

28th
Annual
REPORT 2003-2004



KANDAGIRI SPINNING MILLS LIMITED



Kandagiri Spinning Mills Limited

| | |
|-------------------------------|--|
| Board of Directors | K.R.Manicka Mudaliar - Chairman R.Selvarajan - Managing Director S.Vijay Shankar - Joint Managing Director S.P.Ratnam S.P.Rajendran M.Rajamani M.Sigamani S.Devarajan S.Dinakaran S.Sivakumar - Whole Time Director R.Kandaswami P.S.Ananthanarayanan V.Gopalan N.Asoka M.Guruvayurappan (Nominee of ICICI Bank) |
| Secretary | N.J.Rajagopal |
| Statutory Auditors | M.S.Krishnaswami & Rajan |
| Cost Auditors | S.Mahadevan & Co |
| Bankers | State Bank of India ICICI Bank Limited Karnataka Bank Limited |
| Registered Office | Post Box No.3, Mill Premises, Udayapatti (P.O.) Salem 636 140 |
| Spinning Plants | Unit I at Udayapatti (P.O.) Salem 636 140. Unit II at Seshanchavadi (P.O.) Salem 636 111. |
| Wind Energy Converters | Panagudi Village Radhapuram Taluk Tirunelveli District. Pazavoor Village Radhapuram Taluk Tirunelveli District. Kudimangalam Village Udumalpet Taluk Coimbatore District. |



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Kandagiri Spinning Mills Limited

Significant Information

Rs. in lakhs

| Particulars | 2003-04 | 2002-03 | 2001-02 | 2000-01 | 1999-00 | 1998-99 |
|---|-----------------------|---------------|---------------|---------------|---------------|---------------|
| 1. Fixed assets | 3910.87 | 4233.06 | 1968.25 | 1954.21 | 2074.25 | 2166.17 |
| 2. Net current assets | 2627.89 | 1076.51 | 1410.34 | 1562.73 | 1956.67 | 2111.52 |
| 3. Total capital employed | 6902.30 | 5553.29 | 3138.99 | 3727.20 | 4176.26 | 4429.80 |
| 4. Shareholders' funds | 1603.84 | 1561.75 | 1446.25 | 1871.26 | 1841.55 | 1802.10 |
| 5. No. of shares | 38,49,250 | 38,49,250 | 38,65,650 | 38,65,650 | 38,65,650 | 38,65,650 |
| 6. Net worth per share (Rs.) | 42 | 41 | 37 | 48 | 48 | 47 |
| 7. Sales | 6203.95 | 5482.80 | 4975.09 | 5473.99 | 4978.02 | 5208.52 |
| 8. Operating profit | 1300.73 | 853.86 | 623.34 | 658.46 | 674.04 | 670.91 |
| 9. Profit before tax | 335.21 | 325.28 | 128.03 | 125.35 | 119.37 | 112.48 |
| 10. Profit after tax | 180.21 | 250.28 | 83.03 | 98.35 | 104.37 | 98.98 |
| 11. Retained earnings | 556.94 | 451.34 | 333.64 | 326.84 | 316.78 | 304.77 |
| 12. Dividend (%) | 35 | 35 | 20 | 20 | 20 | 20 |
| 13. Basic Earnings per share (Rs.) | 4.68 | 6.50 | 2.15 | 2.54 | 2.70 | 2.56 |
| 14. Spindle capacity (Spindles) (Rotors) | 39,932 168 | 39,932 168 | 39,932 168 | 39,932 168 | 39,932 168 | 39,932 168 |

- Note: (1) Figures from 2001-02 onwards relating to 4,6,10,11 and 13 are after reckoning the deferred tax liability
 (2) During the year 2002-03, 16,400 shares were forfeited



Kandagiri Spinning Mills Limited

Notice to the shareholders

Notice is hereby given that the twenty eighth annual general meeting of the company will be held at the Mill Premises, Sambandam Spinning Mills Limited, Kamaraj Nagar Colony, Salem 636 014 on Wednesday, June 30, 2004 at 11.00 hours to transact the following business:

Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet as at March 31, 2004 and Profit and Loss account and Cash Flow Statement for the year ended that date and the report of the Directors thereon.
2. To declare dividend on equity shares.
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 S.P. Ratnam b) Sri R. Kandaswami and c) Sri M. Sigamani
4. To appoint Auditors and fix their remuneration.

Special Business

5. To consider and if thought fit, to pass, with or without modification, the following resolutions as an ordinary resolution.
 - a) Resolved that Sri N. Asoka, who was appointed as Additional Director by the Board of Directors on 19.01.2004 and whose term expires under section 260 of the Companies Act, 1956 at this annual general meeting and in respect of which the company has received a notice from a member under section 257 of the said Act proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company whose period of office is liable to determination by retirement of directors by rotation.
 - b) Resolved that Sri V. Gopalan, who was appointed as Additional Director by the Board of Directors on 19.01.2004 and whose term expires under section 260 of the Companies Act, 1956 at this annual general meeting and in respect of which the company has received a notice from a member under section 257 of the said Act proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company whose period of office is liable to determination by retirement of directors by rotation.

Registered Office
Mill Premises,
Post Box No.3
Udayapatti P.O.
Salem 636 140.

May 17, 2004

For and on behalf of the Board

N.J. Rajagopal
Company Secretary



Kandagiri Spinning Mills Limited

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 June 24, 2004 to June 30, 2004 (both days inclusive)
4. In terms of clause 49 of the listing agreement with Stock Exchanges, a brief resume of directors who are proposed to be appointed/re-appointed at this meeting is given below. In respect of the resolution proposed as Special Business in 5 (a) and (b), the resume given in items (d) and (e) below may be considered as the Explanatory Statements to be given as required under section 173(2) of the Companies Act, 1956.
 - a) Sri S.P. Ratnam is a Promoter Director and an Industrialist. He is on the Board from 1979 and has since been re-appointed over the years by rotation. He has more than five decades of experience in the textile field. He is the Chairman of Sambandam Spinning Mills Limited.
 - b) Sri R. Kandaswami, a financial consultant, is a former Deputy General Manager of State Bank of India and has worked as General Manager - Finance in Binny Limited. He further holds directorship in several companies including Sambandam Spinning Mills Limited. He was first appointed to the Board during 1994 and has since been reappointed over the years by rotation.
 - c) Sri M. Sigamani, son of the Promoter Managing Director, is an industrialist. He was first appointed to the Board during 1979 and has since been reappointed over the years by rotation. He has more than two decades of experience in the field of textiles.
 - d) Sri N. Asoka is an engineering graduate and an industrialist. He is the Managing Director of Spark Engineers Private Limited. He has more than two decades of experience in the field of Management. In view of his experience, the Board of directors thought it fit to induct him as a Director, and he was co-opted as an Additional Director at the Board Meeting held on 19.01.2004. He holds office upto the forthcoming annual general meeting. The Company has received a notice in writing from a member under section 257 of the Companies Act, signifying his intention to propose the appointment of Sri N. Asoka at the ensuing annual general meeting. Apart from him, none of the directors are interested in the proposed resolution.
 - e) Sri V. Gopalan, a financial consultant, is a member of the Institute of Chartered Accountants, Cost Accountants and Company Secretaries and has held position as Vice President in ICICI Limited, Director-Finance and Company Secretary in Cognizant Technology Solutions India Limited. He has more than two decades of experience in finance and administration. In view of his long experience, the Board of Directors of the Company has thought it fit to induct him as a Director and appointed him as Additional Director at the Board meeting held on 19.1.2004. He holds the office upto the forthcoming annual general meeting. The Company has received notice in writing from a member under section 257 of the Companies Act, 1956 signifying his intention to propose the appointment of Sri V. Gopalan as director at the ensuing annual general meeting. Apart from him, none of the directors are interested in the proposed resolution.
5. Those members who have so far not encashed their dividend warrants for the year 1996-97 may claim or approach the Company for the payment thereof as the same will be transferred to the Investor Education and Protection Fund of the Central Government, pursuant to section 205C of the Companies Act, 1956 in August 2004. After transfer to the above fund, shareholders will cease to have any claim over that amount.
6. Those members who have so far not dematerialised their shares are advised to demat their physical shares.



Kandagiri Spinning Mills Limited

REPORT ON CORPORATE GOVERNANCE

1. Company's Philosophy on Corporate Governance

The company believes that the Corporate Governance is a powerful medium to serve the long-term interest of all the shareholders. Corporate Governance strengthens Investors' trust and ensures a long-term partnership, which helps the Company in fulfilling its quest for achieving significant growth and profits.

In pursuance of the above, the company commits itself to:

- Continuous up gradation of skills coupled with constant attention to improve productivity and quality of its products in consonance with the rapidly changing economic and industrial environment
- Instituting sound system in place in a frame work of effective accountability and transparency
- Being the custodian of the interest of the shareholders, customers and the society at large

2. Board of Directors

The Board consists of 15 directors of whom 3 are Wholtime directors. The Board has a Non-executive director as Chairman. The Board functions either as a full Board or through committees.

(i) Constitution of the Board

| Director | Executive/Non-Executive/ Independent | No. of other Directorships | Membership of other Board Committees |
|---------------------------|---|-------------------------------|--|
| Sri K.R. Manicka Mudaliar | Chairman, Non Executive | 1 | - |
| Sri R. Selvarajan | Managing Director | 4 | 1 |
| Sri S. Vijay Shankar | Joint Managing Director | 1 | - |
| Sri S.P. Ratnam | Non-Executive | 5 | 1 |
| Sri S.P. Rajendran | Non-Executive | 5 | - |
| Sri M. Rajamani | Non-Executive | 1 | - |
| Sri M. Sigamani | Non-Executive | - | - |
| Sri S. Devarajan | Non-Executive | 6 | 2 |
| Sri S. Dinakaran | Non-Executive | 4 | - |
| Sri S. Sivakumar | Wholtime Director | - | - |
| Sri R. Kandaswami | Independent | 4 | 3* |
| Sri P.S. Ananthanarayanan | Independent | 1 | 2* |
| Sri N. Asoka | Independent | 2 | - |
| Sri V. Gopalan | Independent | 1 | 1 |
| Sri M. Guruvayurappan | Independent | - | - |

*includes Chairmanship of one committee

(ii) Attendance of Directors at Board Meetings and Annual General Meeting

The Board met six times during the financial year 2003-04 on 28.04.03, 30.05.03, 25.07.03, 20.10.03 and 19.01.04. The company placed before the Board the budgets, performance of the units and various other information specified in Annexure I of clause 49 of the Listing Agreement, from time to time.



Kandagiri Spinning Mills Limited

The attendance at the Board Meetings and Annual General Meeting were as under:

| Name of Director | No. of Board Meetings Attended | Whether attended the Annual General Meeting |
|---------------------------|--------------------------------|---|
| Sri K.R. Manicka Mudaliar | 4 | ✓ |
| Sri R. Selvarajan(3) | 5 | ✓ |
| Sri S. Vijay Shankar(3) | 5 | ✓ |
| Sri S.P. Ratnam | 4 | ✓ |
| Sri S.P. Rajendran | 5 | ✓ |
| Sri M. Rajamani | 5 | ✓ |
| Sri M. Sigamani | 4 | ✓ |
| Sri S. Devarajan | 5 | ✓ |
| Sri S. Dinakaran | 4 | ✓ |
| Sri S. Sivakumar | 5 | ✓ |
| Sri R. Kandaswami | 4 | ✓ |
| Sri P.S. Ananthanarayanan | 5 | ✓ |
| Sri N. Asoka(2) | 1 | NA |
| Sri V. Gopalan(2) | 1 | NA |
| Sri M. Guruvayurappan | 1 | ✓ |
| Sri K.S. Ganapathy(1) | 4 | ✓ |
| Sri K.K. Ramaswami(1) | 4 | ✓ |

(iii) Remuneration of Directors

Rupees

| Director | Salary and Perquisites | Sitting Fees |
|---------------------------|------------------------|--------------|
| Sri K.R. Manicka Mudaliar | - | 8,500 |
| Sri R. Selvarajan(3) | 12,37,183 | -- |
| Sri S. Vijay Shankar(3) | 12,09,600 | -- |
| Sri S.P. Ratnam | - | 8,500 |
| Sri S.P. Rajendran | - | 11,000 |
| Sri M. Rajamani | - | 11,000 |
| Sri M. Sigamani | - | 8,500 |
| Sri S. Devarajan | - | 21,000 |
| Sri S. Dinakaran | - | 8,500 |
| Sri S. Sivakumar | 4,03,200 | - |
| Sri R. Kandaswami | - | 17,000 |
| Sri P.S. Ananthanarayanan | - | 22,000 |
| Sri N. Asoka(2) | - | 2,500 |
| Sri V. Gopalan(2) | - | 2,500 |
| Sri M. Guruvayurappan | - | 2,500 |
| Sri K.S. Ganapathy(1) | - | 17,000 |
| Sri K.K. Ramaswami(1) | - | 8,500 |

- (1) resigned from the Board with effect from 19.01.2004
 (2) appointed as Director with effect from 19.01.2004
 (3) reappointed with effect from 01.04.2003

3. Committees of the Board

(i) Audit Committee

The Audit Committee of the company was constituted on 31.01.2002 with three members and it was reconstituted on 23.10.2002 and 19.01.2004 respectively due to inclusion of new independent director. The role and terms of reference of the Committee cover areas mentioned under clause 49 of the Listing Agreement. The present composition of the Committee is as follows:



Kandagiri Spinning Mills Limited

| Name | Designation | No. of meetings attended |
|---------------------------|-------------------------------|--------------------------|
| Sri V. Gopalan* | Chairman/Independent Director | - |
| Sri S. Devarajan | Member/Promoter | 4 |
| Sri R. Kandaswami | Member/Independent Director | 3 |
| Sri P.S. Ananthanarayanan | Member/Independent Director | 4 |

Sri V. Gopalan appointed as chairman of the Audit Committee with effect from 19.01.2004.

Sri K.S. Ganapathi, member of the committee resigned on 19.01.2004.

Sri N.J. Rajagopal, Company Secretary, is also the Secretary of the Audit Committee. All the members of the Committee, and Managing Director (by invitation) attended the meetings. The head of internal audit and statutory auditors and cost auditors were also present. The Committee inter alia considered the unaudited quarterly financial results and also annual accounts.

(ii) Investors' Grievance Committee

The Board has constituted an Investors' Grievance Committee which looks into Shareholders and investors grievances. The Committee met four times during the financial year 2003-04. The Committee had examined the action taken by the company in regard to the requests of shareholders on matters relating to change of address, non-receipt of dividend warrants, revalidation of time barred dividend warrants and so on. During the year 162 requests/complaints were received and attended to promptly to the satisfaction of the shareholders except one relating to non receipt of dividend warrant. The present composition of the Committee and attendance of the members are as follows:

| Name | Designation | No. of meetings attended |
|----------------------|-------------|--------------------------|
| Sri R. Kandaswami | Chairman | 3 |
| Sri S. Sivakumar | Member | 4 |
| Sri S. Vijay Shankar | Member | 4 |

Sri N.J. Rajagopal, Company Secretary, is the Compliance Officer.

(iii) Share Transfer Committee

Share transfers are made by the Registrars and Transfer Agents (RTA) M/S Cameo Corporate Services Limited, Chennai, on the authorization given by the Board through meetings held at Chennai. The transfers/transmissions effected by the RTA are submitted to the Share Transfer Committee of the Board for confirmation and details are furnished to the Board at its meetings. No share transfer requests were pending as on March 31, 2004. The following are the members of the Share Transfer Committee.

| Name | Designation | No. of meetings attended |
|-------------------|-------------|--------------------------|
| Sri R. Selvarajan | Member | 12 |
| Sri S. Devarajan | Member | 12 |
| Sri S. Sivakumar | Member | 12 |

Sri N.J. Rajagopal, Company Secretary, is the Compliance Officer.

(iv) Remuneration Committee

The committee was constituted on 23.10.2002 with the following independent directors as members:

| Name | Designation | No. of meetings attended |
|---------------------------|-------------|--------------------------|
| Sri P.S. Ananthanarayanan | Chairman | 1 |
| Sri K.S. Ganapathi* | Member | 1 |
| Sri R. Kandaswami | Member | 1 |

* Resigned with effect from 19.01.2004



Kandagiri Spinning Mills Limited

4. General Body Meetings

The location and time of the Annual General Meetings held during the last three years are as follows:

| Year | Date | Time | Venue |
|------|------------|-----------|---|
| 2001 | 12/09/2001 | 12.00 p.m | Mill Premises, Sambandam Spinning Mills Limited Kamaraj Nagar Colony, Salem 636 014. |
| 2002 | 27/09/2002 | 12.00 p.m | Mill Premises, Sambandam Spinning Mills Limited Kamaraj Nagar Colony, Salem 636 014. |
| 2003 | 25/07/2003 | 12.00 p.m | Mill Premises, Sambandam Spinning Mills Limited Kamaraj Nagar Colony, Salem 636 014. |

Besides these, an extra ordinary general meeting of the members was held on 02.06.2003, which reappointed managerial personnel and fixed their emoluments by special resolutions.

No special resolution was put through Postal Ballot last year and the company does not propose to pass any special resolution through Postal Ballot process this year.

5. Disclosures

(i) Related party transaction

The company has not entered into any transactions of a material nature with the promoters, directors, etc., that may have potential conflict with the interests of the company.

(ii) Compliances by the company

The company has complied with the requirements of the Stock Exchanges, SEBI, etc., on all matters related to capital market. No penalties or strictures have been imposed on the company by the Stock Exchanges/SEBI.

6. Means of Communication

The annual, half-yearly and quarterly results are regularly published in the English and vernacular newspapers. These are also sent to the concerned Stock Exchanges in accordance with the Listing Agreement. The company proposes to publish the financial results in website shortly. The Management Discussion and Analysis is part of the Directors' report.

7. General Shareholder Information

(i) Annual General Meeting

Date and Time : June 30, 2004 at 11.00 a.m
Venue : Mill Premises, Sambandam Spinning Mills Limited
Kamaraj Nagar Colony, Salem 636 014.

(ii) Financial Calender

Financial reporting for
Quarter ending June 30, 2004 : July 2004 (3rd or 4th week)
Half year ending September 30, 2004 : October 2004 (3rd or 4th week)
Quarter ending December 31, 2004 : January 2005 (3rd or 4th week)
Year ending March 31, 2005 : June 2005 (3rd or 4th week)
Annual General Meeting : July 2005