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## KALLAM SPINNING MILLS LTD.

### NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the Nineteenth Annual General Meeting of the Members of **KALLAM SPINNING MILLS LIMITED** will be held on 27<sup>th</sup> August 2011 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 2011 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 S.Pullarao 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., 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.

#### 7. Special Business

To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution.

"RESOLVED THAT pursuant to the provisions of Sections 198,269,309,310, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, Sri M.V. Subba Reddy, be and is hereby re-appointed as Whole-time Director of the Company, for a period of 3 years with effect from and including 1<sup>st</sup> June 2011 on such remuneration and terms and conditions as may be agreed between the Board of Directors and Mr.M.V.Subba Reddy."

By order of the Board of Directors

**P. Venkateswara Reddy**  
Managing Director

Place: Chowdavaram

Date: 30.05.2011

#### 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 22<sup>nd</sup> August 2011 to 27<sup>th</sup> August 2011 (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 2<sup>nd</sup> September 2011 to those members whose names appear on the Register of Members as on 27<sup>th</sup> August 2011. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as at the close of 22<sup>nd</sup> August 2011 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 22<sup>nd</sup> August 2011.
  - 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

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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 :**

K. Haranadha Reddy is the founder and promoter of the KSML and presently he is acting as Non Executive Chairman of the Board .He is aged about 75years holds a Masters Degree in Arts and graduate in Law. He has about 46years of rich experience in cotton and spinning business. Further he got good experience in the Ginning, pressing, Oil Mills Chilies, Rice Business etc. He was 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.

Shri.K.Haranadha Reddy is also a Phlanthropist.He Started Kallam Academy of Education Society named as "Kallam Haranadha Reddy Institute of Technology" Started Chowdavaram.Every year he gives Education Scholarships to Poor Students.

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

Mr.Swargam Pulla Rao is a Non-Executive Independent Director of Kallam Spinning Mills Limited. He is aged about 66 years. He is a Commerce Graduate from Andhra University .He joined in Indian Revenue Service and retired as Joint Commissioner of Income tax in June 2005 after rendering about 40 years of Service in various capacities in Income Tax Department.

#### **Item No. 5 :**

M.V.Subba Reddy is the Whole Time Director / Director (Finance) 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 13 years with the company gained excellent knowledge in procurement of raw material sales of yarn and waste .He is also having experience in Accounts.

#### **Item No. 6 :**

Mr.M.V.Subba Reddy was appointed as Whole Time Director of the company for a period of 5 years with effect from 01st July 2007 on the terms and conditions as approved by the shareholders at the AGM of the company held on 10<sup>th</sup> Sep 2007.

In order to give flexibility to the Board of Directors to decide upon the tenure, Remuneration, Benefits, perquisites and allowances to be granted to the whole time director from time to time with in overall ceiling prescribed under the act, it is proposed to revise the terms of his tenure, remuneration relating to salary, perquisites and allowances of Mr. M.V.Subba Reddy with effect from 01 June 2011.The Board of Directors at its meeting held on 30<sup>th</sup> May 2011, in pursuant to the recommendations of Remuneration Committee approved the afore said proposal of Re-appointment Mr.M.V.Subba Reddy for a period of 3 years on revised terms and conditions subject to the approval of the members. The revised clause relating to benefits, perquisites and allowances are as set out below.

Remuneration:

- a) Salary : Including Dearness and other allowances Rs 30,000 P.M with a yearly increment of Rs 3000/- Per Annum.
- b) Perquisites :
  - i) House Rent Allowance Rs.5000/- P.M
  - ii) Children Education Allowance Rs.400 P.M per Child subject to Maximum of Two Children's
  - iii) Telephone: The Company shall provide a telephone at residence and mobile Phone
- c) Insurance premium: The Company agrees to bear Health insurance premium for self and family of such amount determined for the sum assured of Rs.5, 00,000 for each self and family members.
- d) The company also agrees to reimburse the additional medical Expenditure up to maximum of Rs.2.00.000 lakhs if any incurred in excess of the insurance claim or claim not payable.
- e) Accidental Insurance Premium: The company agrees to bear the premium to the extent of Rs.4000 P.A
- f) Payment of Gratuity at the end of the tenure shall not exceed 15 days salary for each completed year of service or at the rate as may be notified by the government from time to time.
- g) Reimbursement of Leave Travel concession for self and family once in a year subject to a max of one Month Salary.

Place: Chowdavaram  
Date: 30.05.2011

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 Nineteenth Annual Report of the Company together with the Audited Statements of Accounts for the year ended 31<sup>st</sup> March 2011.

**I. FINANCIAL RESULTS :** The financial results for the year ended 31<sup>st</sup> March 2011 are summarized below:

S.No.	Particulars	2010-2011 (Rs. in lacs)	2009-2010 (Rs. in lacs)
01	Sales	13576.60	8305.56
02	Other income	168.53	103.10
03	Increase /(Decrease) in stock	442.75	(102.71)
04	Expenditure	12172.34	7516.31
05	Prodit before Interest, Depreciation & Tax	3288.98	1877.95
06	Depreciation	566.90	486.56
07	Interest	706.54	601.75
08	Profit before tax	2015.54	789.64
09	Provision for income tax		
	i) Current Year Tax	464.70	-25.66
	ii) Fringe Benefit Tax	---	---
	iii) Deferred Tax	152.86	208.84
10	Profit after tax	1397.98	606.46
11	Earning per share	20.41	8.85

Transfers & appropriations from the profit are as detailed below :

12	Net Profit after tax	1397.98	606.46
13	Balance brought forward from previous year	1921.08	1457.47
14	Profit for appropriations	3319.07	2063.93

**APPROPRIATIONS**

15	Transfer to General Reserve	1050.00	31.00
16	Proposed Equity Dividend	123.32	95.92
17	Tax on Proposed Equity Dividend (16.995	20.01	15.93
18	Balance carried forward	3070.74	1921.08

The Sales of the company for the period under review increase to Rs.13576.60 Lakhs as compared to Rs.8305.56 registering a growth of Rs 63.46 percent on annulizes basis .The profit before interest and taxes of the company has grown by 95.64 percent on annulized basis from Rs 2722.09 lakhs in previous year to Rs. 1391.39 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 18%(Rs 1.80 paisa per share) on 68, 51,100 Equity shares of the company in respect of the financial year 2010-2011. The final Dividend if declared as above, would involve an outflow of Rs. 123.32 Lakhs towards Dividend and Rs. 20.00 lakhs towards Dividend Tax resulting outflow of Rs. 143.32 Lakhs.

The paid up capital of your company remained unchanged at Rs. 685.11 lakhs. Earning per share was Rs. 20.41 and cash per earning share was Rs. 28.64

## KALLAM SPINNING MILLS LTD.

### 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

Kallam Spinning Mills Limited started its production on 22 March 1995 with 12096 spindles. KSML is an ISO 9001-2000 Certified Company by TUV since 2000. The unit is located on Golden Quadrilateral NH-5 connecting Chennai and Calcutta. KSML today operates 52080 spindles of Ring Spinning out of which 27840 spindles are compact. Further we are adding 2160 spindles with auto doffer and by this year end our total spindles will be 54550 ring spinning of which 35472 spindles will be compact of Suessen Elite of Germany make.

The premium quality yarn is exported to number of customers across the world. The company relies on consistent supply of international standard quality yarn. Having clear vision, well placed systems, guided by a team of professionals & steered by an enterprising management, KSML continuous to diversify its products and extend its customers reach.

#### Product Range :

Ring Spinning Yarn	:	Ne.30s to Ne.80s combed warp / compact.
TFO Yarn	:	Ne.30/2 to Ne.80/2 combed warp / compact.
Production per Month	:	Ring Spinning Yarn, 420 tons.

#### Machinery Particulars :

Blow Room Line with Vetal Scanner		Truitchzler
Cards DK 800 / TC-5		Truitchzler
BR, Draw Frame	SB2	Rieter
	D35	Rieter
FR, Draw Frame	D 40	Rieter
	RSB 851	LMW
Uni Lap	E 32	Rieter
Combers	E 66	Rieter
Speed Frames	LF 1400 A	LMW
	LFS 1660	LMW
Ring Frames	LR6s	LMW
	KTTM	Kirloskar Toyoda
Parallel Winding	TW20	SSM
Auto Cone Winding	7V & 21C	Murata
	338 & AC5	Schlafhorst
Open End	BD 380	Oerlicon
TFO	Focus 9 & 10	Volkman
Humidification	Luwa	Luwa
Yarn Conditioning	ELGI	ELGI
USTER	EYC	Uster
Loepfe	EYC	Loepfe

#### Maintenance of Machines :

The company strictly follows all scheduled activities which are routine and preventive as per its documented plans in quality manual. On regular basis internal system audits machine audits are carried out to ensure the effectiveness of the preventive maintenance. The mill follows machines maintenance as per SITRA recommendation and as per its own experience. The maintenance activ-

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ity is given utmost priority. All the spares are replaced as per machine manufacturer's suggestion and are purchased directly from the Machine manufacturers to get right to keep the mill upto date all times quality parts. The mill replaces capital machines on regular basis with the latest technology.

### **Quality Control Measures :**

Raw material inspection will be carried out on Uster HVI Sepctrum and Uster Afis Pro -2 for 2.5% SL, uniformity, MIC, Strength, Short fiber content % and neps / grm. Bale management system is followed for consistent superior yarn quality, and for this, cotton stock required for minimum 5 – 6 months is maintained. Carding and combing process optimized for NRE of 75% 85% and 65% 70% respectively. RIETER D35 /D40 draw frames are maintained for a% less than 0.50. In ring frame breakages are maintained below 5 to 6 breaks per 100 spindle hour. Utmost care is taken in autoconer for achieving 85% splice strength with defect-free packages. Apart from in process inspection system mill has adopted very stringent final inspection procedure before dispatching yarn to its customers.

We maintain regional quality test center, do extensive testing of cotton yarn for mills inand around Guntur. The quality testing dept is a profit center on its own.

### **Testing Instruments:**

<b>Instrument</b>	<b>Testing Conducted</b>
1 Uster Tensojet – 4 ( UTJ-4)	RKM, RKM CV%,Elongation%, Week Values,
2 Uster Afis Pro – 2	Neps, Neps Size, Short Fibre %, UQL (W), 5% L (n), IFC%, Fineness, Maturity Ratio,
3 Uster HVI Spectrum	MIC, 2.5%SL, Uniformity Ratio, SFI Strength, SCI, Rd,+B, C Grade, Trash Count and area
4 Uster Evenness Tester-3(UT-3) Yarn, Sliver and Roving	U%, IPI values, Relative count
5 Electronic Cascade Count And Strength.	Count, Count CV%, Lea Strength, Strength, CV% and CSP
6 Mag Electronic Computerized Twist Tester.	TPI/TPM, CV%
7 Carton Box / Paper Cone	Bursting Strength.
Bursting Strength	
8 Paper Cone Collapsing Strength Tester	Collapsing Strength.
9 Carton Collapsing Strength Tester	Collapsing Strength.
10 Knitting , Knitting Fabric Analysis.	Knitting Fabric Inspection, Contamination Inspection.
11 Dying (Navy Blue)	Shade Variation, PP Contamination.
12 Trash Separator	Trash % checking.
13 Moisture Regain Test (By Oven Method)	Moisture Regain%.

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### **B) OPEN END SPINNING DIVISION :**

KSML established its Open End unit in the year 2009-10 with an initial capacity of 1248 Rotors. Over its span of last one year capacity further increased to 832 rotors, making present capacity to 2080 rotors. Already LC opened for another 832 Rotors in the same unit. The total Rotors capacity of Open End Unit will be increased to 2192 by end of this financial year.

KSML have proved its OE yarn quality in the international market and have continuous demand in the market. Repeated orders are getting continuously. The premium quality yarn is exported to number of customers across the world. The company relies on consistent supply of international standard quality. Having clear vision, well place systems, guided by a team of professionals and steered by an enterprising management. KSML continuous to diversity its products and extend its customer reach.

#### **Product Range :**

OE Yarn	:	Ne10s to Ne20s
TFO Yarn	:	Ne OE 20s/2
Production Capacity	:	15000 kg / day.

#### **Machinery Infrastructure :**

Blow Room Line	Trutzschler
Contamination Clearing	Vital
Cards TC5/3	Trutzschler
Draw Frame RSB D-221	Rieter
Open End Machinery BD 416	Schlafhorst - Orlicon
Humidification line	LUWA, Switzerland
Yarn Conditioning System	ELGI.

Consistent commitment to high quality standards and innovations has been the secret of success. Superior open end unit ensure the supply of consistent quality yarn to manufacture the cloth.

### **C) GINNING DIVISION:**

KSML started its Ginning Division in March 2011 with 24 ginning machines. It has most modernized Automatic bale pressing unit and auto seed booster compressor to seed storage tank. This is one of the best and most modern TMC units in entire Guntur district.

#### **Machinery Infrastructure :**

Roller Ginning	:	Nipha
Auto Seed Boosting & Collection	:	Auditya Quality
Automatic Bale Press	:	Karunanand

The Ginning Division has capacity to press 200 bales / day and 50,000 bales in a year.

### **D)HYDRO ELECTRIC DIVISION**

Our company has three hydro electric plants with 4.0 MW capacity at Nelakondapally Mandalam, Khammam District of Andhra Pradesh. These plants are on 16<sup>th</sup> & 17<sup>th</sup> branch canal of Nagarjuna Sagar project left main canal. Fortunately there had~ been good rain fall in the encatchment areas of Nagarjuna Sagar dam during the last five years. The canal flows for 7 to 8 months in a year. Typically the canal is opened in Aug/Sep and closed by end April.

The first two projects of 0.8 MW and 1.6 MW were commissioned in Jan 2002. We have successfully commissioned the third hydro electric plant of 1.6 MW capacity on 27<sup>th</sup> March 2011. All the generators produce electricity at 6.6 KV voltage level. The generated voltage is enhanced to 33 KV by a power transformer and fed to the state electricity grid. The hydel power generation solely dependent on the canal water flow. The 0.8 MW hydro electric project is financed by IREDA, New Delhi and remaining two Nos. of 1.6 MW hydro electric projects are financed by Andhra Bank. We have good electrical and



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mechanical engineering team at the hydro electric plants headed by a retired superintendent engineer, AP Transco. They ensure the availability of plant by more than 98% when water is flowing in the canal. During the financial year 2010-11 we have generated 91,21,959 Units. With the commissioning of third plant the units generated will increase during the financial year 2011-12 out of the generation 70% of the units are wheeled and consumed in spinning mill and 30% of the units are sold to AP Transco.

### **IV.FINANCE :**

Your company has taken further expansion and modernization at a cost of Rs.147.15 Crores out of which the loan from bank is Rs.106.92 Crores and the balance will be met through from internal accruals. The expansion and modernization will be done in Ring spinning and O.E.Plant.

### **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 200 crores Turnover during the current financial Year. The O.E. & Ginning 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.K.Haranadha Reddy, Mr. S.Pullarao & M.V. Subba Reddy will retire by rotation at the ensuing Annual General Meeting and being eligible offers themselves for re-appointment. Mr. N.Prabhakara Rao, Director has resigned from the Board w.e.f 04-09-2010. 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 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 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.

### **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

## **KALLAM SPINNING MILLS LTD.**

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 31.03.2011 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.

### **XVI. ACKNOWLEDGEMENTS :**

Your Directors wish to express their grateful appreciation for the assistance, co-operation and support received from Andhra Bank, Indian Bank & Axis Bank, IREDA and various other Departments of both State and Central Governments. Your directors also wish to convey their appreciation for the personal as well as collective contribution and the hard work of employees across all levels without their commitments dreams and hard work. 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.

For and on behalf of the Board of Direct

Place: Chowdavaram

Date: 30.05.2011

**P. Venkateswara Reddy**

Managing Director