment of salary and other perquisites as detailed below.

5. The remuneration and perquisites for the services is as follows.

- a) **Salary** : Rs. 36,000/- p.m. (Thirty Six Thousand only)
- b) **Commission** : Commission is payable @ 1% on profits computed under section 349 of companies Act, 1956, subject to a ceiling of yearly salary payable to him.
- c) **Perquisites** : Reimbursement of medical expenses for self and family, one month's salary in a year or three months salary over a period of three years.
- d) **Car** : The company shall provide a car
- e) **Telephone** : The company shall provide a telephone at the residency of Managing Director
- f) **Accident insurance**
  - premium : The company agrees to bear the premium to the extent of Rs. 4,000/- p.a.
- g) **Club Fees** : Fees of one club in Guntur city. No admission and life membership fees will be paid.

The Managing Director shall not be eligible for any sitting fees for the Company's Board or Committee meetings.

The above details may please be treated as an abstract of terms of appointment of Mr. P. Venkateswara Reddy as a Managing director u/s 302 of the Companies Act, 1956.

None of the Directors, except Mr. P. Venkateswara Reddy is concerned or interested in the resolution.

Your Directors recommend the resolutions for your approval.

**Item No. 7 & 8:**

Mr. G. V. Krishna Reddy, who is a relative of Mr. K. Haranadha Reddy, Managing Director, is continuing in the Board as a Whole Time Director whose term of office shall expire on 28th September 2002. Considering his valuable experience is inevitable for betterment of the company, the directors entered into agreement for appointment of director designated as a Joint Managing Director for a period of 5 years with salary and other perquisites set out below. Your Company has received a notice u/s 257 of the companies Act, 1956 from a member proposing the appointment of Mr. G. V. Krishna Reddy as a Director of the Company.

- a) **Salary** : Rs. 36,000/- p.m (Thirty six Thousand only)
- b) **Commission** : Commission is payable @ 1% on profits computed under section 349 of companies Act, 1956 subject to a ceiling of yearly salary payable to him.
- c) **Perquisites** :
  - i) Unfurnished accommodation facility at Guntur city.
  - ii) Reimbursement of medical expenses for self and family, one month's salary in a year or three months salary over a period of three years.
  - iii) Children's educational and Hostel allowance subject to the ceiling of maximum of two children.
- d) **Car** : The company shall provide a car

**KALLAM SPINNING MILLS LTD.**

**E)Telephone** : The Company shall provide a telephone at the residency of Joint Managing Director and further agrees to provide one mobile phone.

**f) Accident insurance premium** : The company agrees to bear the premium to the extent of Rs. 4,000/- p.a.

**g) Club Fees** : Fees of one club in Guntur city. No admission and life membership fees will be paid.

The Joint Managing director shall not be eligible for any sitting fees for the Company's Board or committee meetings.

The above details may please be treated as an abstract of terms of appointment of Mr. G.V. Krishna Reddy as a Joint Managing Director u/s 302 of the Companies Act, 1956.

None of the directors, except Mr. G.V. Krishna Reddy is concerned or interested in the resolution.

Your directors recommend the resolutions for your approval.

Place : Guntur  
Date : 29th June, 2002

By order of the Board of Directors  
**K. HARANADHA REDDY**  
Managing Director

**DIRECTORS' REPORT**

Your Directors have pleasure in presenting the Tenth Annual Report together with the audited accounts for the year ended 31st March, 2002.

**1. FINANCIAL RESULTS:**

The financial results for the year ended 31st March, 2002 are summarised below:

PARTICULARS	2001 - 2002 (Rs. in Lacs)	2000-2001 (Rs. in Lacs)
Sales	2438.14	2558.60
Other Income	55.98	61.79
Expenditure	2064.34	2074.58
Profit before Interest, Depreciation & Tax	429.78	545.81
Depreciation	121.36	108.10
Interest	240.00	248.66
Profit before tax	68.42	189.05
Provision for Income Tax		
i) current Year Tax	5.23	15.00
ii) Deferred Tax	24.43	---
Profit after tax	38.76	174.05

**2. REVIEW OF OPERATIONS:**

The turnover of your company is marginally lowered due change in production from medium count to finer count. The lower profit is due to high cotton prices and lower yarn prices.

The major breakthrough is commissioning of both power projects on 29th January, 2002. The Company produced power 24.49 lacs KWH during the financial year. Your company entered into agreement with APTRANSCO to wheel the power generated from the projects. The APTRANSCO agrees evacuate 30% of power produced from power plants. The balance is meant for captive use of our spinning operations. The company was allowed the banking facility by which the company could keep the surplus energy with APTRANSCO and it can be drawn for consumption when the company needs.

**KALLAM SPINNING MILLS LTD.****3. FUTURE OUTLOOK:**

The yarn market is showing signs of recovery in both domestic and international market and your company is expected to perform the good results for this current year.

The company expecting major savings in power costs thereby improving the bottom line of the company. The company expected to generate power for full season of this year. Andhra Pradesh Electricity Regulatory Commission (APERC) had increased steeply the wheeling charges, both in cash and kind, which may have adverse affect on the operations of power division. However, your company obtained stay order from Honourable High Court of Andhra Pradesh directing APERC to main status quo of earlier order till further orders came.

To keep pace with technological advancements, your company decided to undertake modernization cum equipping balance equipment. Under this programme, your company wants to replace three ring frames and one auto cone winder and one comber under balancing equipment scheme with an outlay of Rs. 230 lacs. Your company wants to utilize TUF scheme wherein your company could get interest subsidy of 5%.

**4. EXPORTS:**

The export markets were not encouraging during the financial year. The deemed exports are more encouraging and we could retain the 4% sales tax by way of setoff facility. Hence more business was done by way of deemed exports to 100% EOU's. Your company is concentrating to make exports this year as exporting markets are seems to be recovering.

**5. DIRECTORS:**

In accordance with the Articles of Association of your Company Mr. N. Prabhakara Rao will retire by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

In accordance with the Articles of Association of your company, Mr. T. R. Dhinakaran will retire by rotation at the ensuing annual general meeting and expressed his unwillingness for re-appointment in the next annual general meeting.

Mr. V.S.N. Murthy was appointed as a nominee director on behalf of Indian Renewable Energy Development Agency Limited, New Delhi., with effect from 27th October, 2001. He is not retiring by rotation as per Articles of Association.

Mr. P. Venkateswara Reddy was appointed as an additional director of your company, with effect from 29th June, 2002 and he shall hold office up to the date of ensuing Annual General Meeting. Your company has received notice from member pursuant to section 257 of companies Act, 1956 signifying his intention to propose the candidature of Mr. P. Venkateswara Reddy for the office of director.

**6. ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE:**

Additional information on conservation of energy, technology absorption, foreign exchange earnings and outgo as required to be disclosed in terms of u/s 217 (10) (e) of the Companies Act, 1956 read together with the companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 is annexed herewith and forms part of this report.

**7. PARTICULARS OF EMPLOYEES:**

There were no employees coming under the purview of Section 217 (2A) of the Companies Act, 1956.

**8. FIXED DEPOSITS:**

Your company has not accepted any deposits from the public during the year under report.

**9. AUDITORS:**

M/s. Brahmayya & Co., Chartered Accountants, Guntur, the Company's auditors retire at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment.



**KALLAM SPINNING MILLS LTD.****10. AUDITORS QUALIFICATIONS:**

a) Attention of members is invited that statutory auditors expressed their opinion (refer point No. 15 of annexure for paragraph 3 of auditor's report) that the company does not have regular internal control system. The board is of the opinion that the operation's of the company is being run by professionals whose activities are internally checked by their higher officials in the management hierarchy and it didn't have any materiality affecting the operations of the company.

b) Also invited members attention that the statutory auditors expressed their reservation (refer point No.6 annexed to paragraph 3, paragraph 4 of clause (d) and (e) } on valuation of power held with APTRANSCO that the company didn't adopted the Accounting Standard - 2 on "Valuation of Inventories" issued by ICAI. As per the guidelines of accounting standard the company has to value power at cost or net realizable value which ever is lower, but instead the company adopted market price. The board is of the opinion that the power project is meant for fully captive use of spinning operations and your company wants to run this power division independently of spinning division treating it as an independent profitable center. Had not been utilized the power captively, the company had to source from external markets i.e. APTRANSCO at prevailing market rate of Rs. 4.00 KWH. Even conservatively the company adopted at market price of Rs. 3.70 per KWH.

**11. CORPORATE GOVERNANCE:**

Securities and Exchange Board of India (SEBI) has recently announced a code of Corporate Governance to be practiced by Corporates. Some of these provisions have been made mandatory through the listing agreement with the Stock Exchanges. Your company is required to comply with the mandatory provisions within the Financial Year 2002-2003, but not later March 31st, 2003. Your Board has initiated necessary action to ensure necessary Compliance by the end of the current financial year. Necessary compliances are enclosed to this report.

**12. Secretarial Compliance Certificate:**

The compliance certificate by practicing Company secretary under section 383A (1) has been enclosed herewith to this report.

**13. DIRECTORS RESPONSIBILITY STATEMENT:** The Board of hereby state that

- (a) In the preparation of the annual accounts, the applicable Accounting standards had been followed, except Accountant Standard - 2 in respect of valuation of stock of power held with APTRANSCO, along with proper explanation relating to material departures.
- (b) We have selected such accounting policies and applied them consistently and 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 as at 31st March 2002 and of the profit the company for the year ended on that date.
- (c) We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- (d) We have prepared the Annual accounts on a 'going concern' basis.

**14. ACKNOWLEDGEMENTS:**

Your Directors would like to express their grateful appreciation for the assistance and co-operation received from ICICI Bank LTD., Andhra Bank, IREDA and various other Departments of both State and Central Governments. Your directors wish to place on record their appreciation of the devoted and dedicated services rendered by all employees of the company for effective implementation of power projects.

Place: Guntur  
Date: 29th June, 2002

For and on behalf of the Board of Directors  
**K. HARANADHA REDDY**  
Managing Director



**KALLAM SPINNING MILLS LTD.****ANNEXURE - I TO DIRECTORS REPORT:**

Disclosure of particulars with respect to conservation of energy, Technology absorption and foreign exchange earnings and outgo as required under the companies (Disclosure of particulars in the Board of Director's Report) Rules, 1988.

**A. CONSERVATION OF ENERGY:**

Conservation of energy continues to be accorded high priority. Ongoing processes are continuously reviewed by our R & D team.

Form A: (Form for disclosure of particulars with respect to conservation of energy)

**A) POWER AND FUEL CONSUMPTION**

S.NO.	PARTICULARS	Current Year	Previous Year
<b>1. ELECTRICITY</b>			
a)	Purchased Units (KWH)	71,87,244	49,37,918
	Total amount in Rs.	2,87,31,494	2,00,56,365
	Rate per unit in Rs.	4.00	4.06
b)	Own Generation		
i)	Through Diesel Generator		
	Units Generated (KWH)	5,79,932	32,72,745
	Total Amount in Rs.	47,53,384	1,26,63,393
	Cost per unit Rs.	8.20	3.87
ii)	Through Hydel Generation	---	---
	Units Generated - KWH	24,48,900	---
	Units Consumed - KWH	6,34,461	---
	Total Cost Rs.	2,79,163	---
	Cost per KWH Rs.	0.44	---
<b>2) COAL</b>		---	---
<b>3) FURNACE OIL</b>		---	---
<b>4) OTHER INTERNAL GENERATION</b>		---	---
<b>B) CONSUMPTION PER UNIT OF PRODUCTION (No. of Units/Kg.)</b>			
1.	Electricity	5.41	3.83
2.	Coal	---	---
3.	Furnace Oil	---	---
4.	Hydel	---	---

**B. TECHNOLOGY ABSORPTION:**

Continuous efforts are being made towards technology absorption. Quality being the thrust area, the company has taken effective steps to continue to improve quality to compete with international quality standards.

**C. FOREIGN EXCHANGE EARNINGS AND OUTGO:**

There are no foreign exchange earning during the year under review. The foreign exchange utilised during the year amounted to Rs. 100.75 lacs towards purchase of plant and machinery and traveling expenses.

**KALLAM SPINNING MILLS LTD.****ANNEXURE - II TO DIRECTORS REPORT:****AUDIT COMMITTEE****1. Terms of Reference and Composition, Chairman and the Name of Members**

The audit committee comprises of Mr. N. Prabhakara Rao, chairman of the Committee, Mr. M.R. Naik and Mr. K. Nagi Reddy all being Independent Directors. The Chairman & Managing Director, the Whole Time Director along with the Statutory Auditors and the finance Manager are invitees to the meeting. The terms of reference of this Committee are wide enough covering matters specified for Audit Committees under the Listing Agreements.

**Meetings and attendance during the year:**

There are five meetings of the Audit Committee during the financial year 2001-02 and the attendance of each member of the Committee is given below:

Name of the Director	No. of Meetings held during the period of their tenure	No. of Meetings Attended
Mr. M.R. Naik	5	5
Mr. N. Prabhakara Rao	5	5
Mr. K. Nagi Reddy	5	5

**2. Dematerialization of Securities:**

The shares of the company are under compulsory Demat list of SEBI and the company has joined as member of the depository service provider with National Securities Depository Ltd (NSDL) as an issuer company for dematerialization of shares. Shareholders can get their shares dematerializes with NSDL. The NSDL has allotted the following ISIN number to the company.

**ISIN - INE629F01017**

The company has also applied for agreement with Central Depository Services (India) Ltd (CSDL) for Demat of the company shares as a securities issuer. The formalities for completion of this agreement are in advanced stage.

**ANNEXURE - III TO DIRECTOR REPORT:****COMPLIANCE CERTIFICATE**

Registration No. of the Company	:	01-13860 / 1991 - 92
Nominal Capital	:	Rs. 10,00,00,000

The Members,

**Kallam Spinning Mills Limited,**  
NH-5, Chowdavaram,  
GUNTUR - 522 019.

I have examined the registers, records, books and papers of KALLAM SPINNING MILLS LIMITED (the Company) as required to be maintained under the Companies Act, 1956 (the Act) and the rules made there under and also the provisions contained in the Memorandum and Articles of Association of the company for the financial year ended on 31st March 2002 (financial Year). In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I certify that in respect of the aforesaid financial year.