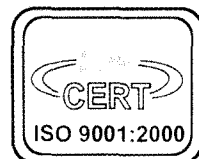




# **20th ANNUAL REPORT**

## **2011 -2012**



**KALLAM SPINNING MILLS LIMITED**

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

## Company Information:

Board of Directors : Sri K Haranadha Reddy, Non Executive 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 V.S.N Murthy, Nominee Director of IREDA  
Sri A.Krishna Murthy, Director  
Sri S. Pulla Rao, Director

Listed With : Bombay Stock Exchange Limited

Bankers : Andhra Bank, Main Branch  
Kothapet, Guntur-522001.

Indian Bank, Main Branch  
Naaz Centre, Guntur-522001

Axis Bank, Guntur Branch  
Naaz Centre, Guntur-522001

Bank of Baroda, Guntur Branch  
Near Hindu College, Guntur-522001.

Auditors : M/S Brahmayya&Co.,  
Chartered Accountants,  
10-3-21, Sambasivapet, Guntur-522001

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

Registered office & Factory : N.H.5, Chowdavaram, Guntur-522019  
Phones: 2344010, 2344017  
Fax: 0863-2344000  
E-mails: kallamsp@gmail.com.

Registrars & Share Transfer Agents : Big share Services Pvt. Ltd.,  
306, 3<sup>rd</sup> Floor, Ring Wing, Amrutha Ville,  
Opp. Yashodha Hospital,  
Raj Bhavan Road, Somajiguda,  
Hyderabad 500082.  
Ph No.040-23374967  
Fax No.040-23370295.

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## **KALLAM SPINNING MILLS LTD.**

### **NOTICE TO SHAREHOLDERS**

NOTICE is hereby given that the 20<sup>th</sup> Annual General Meeting of the Members of **KALLAM SPINNING MILLS LTD** will be held on Saturday 22-09-2012 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 Statement of Profit and Loss for the financial year ended March, 31 2012 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors.
2. To appoint a Director in place of Sri MR Naik, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Sri A Krishna Murthy who retires by rotation and being eligible, offers himself for re-appointment.
4. 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.

#### **Special Business:**

5. 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 Section 198,269,309,310,Schedule XIII and other applicable provisions, if any, of the Companies Act,1956, Mr. P. Venkateswara Reddy, be and is hereby re-appointed as Managing Director of the Company for a period of 3 years with effect from and including 29<sup>th</sup> June, 2012 upon the terms and conditions set out in the agreement entered into with him, which agreement is hereby specifically approved with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and / or Agreement in such manner as may be agreed to between the Board of Directors and Mr. P. Venkateswara Reddy".
6. 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, Mr. G.V.Krishna Reddy, be and is hereby re-appointed as Joint Managing Director of the Company for a period of 3 years with effect from and including 29<sup>th</sup> June, 2012 upon the terms and conditions set out in the agreement entered into with him, which agreement is hereby specifically approved with liberty to the Board of Directors to alter and vary the terms and conditions of the said appointment and/or Agreement in such manner as may be agreed to between the Board of Directors and Mr. G. V. Krishna Reddy.
7. To consider and, if thought fit, to pass with or without modifications, the following resolution as an Special Resolution.  
"RESOLVED THAT pursuant to the provisions of Sections 314(1), and other applicable provisions, if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded to Mr. P.Govardhan Reddy, a relative of Mr. P.Venkateswara Reddy, Managing Director of the Company, to hold an office or place of profit as Unit Head for Weaving Division of the Company, for a period of five years commencing from October 01, 2012 on the following terms and conditions:
  - 1) Salary : Rs. 24000/- p.m with a yearly increment of Rs. 3000/- p.m
  - 2) Perquisites and Allowances :
    - a) House rent Allowance of Rs. 5000/- p.m
    - b) Telephone Expenses of Rs. 1000/- p.m
    - c) Vehicle : When self Vehicle is used, Fuel expenses will be reimbursed by the Company
    - d) Medical Insurance : The Company agree to bear Mediclaim Health Insurance Premium for self and depended Family Members of Rs. 3 Lakhs per each Person.

Place : Guntur  
Date : 25-05-2012.

By order of the Board of Directors  
**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 17-09-2012 to 22-09-2012 (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. In view of the company's low profitable performance, The Board of Directors has not recommended dividend in respect of the financial year 2011-2012.
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., 306, 3<sup>rd</sup> Floor, Ring Wing, Amrutha Ville, Opp. Yashodha Hospital, Raj Bhavan Road, Somajiguda, Hyderabad 500082** at the earliest not later than 17-09-2012.
  - 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.2**

M.R.Naik is a Non-Executive Independent Director of Kallam Spinning Mills Limited. He is aged about 74 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 compliments came before for hearing. His knowledge and experience will be of great help to the company complying with various government and other institutional rules, regulations, and procedures.

**Item No. 3**

Mr.A.Krishna Murthy is a Non-Executive Independent Director of Kallam Spinning Mills Limited. He is aged about 71 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 Joint 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 12 years. He has rich experience in the fields of Labour Law, Industrial Law Human Resources and personal Administration.

**Item No. 5**

Mr.P.Venkateswara Reddy was re-appointed as the Managing Director of the company for a period of Three years with effect from 29<sup>th</sup> June 2012 by the Board of Directors at their meeting held on 25<sup>th</sup> May 2012 on the terms and conditions and remuneration as mentioned in the agreement entered into by the Board of Directors and the said Mr.P.Venkateswara Reddy. The remuneration of Mr. P. Venkateswara Reddy has been approved by the remuneration committee at their meeting held on 25<sup>th</sup> May 2012. The abstract of the terms and conditions and remuneration of the agreement are as detailed below.

## KALLAM SPINNING MILLS LTD.

### i) Remuneration:

- a) Salary : 1,00,000/- p.m
- b) Commission : Commission is payable @1% on profits computed under section 349 of the Companies Act, 1956.
- c) Perquisites : i) Un furnished accommodation facility at Guntur city.  
ii) Reimbursement of medical expenses for self and family, one month 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 residence and further agrees to provide one mobile phone.
- f) Accidental Insurance Premium: The company agrees to bear Health insurance premium for self and Family subject to maximum Rs. 5000/- p.m
- g) The Company also agrees to reimburse the additional Medical expenditure, if any, incurred in excess of the Insurance claim with approval of Board
- h) Club fees: Fees of one club in Guntur city. No admission and membership fees will be paid.
- i) 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.
- j) Reimbursement of leave travel concession for self and family once in a year subject to a maximum of one month salary.

### ii. Minimum Remuneration:

Notwithstanding anything to the contrary herein contained where in any financial year during the currency of the tenure of Mr. P. Venkateswara Reddy, the company has no profits or its profits are inadequate the company will pay remuneration by way of salary, incentive, remuneration benefits perquisites and allowances as specified above.

The aggregate of the remuneration as aforesaid shall be within the maximum limits as laid down under section 198, 309, 310 and all other applicable provisions, if any, of the Act read with Schedule XIII of the Act, as amended and as in force from time to time.

In compliance with the provisions of section 309 and 310 read with schedule XIII of the Act, the re-appointment of Mr. P. Venkateswara Reddy are now being placed before the members in general meeting for their approval. The Board commends the resolution for acceptance by the members.

The above details may please be treated as an abstract of terms of re-appointment of Mr. P. Venkateswara Reddy as Managing Director under section 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 resolution for your approval.

### Item No. 6

Mr.G.V.Krishna Reddy was re-appointed as the Joint Managing Director of the company for a period of Three years with effect from 29<sup>th</sup> June 2012 by the Board of Directors at their meeting held on 25<sup>th</sup> May 2012 on the terms and conditions and remuneration as mentioned in the agreement entered into by the Board of Directors and the said Mr.G.V.Krishna Reddy. The remuneration of Mr.G.V.Krishna Reddy has been approved by the remuneration committee at their meeting held on 25<sup>th</sup> May 2012. The abstract of the terms and conditions and remuneration of the agreement are as detailed below.

### i). Remuneration:

- a) Salary : 1,00,000/- p.m
- b) Commission : Commission is payable @1% on profits computed under section 349 of the Companies Act, 1956.
- c) Perquisites : i) Unfurnished accommodation facility at Guntur city.

## KALLAM SPINNING MILLS LTD.

- ii) Reimbursement of medical expenses for self and family, one month 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 residence and further agrees to provide one mobile phone.
- f) Accidental Insurance Premium: The company agrees to bear Health insurance premium for self and Family subject to maximum Rs.5000/-p.m
- g) The Company also agrees to reimburse the additional Medical expenditure, if any, incurred in excess of the Insurance claim with approval of Board.
- h) Club fees : Fees of one club in Guntur city. No admission and membership fees will be paid.
- i) 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.
- j) Reimbursement of leave travel concession for self and family once in a year subject to a maximum of one month salary.

### ii. Minimum Remuneration:

Not with standing anything to the contrary herein contained where in any financial year during the currency of the tenure of Mr. G.V.KrishnaReddy, the company has no profits or its profits are inadequate the company will pay remuneration by way of salary, incentive, remuneration benefits perquisites and allowances as specified above.

The aggregate of the remuneration as aforesaid shall be within the maximum limits as laid down under section 198,309, and 310 all other applicable provisions, if any, of the Act read with Schedule XIII of the Act, as amended and as in force from time to time.

In compliance with the provisions of section 309 and 310 read with schedule XIII of the Act, the re-appointment of Mr. G.V.Krishna Reddy are now being placed before the members in general meeting for their approval. The Board commends the resolution for acceptance by the members.

The above details may please be treated as an abstract of terms of re-appointment of Mr. G.V.Krishna Reddy as Joint Managing Director under section 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 resolution for your approval.

### Item No. 7

Mr. P. Govardhan Reddy did his Diploma in Textile Technology from PSG Institute of Technology Coimbatore, Tamilnadu. With his experience has developed, understanding of the business of the Company. The remuneration proposed to be paid to Mr. P. Govardhan Reddy is in commensurate with his experience.

In view of the applicability of the provisions of Section 314 of the Companies Act, 1956, the resolution is required to be passed as a Special Resolution and Mr. P. Govardhan Reddy's appointment shall be subject to approval of the Company which shall take effect from such date as may be approved by the company in this regard.

The resolution is required to be passed as a Special Resolution and none of the Directors except Mr. P. Venkateswara Reddy, Managing Director who is a relative of Mr. P.Govardhan Reddy, is interested in this resolution.

Place : Guntur  
Date : 25-05-2012.

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 20<sup>th</sup> Annual Report of the Company together with the Audited Statements of Accounts for the year ended 31<sup>st</sup> March 2012.

#### I. FINANCIAL RESULTS:

The financial results for the year ended 31<sup>st</sup> March 2012 are summarized below:

S.No.	Particulars	2011-2012 (Rs. in lacs)	2010-2011 (Rs. in lacs)
01	Sales	15197.10	13574.70
02	Other income	395.02	168.53
03	Increase/ (Decrease) in stock	710.46	442.75
04	Expenditure	14361.01	10872.95
05	Profit before Interest, Depreciation & Tax	1941.57	3313.03
06	Depreciation	692.40	566.90
07	Interest	1238.01	748.23
08	Profit before tax	11.16	1997.90
09	Provision for income tax		
	i) Current Year Tax	2.15	402.36
	ii) Deferred Tax	-51.29	197.56
10	Profit after tax	60.30	1397.98
11	Earning per share	0.88	20.41

Transfers & appropriations from the profit are as detailed below:

12	Net Profit after tax	60.30	1397.98
13	Balance brought forward from previous year	3070.71	1921.08
14	Profit for appropriations	3131.01	3319.07

#### APPROPRIATIONS

15	Transfer to General Reserve	--	1050.00
16	Proposed Equity Dividend	--	123.32
17	Tax on Proposed Equity Dividend	--	20.01
18	Balance carried forward	3131.01	3070.71

The Sales of the company for the period under review increase to Rs.15197.10 Lakhs as compared to Rs.13574.70 Lakhs registering a growth of Rs 11.95 percent on annualizes basis. The profit before interest and taxes of the company has reduced by 54.51% on annualized basis from Rs2746.13 lakhs in previous year to Rs. 1249.17 lakhs in the period under review.

#### II. DIVIDEND:

In view of the company's low profitable performance and the projects in hand, the Board of Directors has not recommended dividend in respect of the financial year 2011-2012

The paid up capital of the company remained unchanged at Rs 685.11 lakhs .Earning per share was Rs 0.88 and cash per earning share was Rs 10.98



**III. EXPANSION & MODERNISATION:**

During the financial year under review the following expansion cum modernization had taken place in various divisions.

**A) KSML 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 56400 spindles of Ring Spinning out of which 31488 spindles are compact.

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.

**Maintenance of Machines:**

The company strictly follows all scheduled activities which are routine and preventive activities are followed as per its documented plans in quality manual. On regular basis internal system audits as well as 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 activity is given at most priority. All the spares are replaced as per machine manufacturer's suggestion and are purchased directly from the Machine manufacturers to get 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% to 85% and 65% to 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. In autoconer utmost care is taken 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 in and around Guntur. The quality testing dept is a profit center on its own.

**B) KSML Open End Spinning Division:**

KSML established its Open End unit in the year 2009-10 with an initial capacity of 1248 Rotors. The total Rotors capacity of Open End Unit was increased to 2912.

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

## **KALLAM SPINNING MILLS LTD.**

TFO Yarn : Ne OE 20s/2

Production Capacity : 18000 kg / day.

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) KSML 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 mechanical engineering team at the hydro electric plants. They ensure the availability of plant by more than 98% when water is flowing in the canal. During the financial year 2011-12 we have generated 1,32,96,945 Units. 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..

### **E) WEAVING UNIT:**

The company had commenced the civil work for the 250 Looms Project at Kunkupadu village, Addanki mandalam, Prakasam district, Andhra Pradesh. The Project cost is 146 cores and Indian Bank had Sanctioned a term loan of Rs. 106.92 cores.

### **IV. FIXED DEPOSITS:**

Your company has not accepted any public deposits from the public, except some of the unsecured loans brought by promoter 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.

### **V. 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.