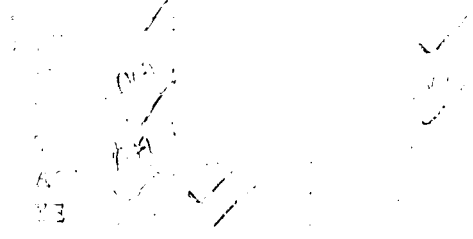


XXII ANNUAL REPORT 1997-98



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Gandagiri Spinning Mills Ltd.





Kandagiri Spinning Mills Limited

Board of Directors

S.P.RATNAM

Chairman

K.R.MANICKA MUDALIAR

Managing Director

S.P.RAJENDRAN

Joint Managing Director

Directors

S.P.SAMBANDAM

M.RAJAMANI

M.SIGAMANI

S.DEVARAJAN

A.G.VENKATESAN

A.R.NATARAJAN

A.R.ANNAMALAI

K.S.GANAPATHI

K.K.RAMASWAMY

R.KANDASWAMI (Nominee of ICICI)

Financial Institution

Industrial Credit and Investment Corporation of India Ltd., Coimbatore

Bankers

Karnataka Bank Limited, Salem

State Bank of India, Salem

Auditors

M.S.KRISHNASWAMI & RAJAN,

Chartered Accountants,

Salem - 636 002.

Registered Office

Mill Premises, Udayapatti (P.O.), Salem - 636 140.

Mills

Unit I

Udayapatti (P.O.), Salem - 636 140.

Unit II

Seshanchavadi (P.O.), Salem - 636 111.



Kandagiri Spinning Mills Limited

SIGNIFICANT INFORMATION

Particulars		1997-98	1996-97	1995-96	1994-95	1993-94	1992-93
Fixed Assets	(Rs.lakhs)	2302.65	2231.26	2030.78	1717.38	1428.38	1052.80
Net Current Assets	"	2176.45	1595.52	1652.50	1463.15	668.72	305.70
Total Capital Employed	"	4641.11	3998.06	3868.76	3319.40	2114.30	1358.50
Shareholders' Funds	"	1784.79	1692.30	1596.70	1507.27	663.40	548.33
No. of Shares		38,65,650	38,65,650	38,65,650	38,65,650	23,65,650	23,65,650
Bonus Issue		—	—	—	—	—	5 : 2
Net Worth per Share	(Rs.)	46	44	41	39	28	23
Sales	(Rs.lakhs)	5149.85	5078.88	4665.30	4060.76	2323.27	1642.30
Operating Profit	"	718.52	681.48	528.95	621.77	460.37	295.07
Profit Before Tax	"	172.17	171.66	118.43	237.86	201.37	199.47
Retained Earnings	"	326.27	331.28	208.24	351.30	246.69	176.79
Dividends	(%)	20	20	20	20	20	20
Earnings per Share	(Rs.)	3.78	3.87	3.11	8.44	6.86	5.5
Installed Capacity	(Spindles)	39,932	39,932	39,932	38,012	33,212	28,492
	(Rotors)	168	168	168	168	168	—

Notes

Increase in Share Capital during the years 1994-95 to 1996-97 has been annualised for the purpose of computing the earnings per share.



Kandagiri Spinning Mills Limited

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the TWENTY SECOND ANNUAL GENERAL MEETING of KANDAGIRI SPINNING MILLS LIMITED will be held at the Registered Office of the Company on Thursday, the 13th day of August, 1998 at 16.00 hours to transact the following business :

Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet as at March 31, 1998 and Profit and Loss Account for the year ended that date and the report of the Directors thereon.
2. To declare a dividend.
3. To appoint Directors in the place of the following Directors, who are retiring by rotation and being eligible, offer themselves for re-appointment.
 - a) Sri. A.R. Annamalai b) Sri. K.S. Ganapathi and c) Sri. K.K. Ramaswamy
4. To appoint Auditors and fix their remuneration.

Registered Office
Mill Premises, Udayapatti,
Salem - 636 140.
June 23, 1998

By order of the Board,

S.P.RATNAM
Chairman

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Company.
2. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from August 7, 1998 to August 13, 1998 (both days inclusive).



Kandagiri Spinning Mills Limited

DIRECTORS' REPORT

Your Directors have pleasure in presenting their report on the operations of the Company for the year ending March 31, 1998 together with the audited financial statements for the said year.

2. Year in retrospect

2.1 For the Industry

The year has been one of turmoil with the fortunes taking a dip into the bottom line. The scenario was aptly described in a newspaper report in the following single sentence. "The textile industry has been caught in a cleft, caused by a plethora of problems like high cotton price, hank yarn obligation, yarn price not moving in tune with raw material cost, high labour cost, obsolete machinery and a crippling financial crunch, from which it has not been able to free itself". The vagaries of weather and untimely rain in Andhra Pradesh, Karnataka and elsewhere affected both the quality and quantity of cotton produced which in turn, pushed up its price. The white fly and pest attacks in parts of Andhra Pradesh further damaged the cotton crop, which confounded the problem. But for the decision taken to import cotton, the supply position would have become very grave. Further, the government is dragging its feet in the matter of a pragmatic decision on the problem of hank yarn obligation, the intensity of which may not have been felt much during this year due to the low premium rate for the obligation prevailing in the market. Production of yarn also got affected in the case of small and medium sized units and also units not engaged in exports mainly because of lack of adequate finance for working capital. The cumulative and snowballing effect of the above stated factors was a general fall in the productivity and profitability of the mills in the industry.

2.2 For the Company

As the shareholders may be aware, the inherent strengths of your Company lie in (i) timely procurement of cotton by direct contact with growers (ii) strict adherence to preventive maintenance (iii) continuous and timely modernisation of its machinery (iv) giving top priority to maintaining and improving the quality of its yarn, (v) a well spread network for yarn sales, (vi) development of new markets for exports, (vii) judicious application of financial resources and (viii) excellent human resources management. In view of the above, your Company was able to not only overcome the various hurdles which the industry faced during the year but also reported better working results. Thus, the turnover during the year improved to Rs.5149.85 lakhs with the composition of exports (including merchandise exports) at 44.17%. The following key indicators of revenue and costs would provide the necessary information to assess the Company's performance.

	1997-98	1996-97
	(Rupees lakhs)	
Sales (net) - Within India	5109.38	5033.05
- Export	40.47	45.83
- Total Turnover	5149.85	5078.88
Cotton Cost	3118.13	3220.69
Stores and Packing Cost	155.30	190.77
Power Cost	569.80	498.14
Human Resources Cost	318.36	277.13
Finance Cost (Net)	295.10	254.49
Profit before Interest and Depreciation (i.e., Operating Profit)	718.52	681.48
Profit before Depreciation (i.e., Cash Profit)	437.14	438.63
Profit before Tax	172.17	171.66
Earnings per share	3.78	3.87



Kandagiri Spinning Mills Limited

Directors' Report (Contd.)

The following factors inhibited a better showing of your Company's results for the year :

- (i) Power cost increased by Rs.71.66 lakhs mainly engendered by hike in power tariff.
- (ii) Maintenance cost increased by Rs.43.36 lakhs mainly because of the Company's policy of continuous preventive maintenance.
- (iii) Manpower cost increased by Rs.41.23 lakhs mainly due to wage increments.
- (iv) Finance cost increased by Rs.40.61 lakhs mainly because of increase in borrowings for working capital and lesser interest capitalisation.

3. Future Outlook

- 3.1 The immediate future outlook for the textile industry depends to a large extent on an increase in the yield of cotton crop in the 1998-99 season and the scope for importing cotton on a reasonable basis, in view of the downward trend in cotton prices in the international market. Another factor to reckon with is the financial crisis in the ASEAN countries which is bound to affect the exports. Thus, in the final analysis, on both internal and export fronts, it will be very difficult to sustain the existing growth rate in the absence of government support by way of a pragmatic policy and a distinct increase in the yield of cotton crop in the coming season.
- 3.2 In the case of your Company, the Board is optimistic, barring unforeseen circumstances, and in view of its aforesaid strengths, which will be continued to be zealously adhered to in the future, to report satisfactory operating results in the current year.

4. Dividend

Your Board has recommended a dividend of 20% on the equity share capital for the year 1997-98 absorbing Rs.84.86 lakhs (including the tax at 10% on the above proposed dividend). The above dividend will however be paid on pro-rata basis.

5. Finance and Accounts

- 5.1 Your Board has provided Rs.26.00 lakhs towards current tax and has appropriated Rs.70.00 lakhs by transfer to general reserve. After making the said appropriation, the reserves, including share premium and unappropriated profit, totalled Rs.1399.05 lakhs as at the end of the year.
- 5.2 The total amount of deposits at the end of the year was Rs.162.86 lakhs as against Rs.399.06 lakhs in the earlier year. There were no overdue/unclaimed deposits at the close of the year.
- 5.3 The total capital expenditure incurred during the year amounted to Rs.337.29 lakhs as against Rs.467.50 lakhs in the earlier year.

6. Directors

- 6.1 The Directors Sarvasri A.R.Annamalai, K.S.Ganapathi and K.K.Ramaswamy are retiring by rotation and are eligible for reappointment.
- 6.2 Sarvasri.K.R.Manicka Mudaliar and S.P.Rajendran were re- appointed as Managing Director and Joint Managing Director respectively, at the Extra Ordinary General Meeting held on 27-02-98.

7. Auditors

Sarvasri M.S.Krishnaswami & Rajan, Chartered Accountants, are the retiring auditors. You are requested to appoint auditors for the current year and fix their remuneration.