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KALLAM

ANNUAL REPORT
2008 - 2009



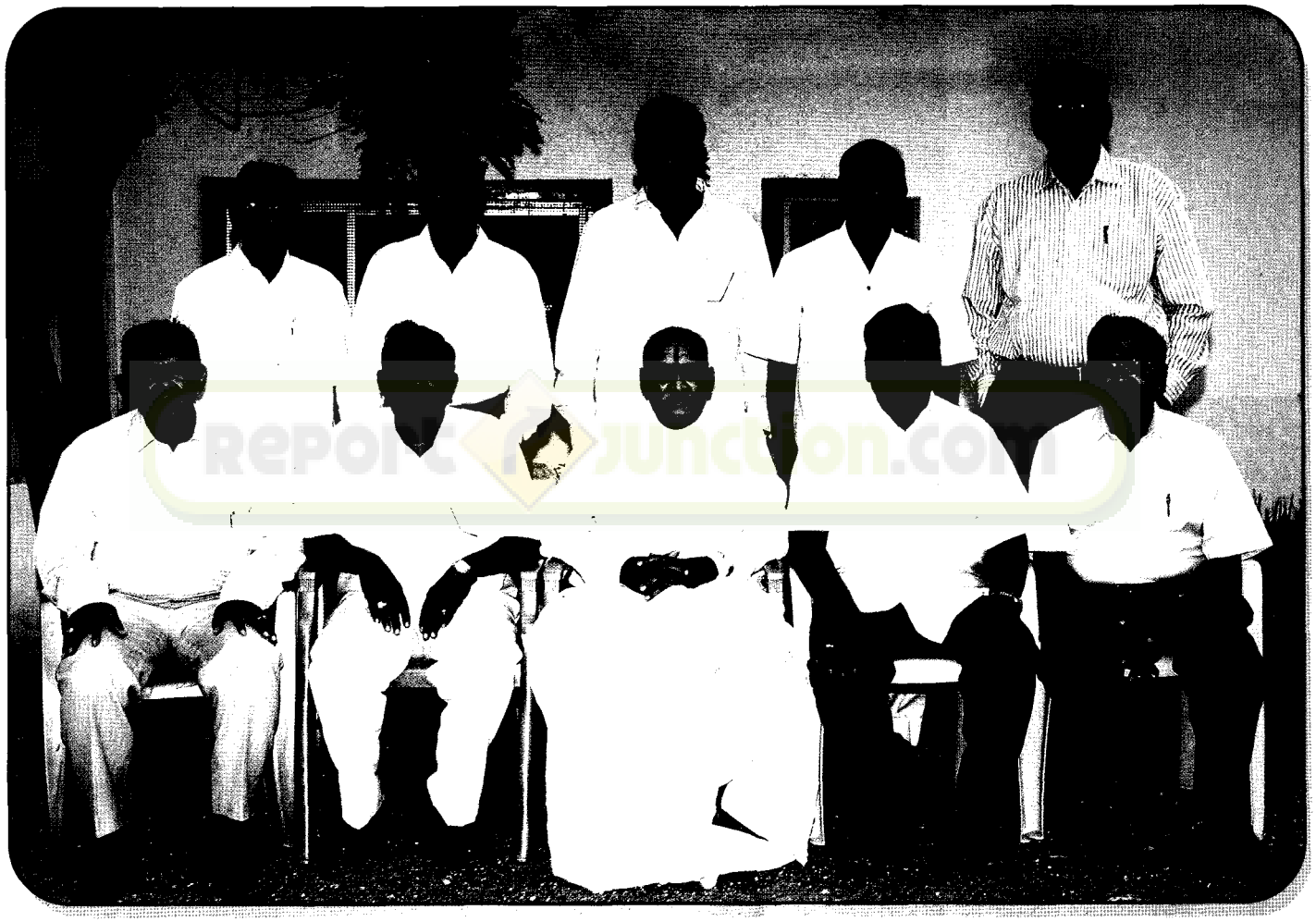
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KALLAM SPINNING MILLS LIMITED

NH5, CHOWDAVARAM, GUNTUR - 522 019, A.P., INDIA.

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BOARD OF DIRECTORS



Back row :	Sri S. Pulla Rao *Independent Director*	Sri G.V. Krishna Reddy *Joint Managing Director*	Sri M.V. Subba Reddy *Whole Time Director*	Sri A.Krishna Murthy *Independent Director*	Sri A.Rajendra Prasad *Independent Director*
Front row :	Sri M. R. Naik *Independent Director*	Sri P. Venkateswara Reddy *Managing Director*	Sri K. Haranadha Reddy *Chairman*	Sri N. Prabhakara Rao *Independent Director*	Sri V.S.N. Murthy *Nominee Director of IREDA*

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COMPANY INFORMATION

BOARD OF DIRECTORS

Sri K. Haranadha Reddy, Chairman
Sri P. Venkateswara Reddy, Managing Director
Sri G.V. Krishna Reddy, Joint Managing Director
Sri M. V. Subba Reddy, Whole Time Director
Sri M. R. Naik, Director
Sri N. Prabhakara Rao, Director
Sri V. S. N. Murthy, Nominee Director of IREDA
Sri A. Krishna Murthy, Director
Sri S. Pulla Rao, Director
Sri A. Rajendra Prasad, Director.

LISTED WITH

Bombay Stock Exchange Limited
The Hyderabad Stock Exchange Ltd.

BANKERS

Andhra Bank, Main Branch
Kothapet, Guntur -522001.

Indian Bank, Main Branch,
Naaz Centre, Guntur-522001.

Axix Bank, Guntur Branch,
Naaz Centre, Guntur - 522 001.

AUDITORS

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

COST AUDITORS

P.Srinivas, Cost Accountant,
97/2rt, Vijaya Nagar Colony,
Besides Masab Tank, Hyderabad - 500 057.

REGISTERED OFFICE & FACTORY

N.H.5, Chowdavaram, Guntur - 522 019
Phones: 2512004, 2512005, 2512006
Fax: 0863 - 2512001,
E –mail: kallamsp@sancharnet.in

REGISTRARS & SHARE TRANSFER AGENTS

Bigshare services pvt Ltd
G –10, Left wing, Amrutha Ville,
Opp .Yasodha Hospital,
Raj Bhavan Road, Somajiguda,
Hyderabad –500082.
Ph No, 040-23374967
Fax No 040-23370295

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NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the Seventeenth Annual General Meeting of the Members of **KALLAM SPINNING MILLS LIMITED** will be held on Saturday the 19th day of September, 2009 at 3.00 P.M. at the Registered Office of the Company at NH-5, Chowdavaram, Guntur 522 019 to transact the following business.

Ordinary Business

1. To receive, consider and adopt the Profit and Loss Account for the financial year ended March, 31st 2009 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors.
2. To declare dividend on equity shares
3. To appoint a Director in place of Sri K. Haranadha Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri A. Krishna Murthy, who retires by rotation and being eligible, offers himself for re-appointment.
5. To re-appoint M/s. Brahmayya & Co., a firm of Chartered Accountants, as Statutory Auditors of the Company, for the period commencing from conclusion of this meeting till the conclusion of the next Annual General Meeting on such remuneration as may be fixed by the Board of Directors.

By order of the Board of Directors

Place: Chowdavaram
Date: 27.06.2009

P. Venkateswara Reddy
Managing Director

NOTES:

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 / herself and such proxy need not be Member. The proxy form is enclosed which should be deposited at the Registered Office of the Company duly completed and signed, not later than 48 hours before the commencement of the Meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 14th September 2009 to 19th September 2009 (both days inclusive).
3. The accounts, the reports and all other documents required under the law to be annexed thereto will be available for inspection during working hours at the Registered Office of the Company on any working day prior to the date of the Annual General Meeting.
4. Dividend recommended by Directors, if approved by the Members at the Annual General Meeting, will be paid on or after 24th September 2009 to those members whose names appear on the Register of Members as on 19th September 2009. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as at the close of 12th September 2009 as per the details furnished by National Securities Depository Limited/Central Depository Service (India) Limited for the purpose as on that date.
5. Members desiring to seek any information on the Annual Accounts to be explained at the meeting are requested to send their queries in writing to the Company at the Registered Office so as to reach at least 7 days before the date of the meeting to make the required information.
6. Members holding shares in physical form are requested to notify/send the following to the Company's Registrar and Transfer Agent at: ***Bigshare Services Private Limited, G-10, Left-Wing, Amrutha Ville, Opp: Yashoda Hospital, Rajbhavan Road, Somajiguda, Hyderabad – 500 082*** at the earliest not later than 12th September 2009.
   - any change in their address/mandate/Bank details; and
   - Particular of their Bank Account, in case the same has not been sent earlier.
7. Members holding shares in the electronic form are advised to inform change in address/bank mandate directly to their respective Depository Participants. The address/bank mandate as fur-

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nished to the Company by the receptive Depositories viz. NSDL and CDSL will be printed on the dividend warrant.

EXPLANATORY STATEMENT U/S 173(2) OF THE COMPANIES ACT 1956 & INFORMATION UNDER CLAUSE 49 OF THE LISTING AGREEMENT REGARDING RE-APPOINTMENT OF DIRECTORS

(Pursuant to Clause 49VI (A) of the Listing Agreement with the Stock Exchanges)

Item No.3 :

Mr. K.Haranadha Reddy, aged about 73, is an industrialist and holds a Masters Degree in Arts and graduate in Law. Mr. K.Haranadha Reddy is a founder and promoter of the company. He has about 42 years of rich experience in cotton and spinning business. He has associated with the company since its inception.

Sri.K.Haranadha Reddy is a director on the Board of M/s Kallam Housing and Real Estates (P) Ltd. He is not a member of any committee within the meaning of clause 49 of the listing agreement with the stock exchanges.

Item No. 4 :

Mr. A. Krishna Murthy aged about 68 years, is a post graduate in law .He was selected as Asst.Labour Officer through Group II-A, conducted by Andhra Pradesh Public Service Commission in 1966. He has retired as Dy.Commissioner of Labour, in Labour, Employment & Training in 1999,after rendering 33 years of service in various capacities. He is practicing as Labour Law consultant and Advocate at Guntur for last 8 years. He has rich experience in the fields of Labour Law, Industrial Law Human Resources and personal Administration.

By order of the Board of Directors

Place: Chowdavaram — **P. Venkateswara Reddy**

Date: 27.06.2009 — Managing Director

DIRECTOR'S REPORT

TO THE MEMBERS OF THE KALLAM SPINNING MILLS LIMITED,

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

I. FINANCIAL RESULTS:

The financial results for the year ended 31st March 2009 are summarized below:

S.No.	Particulars	2008-2009 (Rs. in lacs)	2007-2008 (Rs. in lacs)
01	Sales	6723.58	6036.98
02	Other income	113.04	135.78
03	Increase in stock	-0.08	60.38
04	Expenditure	5445.02	4877.30
05	Prodit before Interest, Depreciation & Tax	1391.68	1355.83
06	Depreciation	400.63	365.08
07	Interest	538.11	477.34
08	Profit before tax	452.95	513.41
09	Provision for income tax		
	i) Current Year Tax	56.00	62.00
	ii) Fringe Benefit Tax	1.05	1.10
	iii) Deferred Tax	109.93	139.31
10	Profit after tax	285.97	311.00
11	Earning per share	5.05	5.39

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Transfers & appropriations from the profit are as detailed below :

12	Net Profit after tax	285.97	369.64
13	Excess / Short provision made for Income tax in earlier years	0.37	0.64
14	Tax credited under MAT	56.00	58.00
15	Balance brought forward from previous year	1183.95	920.49
16	Profit for appropriations	1529.62	1290.13

APPROPRIATIONS

17	Transfer to General Reserve	0.00	10.00
18	Proposed Equity Dividend	61.66	82.21
19	Tax on Proposed Equity Dividend	10.48	13.97
20	Balance carried forward	1457.47	1183.95

The Sales of the company for the period under review increase to Rs.6723.58 Lakhs as compared to Rs.6036.98 registering a growth of Rs 11 percent on annulizes basis .The profit before interest and taxes of the company has grown by 0.03 percent on annulized basis from Rs 991.06 lakhs in previous year to Rs. 990.76 lakhs in the period under review.

II. DIVIDEND:

In view of the company's profitable performance, your Directors are pleased to recommend for approval of shareholders a Final Dividend of 9%(Rs 0.90 paisa per share) on 68, 51,100 Equity shares of the company in respect of the financial year 2008-2009. The final Dividend if declared as above, would involve an outflow of Rs. 61.66 Lakhs towards Dividend and Rs. 10.48 lakhs towards Dividend Tax resulting outflow of Rs. 72.14 Lakhs.

The paid up capital of your company remained unchanged at Rs. 685.11 lakhs. Earning per share was Rs. 5.05 and cash per earning share was Rs. 10.89.

III. EXPANSION & MODERNISATION:

Your company continue to expand and modernize the facility as on going process .The Company has added 5760 spindles during the financial year under review there by bring the total spindles to 50256. The company is in process of commencing O.E.Plant with 1248 rotors. All machineries are state of art technology . The company imported the O.E.machinery from Oerlikon.The addition of rotors will increase the turnover of the company. Your company also in the process of installing modern Automatic ginning plant. The ginning plant will have 24 gins with automatic kappas section and Pneumatic cotton lint suction system and automatic baling press. The ginning plant is expected to commence commercial operations by Nov - 2009.

The company is installing dedicated feeder 33 K V line from 132/33 K V vengalayapalem sub-station. This facility will bring down the power interruptions.

IV.FINANCE:

Your company is planning to set up 3rd Hydro electrical project at Nelakondapalli village, Kammam district at a cost of Rs11.16/-crores.Your Company is in the process of financial closure.

V.FIXED DEPOSITS:

Your company has not accepted any public deposits from the public, except some of the unsecured loans brought by promoters directors and their relatives and as such no amount on account of principal or interest on public deposits was outstanding on the date of the Balance Sheet.

VI.FUTURE OUTLOOK:

The company is projecting to Rs 100 cores turnover during the current financial year. Even though the textiles scenario is tuff your Company with cost control and effective utilization of machinery will be able to keep better performance of the company.

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VIII.DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company Sri.K.Haranadha Reddy and Mr. A. Krishna Murthy will retire by rotation at the ensuing Annual General Meeting and being eligible offers themselves for re-appointment. None of the Directors of the Company are disqualified for being appointed as Directors as specified in Section 274 of the Companies Act, 1956.

IX ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE:

Additional information on conservation of energy, technology absorption, foreign exchange earnings and outgoings as required to be disclosed in terms of Section 217(1) (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.

X. PARTICULARS OF EMPLOYEES:

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

XI. AUDITORS:

The Statutory Auditors M/s. Brahmayya & Co., Chartered Accountants, Guntur, retire at the ensuring Annual General Meeting and have confirmed their eligibility and willingness to accept office, if reappointment. Your Directors propose the reappointment of M/s Brahmayya &Co., as Statutory Auditors to hold office until the conclusion of the next Annual General Meeting of the Company.

XII. COST AUDITORS:

Pursuant to the provisions of the Section 233B of the Companies Act, 1956, the Board of Directors of your Company have re-appointed, subject to the approval of the Central Government Mr.P.Srinivas *Cost Accountant, to carry out an audit of Cost accounts of the Company in respect of textiles for* accounting year ending 31ST March 2009.

XIII. CORPORATE GOVERNANCE:

Your Directors are pleased to inform that your Company has implemented all the stipulations prescribed under clause 49 of listing agreement with the stock exchange(s). A Certificate from the Statutory Auditors of the Company in line with Clause 49 is annexed to and forms part of the Directors Report.

XIII REGISTRAR'S AND SHARE TRANSFER AGENTS:

Your Registrar and Share Transfer Agents of the Company M/s Big share Services Private Limited, G-10, Left-wing Amrutha Ville, Opp, Yashoda Hospital, Raja Bhavan Road Somagiguda Hyderabad 500082.

XIV. CASH FLOW ANALYSIS:

In conformity with the provisions of Clause 32 of the Listing agreement the Cash Flow Statement for the year ended 31.03.2009 is annexed hereto.

XV. DIRECTORS RESPONSIBILITY STATEMENT:

Pursuant to Section 217(2AA) of the Companies Act, 1956 your Directors state that:

(a) in the preparation of the annual accounts, the applicable Accounting standards have been followed, in the opinion of the Board of Directors, along with proper explanations for material departures if any;

(b) the directors have 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 the profit or loss of the Company for that period.

(c) the directors 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) The directors have prepared the annual accounts on a 'going concern' basis.

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XVII. ACKNOWLEDGEMENTS:

Your Directors would like to express their grateful appreciation for the assistance and co-operation received from 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 from time to time. Shareholders appreciation of the managements efforts at the General Meeting of the Company and otherwise is also a great fillip to strive for better performance year after year.

PLACE: GUNTUR

DATE: 27th June 2009.

For and on behalf of the Board of Directors

P. Venkateswara Reddy

Managing Director

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. Our R&D team continuously reviews ongoing processes.

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
1.	Electricity		
	a) Purchased units (KWH)	2,17,34,324	1,26,90,495
	Total amount in Rs.	7,37,62,936	4,22,37,075
	Rate per unit Rs.	3.39	3.33
	b) Own Generation		
	i) Through Diesel Generator Units Generated (KWH)	13,500	5,776
	Total amount Rs.	1, 73,610	74,262
	Cost per unit Rs.	12.86	12.86
	ii) Through Steam Generation	--	--
	iii) Through Hydel Generation		
	Units generated – KWH	1,13,68,300	1,01, 98,800
	Units consumed – KWH	77,98,655	75,40,111
	Total Cost Rs.	28,85,50,24	2,78,98,412
	Cost per KWH Rs.	3.70	3.70
2.	Coal	--	--
3.	Furnace Oil	--	--
4.	Other Internal Generation		
b)	CONSUMPTION PER UNIT OF PRODUCTION (NO. OF UNITS/KG.)		
1.	Electricity	5.16	5.15
2.	Coal	--	--
3.	Furnace Oil	--	--
4.	Hydel	--	--

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B. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

1. Efforts, in brief made towards technology absorption, adaptation and innovation : Continuous efforts are being made towards technology absorption, adaptation and innovation. Quality being the thrust area, the company has taken effective steps to continue to improve quality to compete with international quality standards.
2. Benefits derived as a result of the above efforts:
   Improved capability and productivity to meet the customer requirements.
3. Imported Technology:
   — Nil ——

C. FOREIGN EXCHANGE EARNINGS AND OUTGOINGS:

Foreign exchange earnings during the year under review amounted to Rs.1770.48 lakhs. The foreign exchange utilized during the year amounted to Rs 27.53 lakhs

MANAGEMENT DISCUSSION AND ANALYSIS:

1. INDUSTRY STRUCTURE & DEVELOPMENT:

The core business of the company is manufacture and sale of cotton yarn. The management discusion and analysis given below discusses the key issues of the cotton yarn spinning sector.

(a) Industry structure

Textile industry continues to be a key segment in the Indian Industrial scenario and is poised to post a major growth in the post quota regime under the WTO agreement. The industry has weathered the legacies of the past and is coping up with the situation. The Industry is also in the process of modernization and technological upgradation to remain competitive in the World market. To this end, it presents a major profitable business opportunity for yarn manufacturers who are able to tune their manufacturing systems to deliver World class products.

(b) Industry performance

The modernisation of textile industry continued during the year 2008-09 thanks to the Technology Upgradation Fund (TUF) Scheme evolved by Government of India which facilitates modernisation programme in textile industry aimed at higher productivity, quality improvement and waste reduction. This was also supplemented by cost reduction efforts through continuous improvement in processes and research and development efforts. These efforts promise to create additional employment and in Tamil Nadu alone the workforce is expected to double during the next decade.

(c) Company's performance

The net sales of the Company for the year under review increased to Rs 6723.58 lakhs as compared to Rs. 6036.98 lakhs in the previous financial year, registering a growth of 11.38 percent. The profit before tax of the company has decline by 11.78 percent on annulized basis from Rs 513.42 lakhs in previous year to Rs. 452.95 lakhs in the current financial year.

The net profit for the year under report was affected and registered a drop to Rs. 345.67 lakhs from Rs.369.64 lakhs. In view of the rupee appreciation and unprecedented increase in raw material cost, your company found it difficult to market its yarn in both international and domestic markets. Further the merchandise export market did not promise anticipated price realisation for the finer counts and hence your company was thus forced to concentrate more on domestic market, which helped your company to avoid further lowering of profits during the year under review.

Your company's Hydel power project generated power of the value of Rs.331.18 lakhs as against Rs. 367.01 lakhs in the previous year resulting a marginal fall of 10%.

(d) Strategies and Future plans

Keeping in view the trends in India and the world in the textile field, the Company is expanding its operations by increasing the spindleage capacity to the maximum level and construction of new Open Ended Unit which will utilize the cotton waste to another high marketable product. During the year your company has increase spindleage capacity from 44712 spindles to 50256 spindles by adding 5544

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