

# **ANNUAL REPORT 2003 - 2004**



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

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

P. Venkateswara Reddy	Managing Director
G.V. Krishna Reddy	Joint Managing Director
M.R.Naik	Director
M.V.Subba Reddy	Director
N. Prabhakara Rao	Director
V.S.N. Murthy	Nominee Director of IREDA

**BANKERS**

Andhra Bank  
Main Branch, Kothapet  
Guntur - 522 001.

**AUDITORS**

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

**COST AUDITORS**

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

**REGISTRARS &  
SHARE TRANSFER AGENTS**

IKON VISIONS PRIVATE LIMITED,  
33, Sanali Heavens, Ameerpet,  
HYDERABAD - 500 073,  
Telephone: 23744138.

**REGISTERED OFFICE & FACTORY**

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

**CONTENTS**

<b>NOTICE TO SHAREHOLDERS</b>	<b>3</b>
<b>DIRECTORS' REPORT</b>	<b>5</b>
<b>CORPORATE GOVERNANCE</b>	<b>10</b>
<b>COMPLIANCE CERTIFICATE</b>	<b>15</b>
<b>AUDITOR'S REPORT</b>	<b>19</b>
<b>BALANCE SHEET</b>	<b>22</b>
<b>PROFIT &amp; LOSS ACCOUNT</b>	<b>23</b>
<b>SCHEDULES TO BALANCE SHEET</b>	<b>24</b>
<b>SCHEDULES TO PROFIT &amp; LOSS ACCOUNT</b>	<b>27</b>
<b>NOTES FORMING PART OF THE ACCOUNTS</b>	<b>29</b>
<b>STATEMENT ON ACCOUNTING POLICIES</b>	<b>35</b>
<b>CASH FLOW STATEMENT</b>	<b>37</b>
<b>GENERAL BUSINESS PROFILE</b>	<b>38</b>

**KALLAM SPINNING MILLS LTD.****NOTICE TO SHAREHOLDERS**

NOTICE is hereby given that the Twelfth Annual General Meeting of the Members of **KALLAM SPINNING MILLS LIMITED** will be held on Wednesday the 30th September, 2004 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 2004 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Sri M. R. Naik, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Sri M.V.Subba Reddy, 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 and fix their remuneration.

**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 Sections 198,269,309,310, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, Shri M.V. Subba Reddy, be and is hereby appointed as Whole-time Director of the Company, not retire by rotation, for a period of 5 years with effect from and including 1st October 2004 on such remuneration and terms and conditions as may be agreed between the Board of Directors and Mr.M.V.Subba Reddy."

6. Voluntary delisting of the Company's Ordinary Shares from Coimbatore and Hyderabad Stock Exchanges.

To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution: -

"RESOLVED that pursuant clause 5.1 of the Securities and Exchange Board of India (Delisting of Securities) Guidelines 2003 and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification(s) or re-enactment thereof for the time being in force and as may be enacted hereinafter) and subject to such approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approvals, permissions and sanctions, which may be agreed to, by the Board of Directors of the Company (hereinafter referred to as the "the Board", which term shall be deemed to include any committee thereof for the time being exercising the powers conferred on the Board by this resolution), consent be and is hereby accorded to the Board to delist the Company's Ordinary Shares from Coimbatore Stock Exchange Ltd, at Coimbatore and the Hyderabad Stock Exchange Ltd, Hyderabad"

Place: Guntur  
Date: 31st July,2004

By order of the Board of Directors  
P. Venkateswara Reddy  
Managing Director

## KALLAM SPINNING MILLS LTD.

### 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 16th September 2004 to 30th September 2004 (both days inclusive).
3. The relative explanatory statement pursuant to section 173 of the Companies Act 1956 in respect of the business under items 5 & 6 set out above are annexed hereto.
4. Members are requested to intimate any change in the address registered with the Company. Members holding shares in dematerialised form are requested to notify any change in address to their respective Depository Participants (DPs).

### 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

Sri M. R. Naik, aged about 65 years, is retired IAS Officer. He served the community in various capacities in Central and State Government Organisations. He also served as a member in the consumer forums constituted by the state government. His knowledge and experience will be of great help to the management in complying with various governmental and other institutional rules, procedures and regulations.

Sri M. R. Naik is not a Director on any other Company's Board. He is a member of Shareholders' / Investors' Grievance Committee and Audit Committee constituted by the Company.

#### Item No. 3 & 5.

Shri M. V. Subba Reddy is associated with the company since its inception and he was on the Board for the last 6 years. He was appointed as Whole-time Director of the company, by the Board of Directors at their meeting held on 31.07.2004, subject to approval of the shareholders for a period of 5 years with effect from 1st October 2004 on such remuneration as detailed below:

A) Salary (including dearness and other allowances): Rs.13000/- P.M.

B) Perquisites as detailed below:

- i) Housing: The expenditure incurred by the company on hiring unfurnished accommodation will be subject to a maximum of Rs. 3,000/ per month.
- ii) Vehicle: Reimbursement of fuel expenses for the vehicle
- iii) Telephone: Company telephone at residence.
- iv) Children Education allowance: Rs. 50 per month per child subject to maximum of two children.

The approval of the shareholders is sought for the appointment of Shri M. V. Subba Reddy as Whole-time Director.

The Board of Directors commend the resolution for your approval.

None of the Directors except Shri M. V. Subba Reddy is interested or concerned in the resolution.

A copy of the Board resolution dated 31st July 2004 and a copy of the Memorandum and Articles of Association of the Company are available for inspection at the registered office of the Company between 11.00 a.m. and 1.00 p.m. on any working day of the Company.

**KALLAM SPINNING MILLS LTD.****Item No. 6**

Presently the Company's securities are listed on the Stock Exchanges at Mumbai, Coimbatore and Hyderabad. With the wide and extensive networking of centres of the BSE, the investors have access to online dealings in the Company's securities across the Country. Moreover, the volume of trading in company's equity shares is insignificant or nil in Coimbatore Stock Exchange Ltd., and Hyderabad Stock Exchange Ltd., for the past few years. The Board of Directors, at their meeting held on July 31, 2004 have, therefore, decided to apply for the voluntary delisting of the Company's Ordinary Shares from the Coimbatore and Hyderabad Stock Exchanges.

The proposed voluntary delisting of the Company's Ordinary Shares from the Coimbatore Stock Exchange and Hyderabad Stock Exchange will not adversely affect any investors including the Members located in the region where the said two stock exchanges are situated. Pursuant to the guidelines issued by SEBI on voluntary delisting by companies of their securities from the stock exchanges, it is now proposed to seek the Members approval by way of Special Resolution for voluntary delisting of the Company's Ordinary Shares from both the stock exchanges as set out in the Resolution at Item No. 6.

The proposed delisting is in the interest of the Company and the Board commends the Resolution for your approval. None of the Directors of the Company is concerned or interested in the resolution

By order of the Board of Directors  
P. Venkateswara Reddy  
Managing Director

Place: Guntur

Date: 31st July, 2004

**DIRECTORS' REPORT TO THE SHAREHOLDERS**

Your directors have pleasure in presenting the Twelfth Annual Report together with the Audited accounts for the year ended 31st March 2004.

**I. FINANCIAL RESULTS:**

The financial results for the year ended 31st March 2004 are summarized below:

S.No.	Particulars	2003-2004 (Rs.in lacs)	2002-2003 (Rs. in lacs)
01	Sales	3283.95	2524.85
02	Other income	454.08	10.15
03	Expenditure	3063.61	1967.34
04	Profit before Interest, Depreciation & Tax	674.42	567.66
05	Depreciation	171.35	164.09
06	Interest	319.42	316.35
07	Profit before tax	183.65	87.22
08	Provision for income tax		
	i) Current Year Tax	15.50	7.50
	ii) Deferred Tax	32.01	28.90
09	Profit after tax	136.14	50.82

**II. REVIEW OF OPERATIONS:**

Your company has recorded a profit of Rs.183.65 lakhs during the reporting period as against Rs.87.22 lakhs achieved in the previous year, despite of increased raw material prices. During the year under review the company had achieved a turnover of Rs.3284 lakhs as against the turnover of Rs.2525 lakhs achieved in 2002-2003 resulted a growth rate of 30% over the previous year.

During the year under review, the Andhra Bank has sanctioned Rs. 140 lakhs under TUF Loan to your Company for adding five Ring Frames and one Carding Machine.

**KALLAM SPINNING MILLS LTD.**

A fire accident had taken place on 2nd June 2003 in one of the cotton godowns in which the entire cotton stock and cotton waste stored was gutted in the fire accident. The stock was insured with the New India Assurance Company. The Company preferred Insurance claim for the gutted in fire for Rs.409.15 lakhs based on the replacement value of the stock. The purchase value of material affected by fire accident was Rs.367.15 lakhs. Due to delay in settlement of insurance claim the working capital limits presently utilizing are not being supported by the present stock position held in the name of the company. The company approached the Bank for sanction of short-term facility of Rs.275 lakhs and accordingly the Bank sanctioned short-term loan of 275 lakhs.

Due to severe drought conditions prevailing during the current year there is no power generation in the hydel project. This has an impact on the overall profitability of the company. IREDA and Andhra Bank have reshuffled the term loan facilities together with interest in reply to our request for reshuffling of instalments.

Your directors are of the view that in the best interest of the company it would be desirable to conserve the resources for utilization in business, and therefore, do not recommend any dividend for the year under review.

**III. FUTURE OUTLOOK:**

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

To keep pace with technological advancements, your company will undertake modernization cum equipping balance equipment gradually.

Your company is expecting that this year the hydel project will achieve the desired production and turnaround from losses to profits.

**IV. EXPORTS:**

Your company has made reasonable direct exports during year under review. Your company is concentrating to improve exports this year since the export markets are encouraging.

**V. DIRECTORS:**

Pursuant to Article 48 of the Articles of Association of your Company, Mr.M.R.Naik and Mr.M.V.Subba Reddy retire by rotation at the ensuing Annual General Meeting and being eligible offers themselves for re-appointment.

Mr.K.Haranadha Reddy, Chairman resigned with effect from 31.01.2004.

Mr.L.Sreerama Murthy, Director resigned with effect from 17.05.2004.

**VI. 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.

**VII. PARTICULARS OF EMPLOYEES:**

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

**VIII. FIXED DEPOSITS:**

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

**IX. AUDITORS:**

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

**X. CORPORATE GOVERNANCE:**

A separate section on Corporate Governance with a detailed compliance report thereon is annexed to the Annual Report. The Auditors' Certificate in respect of compliance with the provisions of Corporate Governance as required by Clause 49 of the Listing Agreement, is also annexed.

**KALLAM SPINNING MILLS LTD.****XI. SECRETARIAL COMPLIANCE CERTIFICATE:**

A Compliance Certificate has been obtained from a practicing Company Secretary under section 383A(1) of the Companies Act 1956 is annexed to this report.

**XII. VOLUNTARY DELISTING OF SHARES**

Recently the SEBI has issued a guidelines on voluntary delisting of securities called "SEBI (Delisting of Securities) Guidelines, 2003. According to these guidelines, an EXIT opportunity need not be given in cases where securities continue to be listed in a stock exchange having national wide terminals. Your Company's shares are listed and traded with the Stock Exchange having national wide terminals viz. The Stock Exchange, Mumbai. Hence, your Directors propose to seek approval from members by ways of special resolution pursuant clause 5.1 of the SEBI (Delisting of Securities) Guidelines, 2003 for delisting of company's shares from Coimbatore Stock Exchange and Hyderabad Stock Exchange. Special attention of members is drawn to item No. 6 of the Notice of Annual General Meeting and explanatory statement attached thereto.

**XIII. DIRECTORS RESPONSIBILITY STATEMENT:**

The Board hereby states that

- (a) in the preparation of the annual accounts, the applicable Accounting standards have been followed along with proper explanation relating to material departures;
- (b) We 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 as at 31st March, 2004 and of the profit of the company for the year ended on that date
- (c) We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (d) We have prepared the annual accounts on a 'going concern' basis.

**XIII. ACKNOWLEDGEMENTS:**

Your Directors would like to express their grateful appreciation for the assistance and co-operation received from shareholders, Customers, Dealers, Suppliers, Bankers 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.

PLACE: GUNTUR  
DATE: 31st July 2004.

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 Directors' 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
<b>1. Electricity</b>			
a)	Purchased units (KWH)	88,63,794	61,40,801



**KALLAM SPINNING MILLS LTD.**

Total amount in Rs.	3,13,96,154	2,54,76,798
Rate per unit Rs.	3.54	4.15
b) Own Generation		
i) Through Diesel Generator		
Units Generated (KWH)	1,53,053	10,09,773
Total amount Rs.	7,85,573	47,95,130
Cost per unit Rs.	5.13	4.75
ii) Through Steam Generation	--	--
iii) Through Hydel Generation		
Units generated KWH	4,01,000	5,52,500
Units consumed KWH	2,72,629	14,00,140
Total Cost Rs.	10,08,728	51,37,316
Cost per KWH Rs.	2.51	9.30
2. Coal	--	--
3. Furnace Oil	--	--
4. Other Internal Generation		
b). CONSUMPTION PER UNIT OF PRODUCTION (NO. OF UNITS/KG.)		
1. Electricity	5.07	5.00
2. Coal	--	--
3. Furnace Oil	--	--
4. Hydel	--	--

**B. TECHNOLOGY ABSORPTION:**

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

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

Foreign exchange earnings during the year under review amounted to Rs.1186 lakhs. The foreign exchange utilized during the year amounted to Rs.301 lakhs towards purchase of cotton lint, sales commission and traveling expenses with net inflow of Rs.885 lakhs.

**MANAGEMENT DISCUSSION AND ANALYSIS:****1. INDUSTRY STRUCTURE & DEVELOPMENT:**

Your company is one of the leading quality makers of 100% cotton combed yarn. The company depended mostly on exports for its business. Fortunately the exports of cotton yarn had picked up well during the Financial Year 2003-2004.

**SPINNING DIVISION:**

During the year the Company has increased the spindleage from 20040 to 21240. Your company has also modernized by installing two additional Ring Frame Machinery. Your company has utilized TUF Scheme for replacement of spindles and procurement of Carding Machinery.

Your company had manufactured finer counts, thereby increasing the value addition. The cotton prices were falling down significantly and the cost of raw materials was 58%.

**HYDEL DIVISION:**

The state of Andhra Pradesh had severe drought during the financial year 2003-2004 also and there were very little rains in the Krishna Basin. The hydel generation had significantly gone down due to this. IREDA had rescheduled the interest payments and increased the principle repayment from 10 to 15 years. Likewise Andhra Bank had rescheduled the interest payments and increased the principle repayment from 10 to 16 years.



**KALLAM SPINNING MILLS LTD.****2. PERFORMANCE:**

Your company continues to maintain its status as one of the best quality manufacturers of yarn. With a view to establishing itself as a world-class supplier of yarn, your company has implemented the ISO SYSTEM successfully and has been awarded the ISO 9001-2000 certificate by TUV INDIA.

As a part of its long-term planning, your company has entered into new markets and developed new buyers. Your company key personnel have also visited new potential markets, developed an understanding of these markets and cultivated relations with new buyers.

**3. EXPORTS:**

Export turnover constitutes around 50% of the overall sales, it is likely to increase during next year also.

**4. INITIATIVES:**

Over the last few years, your company's focus has been on product development and on improvement in business processes to improve quality, efficiency and service levels. To achieve these objectives, the following initiatives have been taken.

**Re-engineering:**

The manufacturing plants of the company have been re-engineered and have been brought up to the international standards of quality. This re-engineering will be followed by implementation of a new ERP package, which is expected to bring about improvement in processes in staff functions and reduction in costs.

**Labour Productivity:**

Labour productivity had been an area of great concern for the company in earlier years. Several initiatives have been taken in this regard which have resulted in reduction of manpower and elimination of overtime.

**Cost Reduction:**

Your company has been successful in reducing material costs and keeping overhead costs including manpower costs constant over the last several years.

**Marketing:**

Your company is poised to increase its market share even in a stagnant market through several new marketing initiatives. To follow this objective your company has established Merchant Exports Division to improve export sales.

**5. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:**

Your company has a proper, strong, independent and adequate system of internal controls to ensure that all the assets are safeguarded, protected against loss from unauthorized use or disposition and that transactions are authorized, recorded and reported correctly.

The internal control systems are also designed to ensure that the financial and other records are reliable for preparing financial statements and other data.

**6. HUMAN RESOURCE DEVELOPMENT:**

The greatest strength of your company on Human Resource Development front has been in linking HRD activities with the business plans of the organization. The whole HRD movement at your company has been evolved on task and people related goals.

Development system at your company focuses on building Technical, Managerial and Social competencies amongst the employees right from the induction stage.

To inculcate the spirit of effectiveness in management styles, your company has moved from the conventional, hierarchical / power oriented culture to participative and performance oriented culture.

**KALLAM SPINNING MILLS LTD.****7. MANAGEMENT:**

All details relating to financial & commercial transactions where Directors may have a potential interest are provided to the Board, and the interested Directors neither participate in the discussion nor do they vote on such matters.

**8. CAUTIONARY STATEMENT:**

Details given herein above relating to various activities and future plans may be "forward looking statements" within the meaning of applicable laws and regulations. Actual performance may differ from those expressed or implied.

**ANNEXURE TO THE DIRECTORS' REPORT****REPORT ON CORPORATE GOVERNANCE FOR THE PERIOD APRIL 1, 2003 TO MARCH 31, 2004.****1. Company's philosophy**

The philosophy of Corporate Governance is aimed at safeguarding and adding value to the interest of the various stakeholders of a Company including shareholders, lenders, employees and public at large. At Kallam Spinning Mills Limited, we are committed to Good Corporate Governance to ensure that all functions of the company are discharged in a professionally sound and competent manner.

**2. Board of Directors**

The Board of Directors of the Company consists of Executive and Non-executive Directors. As on 31.03.2004 more than 57% of the Board consisted of Non-executive & Independent Directors. One Director was nominee of Financial Institution namely, IREDA.

<b>Name of the Director</b>	<b>Category</b>	<b>Désignation</b>
Mr. K. Haranadha Reddy*	Promoter and Non Executive	Chairman
Mr. P. Venkateswara Reddy	Promoter and Executive	Managing Director
Mr. G.V. Krishna Reddy	Promoter and Executive	Joint Managing Director
Mr. L. Sreerama Murthy**	Independent and Non Executive	Director
Mr. M. R. Naik	Independent and Non Executive	Director
Mr. M.V. Subba Reddy	Promoter and Executive	Director
Mr. N. Prabhakara Rao	Independent and Non Executive	Director
Mr. V.S.N.Murthy	Independent and Non Executive	Nominee Director (IREDA)

(\*) Resigned with effect from 31.01.2004 after completion of BOD Meeting.

(\*\*) Resigned with effect from 17.05.2004

**Directorship on Board and Membership in Committees of Companies including Kallam Spinning Mills Limited**

<b>Name of the Director</b>	<b>No. of other Companies in which Director#</b>	<b>Membership in Specified Committees**</b>
Mr. K. Haranadha Reddy*	---	---
Mr. P. Venkateswara Reddy	1	---
Mr. G.V. Krishna Reddy	1	1
Mr. L. Sreerama Murthy	---	---
Mr. M. R. Naik	---	2
Mr. M.V. Subba Reddy	---	2
Mr. N. Prabhakara Rao	2	2
Mr. V.S.N.Murthy	5	3

(\*) Resigned with effect from 31.01.2004 after completion of BOD Meeting.

\*\* Specified Committees Audit, Remuneration, Shareholders/Investor Grievance.

# Excludes Alternate Directorships.