

**KALLAM SPINNING MILLS LTD.**

**KALLAM SPINNING MILLS LTD.**

<b>CONTENTS</b>	<b>Page No.</b>
COMPANY INFORMATION	2
NOTICE TO SHAREHOLDERS	4
DIRECTOR'S REPORT	6
MANAGEMENT DISCUSSION & ANALYSIS	10
CORPORATE GOVERNANCE REPORT	13
CERTIFICATION BY CHIEF EXECUTIVE OFFICER	20
AUDITOR'S CERTIFICATE ON CORPORATE GOVERNANCE	21
AUDITORS REPORT	22
BALANCE SHEET	25
PROFIT & LOSS ACCOUNT	26
SCHEDULES TO BALANCE SHEET	27
SCHEDULES TO PROFIT & LOSS ACCOUNT	30
NOTES FORMING PART OF THE ACCOUNTS	32
STATEMENT ON ACCOUNTING POLICIES	39
CASH FLOW STATEMENT	41
GENERAL BUSINESS PROFILE	42
ATTENDANCE SLIP AND PROXY FORM	43
FINANCIAL HIGHLIGHTS	44

## **KALLAM SPINNING MILLS LTD.**

### **NOTICE TO SHAREHOLDERS**

NOTICE is hereby given that the Eighteenth Annual General Meeting of the Members of **KALLAM SPINNING MILLS LIMITED** will be held on Saturday, the 18<sup>th</sup> of September, 2010 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, 31<sup>st</sup> 2010 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors there on.
2. To declare dividend on equity shares
3. To appoint a Director in place of Sri M.R. Naik, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Sri N. Prabhakara Rao, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Sri M.V. Subba Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
6. To re-appoint M/s. Brahmayya & Co., (Regd. No. 000153S) 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

**P. Venkateswara Reddy**  
Managing Director

Place: Chowdavaram

Date: 29.05.2010

#### **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 14<sup>th</sup> September to 18<sup>th</sup> September (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 23<sup>rd</sup> September 2010 to those members whose names appear on the Register of Members as on 18<sup>th</sup> September 2010. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as at the close of 13<sup>th</sup> September 2010 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

**KALLAM SPINNING MILLS LTD.**

not later than 13<sup>th</sup> September 2010.

- 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 furnished 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.M.R. Naik is a Non-Executive Independent Director of Kallam Spinning Mills Limited. He is aged about 72 years retired as IAS Officer, he served the community in various capacities in central and state Government Organization and also served as a member in the consumer forums constituted by the state government and rendered valuable Judgments in favour of Consumers on several complaints came before for hearing and order. His knowledge and experience will be of great help to the company complying with various government and other institutional rules procedures and regulations.

Sri. M.R. Naik is not a Director or member on any other company's Board / Committees. He is a Member of Audit Committee and Remuneration Committee Constituted by the Company.

**Item No. 4 :**

N.Prabhakar Rao is the Non-Executive Independent Director of Kallam Spinning Mills Limited. He is aged about 75 years and is an Electrical Engineer. He has retired as superintending Engineer of APSEB having served in various capacities and used to provide his valuable suggestions in areas of Electrical Engineering etc in times of need. He is also Director in Janapadu Hydro Power Projects Private Limited. Considering his vast experience knowledge the board of directors appointed him as a director of the company.

**Item No. 5 :**

M.V.Subba Reddy is the Whole Time Director of Kallam Spinning Mills Limited. He is associated with the company since its inception as purchase in charge (raw material) He is post graduate in commerce having experience in cotton purchase for the last 12 years with the company gained excellent knowledge in procurement of raw material sales of yarn and waste .He is also having experience in Accounts.

Sri M.V. Subba Reddy is not a Director or member on any other company's Board / Committees. He is a Member of Share Transfer Committee and Shareholders Greivance Committee constituted by the Company.

Place: Chowdavaram

Date: 29.05.2010

By order of the Board of Directors

**P. Venkateswara Reddy**

Managing Director

## KALLAM SPINNING MILLS LTD.

### DIRECTOR'S REPORT

#### TO THE MEMBERS OF THE KALLAM SPINNING MILLS LIMITED,

Your directors have pleasure in presenting the Eighteenth Annual Report of the Company together with the Audited Statements of Accounts for the year ended 31<sup>st</sup> March 2010. I. **FINANCIAL RESULTS:**

The financial results for the year ended 31<sup>st</sup> March 2010 are summarized below:

S.No.	Particulars	2009-2010 (Rs. in lacs)	2008-2009 (Rs. in lacs)
01	Sales	8305.56	6723.58
02	Other income	103.10	113.04
03	Increase /(Decrease) in stock	(102.71)	0.08
04	Expenditure	7516.31	6383.75
05	Prodit before Interest, Depreciation & Tax	1877.95	1391.68
06	Depreciation	486.56	400.63
07	Interest	601.75	538.11
08	Profit before tax	789.64	452.95
09	Provision for income tax		
	i) Current Year Tax	-25.66	(3.70)
	ii) Fringe Benefit Tax	---	1.05
	iii) Deferred Tax	208.84	109.93
10	Profit after tax	606.46	345.67
11	Earning per share	8.85	5.05

Transfers & appropriations from the profit are as detailed below :

12	Net Profit after tax	606.46	345.67
13	Balance brought forward from previous year	1457.47	1183.94
14	Profit for appropriations	2063.93	1529.61

#### APPROPRIATIONS

15	Transfer to General Reserve	31.00	0.00
16	Proposed Equity Dividend	95.92	61.66
17	Tax on Proposed Equity Dividend (16.995	15.93	10.48
18	Balance carried forward	1921.08	1457.47

The Sales of the company for the period under review increase to Rs.8305.56 Lakhs as compared to Rs.6723.58 registering a growth of Rs 23.53 percent on annulizes basis .The profit before interest and taxes of the company has grown by 40.39 percent on annulized basis from Rs 1391.39 lakhs in previous year to Rs. 991.06 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 14%(Rs 1.40 paisa per share) on 68, 51,100 Equity shares of the company in respect of the financial year 2009-2010. The final Dividend if declared as above, would involve an outflow of Rs. 95.92 Lakhs towards Dividend and Rs. 15.93 lakhs towards Dividend Tax resulting outflow of Rs. 111.85 Lakhs.

The paid up capital of your company remained unchanged at Rs. 685.11 lakhs. Earning per share was Rs. 8.85 and cash per earning share was Rs. 15.95.

#### III. EXPANSION & MODERNISATION:

Your company continues to expand and modernize the facilities as ongoing process. During the financial year under review the following expansion cum modernization had taken place in various divisions.

##### a) Ring spinning Division

The Ring Spinning Division turnover is 74.18 crores. In the beginning of the year the total installed spindles were 50256. This includes old Textool Ring Frame and G.5/ Ring Frames. On this ring frames the production is low. These were replaced with 5856 spindles of Auto Doffing Ring frame Spindles where in the Auto Doffing is imported from Toyota Japan. Now bringing the total spindles to 52000.

## KALLAM SPINNING MILLS LTD.

Similarly an old Murata Auto Coner was replaced by latest AC5 from Schlafhorst Germany to improve quality and productivity. Looking in to Labour shortage being experienced in recent past we are planning to replace more old spindles with Auto doffing ring frames.

The demand for value added yarns like compact Yarn, Siro yarn in increasing. We are planning to increase the capacity in this financial year.

The spindnlage installed capacity of your mill is as follows.

Financial year	-	No of Spindles
2000-2001	-	18144
2001-2002	-	18144
2002-2003	-	20040
2003-2004	-	21240
2004-2005	-	22608
2005-2006	-	24816
2006-2007	-	41376
2007-2008	-	44712
2008-2009	-	50256
2009-2010	-	52000

**Compact spinning which is a value addition activity of your company had increased as follows :**

2007	:	6624
2008	:	2208
2009	:	6624
2010	:	<u>6624</u>
Total	:	<u>22080</u>

### TFO Capacity :

As a further value addition activity your mill had installed SSM Doufer with volkmann TFOS

2007	-	960 drums
2008	-	702 drums

### **b) Open End Division**

The Turnover of O.E. Division was 8.25 Crores. The O.E. Plant was commissioned in this financial year with 1248 rotors. We have received 832 additional rotors and will be installed during the current financial year. We have purchased OE machine from Schlafhorst BD 416, longest machine available with added features. We are using our own waste produced in ring spinning and converting into yarn. At this moment we are consuming two types of waste produced in ring spinning. We are in process of installing one more waste cleaning line which will enable us to consume all the wastes producing Spinning & O.E. to convert in to salable yarn.

We are augmenting the Blow Room, cards by installing latest blow room equipments such as Blendoment from Trutzschler. The yarn produced is well accepted in the local market as well as export market. We are planning to install additional 416 rotors in the next financial year.

The Company had installed and successfully commissioned 33 K.V dedicated feeder line from 132/33K.V Vengalayapalem sub-station.

### **c) Ginning Division**

In order to improve the quality of raw cotton we have implemented backward integration by installing 24 high production NIPHA Ginning machines. The entire plant is as per the TMC (Government of India) norms. The raw kappas is fed at one end, the material is transported automatically and fully pressed bales are delivered. This avoids contamination. The Seed removed is transported automatically to seed storage silos. The automatic ginning plant reduced the labour requirements significantly.

The capacity of this Ginning is 200 bales per day. This is more than 50% of our requirement for the

## **KALLAM SPINNING MILLS LTD.**

year based on the 200 days cotton season. The 'B' Grade cotton sorted out will be consumed in O.E. division.

### **d) Hydro Electric Division**

The Company has Two Hydro Electric units of 0.8 M.W and 1.6 M.W under operation. The 3<sup>rd</sup> Hydro Electric unit of 1.6 M.W is under execution and will be completed during the financial year 2010-11.

### **IV.FINANCE:**

Your company is planning further expansion and modernization at a cost of Rs. 20 Crores out of which the loan from bank is Rs. 16.50 Crores and the balance will be met through from internal accruals. The expansion and modernization will be done in Ring spinning and O.E. Plants.

### **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 Rs. 120.00 Crores Turnover during the current financial Year. The O.E. Unit is expected to add bottom line to the company.

### **VII.DIRECTORS:**

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company Sri.M.R. Naik, Mr. N. Prabhakara Rao and Mr. M.V. Subba Reddy will retire by rotation at the ensuing Annual General Meeting and being eligible offers themselves for re-appointment. Mr. A. Rajendra Prasad Director has resigned from the Board wef 17-04-2010. None of the Directors of the Company are disqualified for being appointed as Directors as specified in Section 274 of the Companies Act, 1956.

### **VIII 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.

### **IX. PARTICULARS OF EMPLOYEES:**

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

### **X. AUDITORS:**

The Statutory Auditors M/s. Brahmayya & Co, (Regd. No. 000153S) Chartered Accountants, Guntur, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if reappointed. 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.

### **XI. 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 & Co Cost Accountant, to carry out an audit of Cost accounts of the Company in respect of textiles for accounting year ending 31<sup>st</sup> March 2011.

### **XII. 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, Raj 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 31.03.2010 is annexed hereto.



## KALLAM SPINNING MILLS LTD.

### 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.

### XVI. ACKNOWLEDGEMENTS:

Your Directors Wish to express their grateful appreciation for the assistance and co-operation received from Andhra Bank, Indian Bank, Axis 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: 29<sup>th</sup> May 2010.

For and on behalf of the Board of Directors

**P. Venkateswara Reddy**

Managing Director

### ANNEXURE - I TO THE DIRECTORS REPORT:

Information as per Section 217(1) (e) read with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended March 31, 2010.

#### 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)	1,93,88,976	2,17,34,324
	Total amount in Rs.	6,30,47,301	7,37,62,936
	Rate per unit Rs.	3.25	3.39
b)	Own Generation		
i)	Through Diesel Generator		
	Units Generated (KWH)	2,400	13,500
	Total amount Rs.	31,128	1, 73,610
	Cost per unit Rs.	12.97	12.86
ii)	Through Steam Generation	--	--
iii)	Through Hydel Generation		
	Units generated – KWH	76,55,800	1,13,68,300
	Units consumed – KWH	54,25,341	77,98,655
	Total Cost Rs.	2,00,73,762	2,88,55,024
	Cost per KWH Rs.	3.70	3.70
2.	Coal	--	--
3.	Furnace Oil	--	--

## **KALLAM SPINNING MILLS LTD.**

4.	Other Internal Generation		
b)	CONSUMPTION PER UNIT OF PRODUCTION (NO. OF UNITS/KG.)		
1.	Electricity	4.56	5.16
2.	Coal	--	--
3.	Furnace Oil	--	--
4.	Hydel	--	--

### **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.919.77 lakhs. The foreign exchange utilized during the year amounted to Rs 615.192 lakhs.

## **MANAGEMENT DISCUSSION AND ANALYSIS:**

### **1. INDUSTRY STRUCTURE & DEVELOPMENT:**

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

#### **(a) Industry structure**

Textile industry has an overwhelming presence in the economic life of the country. Apart from providing one of the basic necessities of life, the textile industry also plays a pivotal role through its contribution to industrial output, employment generation and the export earnings of the country. It contributes about 14% to the industrial production, 4% to the GDP and 14.42% to the country's export earnings. The textile sector is the second largest provider of employment after agriculture. Hence, growth and all around development of cotton and cotton industry has a vital bearing on the overall development of the Indian economy.

#### **(b) Industry performance**

The Technology Upgradation Fund Scheme (TUFS) was commissioned in the year 1999 with a view to facilitate the modernization and upgradation of the textiles industry by providing credit at reduced rates to the entrepreneurs both in the organized and the unorganized sector. The Scheme, which has now been extended up to 31.03.2012, has been fine-tuned to catapult the rapid investments in the targeted segments of the textile industry. TUFS has helped in the transition from a quantitatively restricted textiles trade to market driven global merchandise. The modified techno-financial parameters of the scheme will infuse capital investment into the textile sector, and help it capitalize on the vibrant and expanding global and domestic markets, through technology upgradation, cost effectiveness, quality production, efficiency and global competitiveness. It is estimated that this will ensure a growth rate of 16 percent in the sector.

#### **(c) Company's performance**

The net sales of the Company for the year under review increased to Rs. 8305.56 lakhs as compared to Rs. 6723.58 lakhs in the previous financial year, registering a growth of 23.53 percent. The profit before interest and tax of the company has increased by 40.39 percent on annualized basis from Rs. 991.06 lakhs in previous year to Rs. 1391.39 lakhs in the current financial year. The net profit for the year under report was affected and registered a growth to Rs. 606.46 lakhs from Rs.345.67 lakhs. Your company's Hydel power project generated power of the value of Rs 263.15 lakhs as against Rs. 331.18 lakhs in the previous year resulting a marginal fall of 20.54 percent.

#### **(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