

KANDAGIRI SPINNING MILLS LIMITED

35th Annual Report

2010 - 2011

CONTENTS

	Page No.
Corporate Information	1
Directors' Report	2
Corporate Governance Report	10
Auditor's Report	16
Balance Sheet	18
Profit and Loss Account	19
Cash Flow Statement	20
Schedules to Balance Sheet	22
Schedules to Profit and Loss Account	24
Notes to Accounts	27

Financial Highlights

Rupees lakhs

Particulars	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06
1 Fixed assets	12569.83	13201.00	13887.99	11670.22	8636.44	7444.76
2 Net current assets	7381.76	4156.33	2742.55	2824.75	2999.21	2146.47
3 Total capital employed	20204.59	17617.96	16938.74	14834.82	12012.75	10002.77
4 Shareholders' funds	5429.38	4719.44	4425.60	2391.63	2034.92	1920.60
5 No. of shares	38,49,250	38,49,250	38,49,250	38,49,250	38,49,250	38,49,250
6 Net worth per share (Rs.)	141	123	115	62	53	50
7 Turnover – gross	15469.57	10750.66	8726.68	8327.25	8887.82	7582.15
8 Turnover – net	15187.47	10564.21	8584.97	8219.70	8762.85	7440.12
9 Gross profit – PBDIT	3172.08	2143.04	1242.59	1937.39	2165.76	1731.33
10 Profit/(loss) before tax-PBT	1404.03	448.69	(384.67)	700.57	724.69	607.78
11 Profit/(loss) after tax – PAT	926.03	333.69	(266.32)	457.57	470.19	432.78
12 Retained earnings	1530.98	1112.96	462.80	950.19	1173.51	932.26
13 Dividend	* 40	—	—	20	50	50
14 Earnings per share -(Rs.) - Basic	24.06	8.67	(6.92)	11.89	12.22	11.24
15 Installed capacity - Spindles	67,388	67,388	67,388	56,588	54,188	49,388
- Rotors	—	552	552	552	552	384

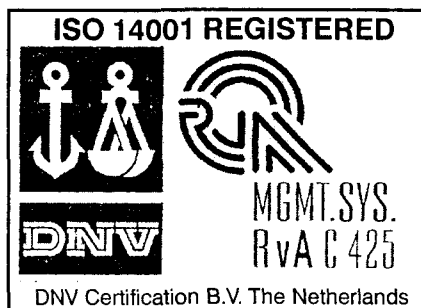
Note: Net worth per share in 2008-09, 2009-10 and 2010-11 is after reckoning revaluation surplus.

* For the year 2010-11, Interim Dividend 20% & Final Dividend 20%



Board of Directors	R. Selvarajan – Chairman and Managing Director S. Vijay Shankar – Joint Managing Director S. Devarajan M. Rajamani V. Mahadevan P. S. Ananthanarayanan V. Gopalan N. Asoka		
Statutory Auditors	M.S. Krishnaswami & Rajan		
Cost Auditors	S. Mahadevan & Co		
Bankers	State Bank of India Karnataka Bank Limited Axis Bank Limited		
Registered Office	Post Box No.3, Mill Premises, Udayapatti P.O. Salem 636 140. Tamil Nadu		
Spinning Plants	<u>Unit I</u> Udayapatti P.O., Salem 636 140. Tamil Nadu.	<u>Unit II</u> Seshanchavadi P.O. Salem 636 111. Tamil Nadu.	<u>Unit III</u> M. Perumapalayam Cross Road Mettupatty P.O., Salem 636 111. Tamil Nadu.
Wind Energy Converters	Panangudi, Pazhavor, Udhayathoor and Parameshwarapuram Villages, Radhapuram Taluk, Tirunelveli District, Tamil Nadu Melamaruthappapuram Village, Veerakeralam Pudur Taluk Tirunelveli District, Tamil Nadu. Gudimangalam Village, Udumalpet Taluk, Coimbatore District, Tamil Nadu.		

Certification

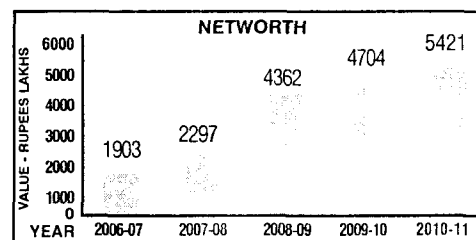
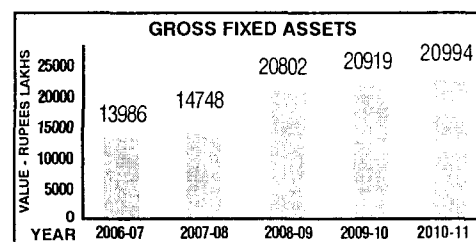
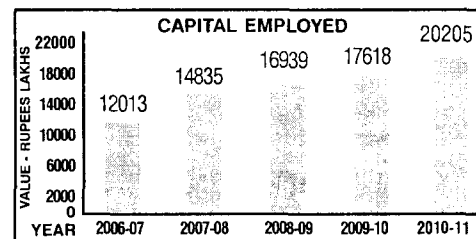


DIRECTORS' REPORT

Your directors have pleasure in submitting their 35th Annual Report together with the Audited Statement of Accounts for the year ended March 31, 2011 (the year).

Financial Results

	2010-11	2009-10
	(Rupees lakhs)	
Gross sales/Income from operations		
Export - Direct	288	623
- Merchandise	5903	3526
	6191	4149
Domestic	9279	6599
Conversion charges earned	—	3
	15470	10751
Less sales tax and cess recovery	282	187
Net sales/Income from operations	15188	10564
Gross profit (ie. profit before interest and depreciation)	3172	2143
Cash profit (ie. profit before depreciation)	2188	1228
Profit before tax	1404	449
Profit after tax	926	334
Earnings per share – Basic Rs.	24.06	8.67


Dividend

Board of Directors of your Company declared an interim dividend of Rs.2 per equity share of Rs.10 each at the Board Meeting held on January 29, 2011. Further your directors are pleased to recommend a final dividend of Rs.2 per equity share of Rs.10 each. The interim and the proposed final dividend will entail a cash outflow of Rs. 1,79,24,514/-.

Operating and Financial Performance

Your Company has had very steady performance in 2009-10. This year's annual results has shown growth in turnover of over 44% driven by strong domestic and merchandise export market for yarn compared to previous year's growth of 20%. Despite the steady increase in cotton price, yarn selling prices also increased correspondingly. On account of timely purchase of cotton, supported by good demand for yarn in the domestic and merchandise export market, your Company could achieve an operating profit of Rs.3172 lakhs for the year with an increase of 48% over previous year and profit before tax of Rs.1404 lakhs with an increase of 212%. Your Company's decision to buy power from third party has reduced the power cost (net) by almost 1%.

Your Company's Wind Energy Converters (WEC) generated power of the value of Rs.787 lakhs as against Rs.772 lakhs in the previous year.

**Management discussion and analysis**

Core business of your Company is manufacture and sale of cotton yarn. The management discussion and analysis given below discusses the key issues of the cotton yarn spinning sector.

(a) Industry performance

Indian economy in general is on a steady growth mode and has shown more resilience than some of the other developed economies around the world. Yarn production in India has been steady. Yarn prices registered increase during the year due to increased demand from domestic and international markets. Fiscal and other initiatives taken by the Government of India have eased the pressures in the economy leading to revival of textile industry. However raw material cost continued to remain high and continuance of power cut and restrictions on power supply during peak hour affected the performance of textile industry in Tamilnadu.

(b) Outlook

Even though cotton price is highly volatile and speculative at present, your directors are of opinion that it would stabilize in the coming months. The domestic and international markets were not encouraging in the first quarter of 2011-12. Divergent interests of different sectors of the textile industry need to be properly balanced and timely intervention by Central Government to ensure that is necessary. Barring unforeseen circumstances, your directors are confident that during the current financial year also your Company will be in a position to maintain its productivity and profitability at an improved level.

(c) Strategies and Future plans

As part of future plan, your directors are exploring the possibilities to take up modernization of spinning unit I and manufacture of value added yarn like slub yarn, provided the prevailing situation continues to improve. Your Company is also actively examining the possibility of entering non-woven textiles market. Plans are afoot to intensify efforts in the area of Research and Development and towards this end, a new team of young in house technocrats has been formed and these efforts are expected to result in various measures like cost reduction and new product development in the near future.

(d) Internal control and systems

Your Company has in place well established internal control procedures covering various areas such as procurement of raw materials, production planning, quality control, maintenance planning, marketing, cost control and debt servicing. Necessary checks and balances have been instituted for timely correction.

(e) Human Resources Management

Employees are your Company's most valuable resource. Your Company continues to create a favourable environment at work place. Your Company has various welfare measures both government sponsored and privately envisaged. The Company also recognises the importance of training and consequently deposes its work force to various work related courses/seminars including important issues like Total Quality Management (TQM). Because of these, your Company is able to attract and retain well trained and dedicated workforce. The fact that the relationship with the employees continued to be cordial is testimony to the Company's ability to retain high quality workforce. In view of the aforesaid relationship no man days were lost during the year under report.

(f) Corporate Social Responsibility

Your Company's main activity may be centered around making quality yarn but its concerns reach out beyond the above stated business, to the welfare of your Company's employees and to the society at large to which your Company owes its growth. With this initiative, your Company has been imparting comprehensive training to the new entrants to the Company's fold, simultaneously continuing technical education to the existing staff and workforce. Your Company, along with your group's associate Company Sambandam Spinning Mills Limited, is collaborating with two multi speciality hospitals in Salem which, apart from rendering medical service to your Company's employees and their families are also offering medical relief to the public at large at subsidized rates. Besides your Company has been taking care of the food requirements of The Tamilnadu Association for the Blind School, Ayothiyapattinam, Salem District.

**(g) Cautionary note**

Statements in the Directors' report and the management discussion and analysis describing the Company's objectives, expectations or predictions may be forward looking within the meaning of applicable securities laws and regulations. Actual results might differ materially from those either expressed or implied in the statement. Important factors that could influence the Company's operations include global and domestic demand and supply conditions affecting selling prices of finished goods, input availability and prices, changes in government regulations, tax laws, economic developments within the country and other related factors such as litigation and industrial relations.

Homage to Founder Director

Your directors note with deep regret the sad demise of Sri S.P. Ratnam, founder director and chairman Emeritus of the Company. Your directors place on record their deep sense of appreciation for the valuable services rendered by him to the Company during the tenure of his office.

Directors

Sri S. Devarajan retires by rotation and is eligible for reappointment. Sri M. Rajamani also retires by rotation but he expressed his unwillingness to be reappointed due to his other preoccupations. Board records its appreciation for the valuable services rendered by him to the Company during the tenure of his office.

Your Company's Code of Conduct applicable to the board has been adopted by the board and all the directors of the Company have confirmed compliance with the Code of Conduct.

Auditors

The auditors, M/s. M.S. Krishnaswami & Rajan, Chartered Accountants, retire at the ensuing annual general meeting and have confirmed their eligibility and willingness to accept office, if re-appointed.

Annexure

Annexure to this report details Statement on directors' responsibility, conservation of energy, technology absorption, Research and Development and foreign exchange earnings and outgo.

Compliance Certificate u/s 383A

Compliance Certificate pursuant to Section 383A of the Companies Act, 1956 obtained from M/s.B.K.Sundaram Associates, Practising Company Secretaries, Tiruchirapalli, is also annexed to this report.

Appreciation

Directors of your Company record their sincere appreciation of the dedication and commitment of all employees in achieving and sustaining excellence in all areas of the business. Your directors thank the Shareholders, Customers, Suppliers and Bankers and other stakeholders for their continued support during the year. Your Company's consistent growth has been made possible by the hard work, solidarity, cooperation and support of the management team.

Directors of your Company thank State Bank of India, Karnataka Bank Limited and Axis Bank Limited, Government of Tamil Nadu and other government agencies for their support, and look forward to their continued support in future.

Salem
May 23, 2011

For and on behalf of the Board
R. Selvarajan
Chairman and Managing Director



Annexure to Directors' Report

(i) Directors' Responsibility Statement as per section 217(2AA) of the Companies Act, 1956

Responsibility in relation to financial statements

The financial statements have been prepared in conformity, in all material respects, with the applicable Accounting Standards in a consistent manner and supported by reasonable and prudent judgments and estimates. The Directors believe that the financial statements reflect true and fair view of the financial position as on 31.3.2011 and of the results of operations for the year ended 31.3.2011.

The financial statements have been audited by M/s M.S. Krishnaswami & Rajan, Chartered Accountants in accordance with generally accepted auditing standards, which include an assessment of the systems of internal controls and tests of transactions to the extent considered necessary by them to support their opinion.

Going Concern

In the opinion of the Directors, the Company will be in a position to carry on its existing spinning of yarn business and accordingly it is considered appropriate to prepare the financial statements on the basis of going concern.

Maintenance of accounting records and Internal controls

The Company has taken proper and sufficient care for maintenance of adequate accounting records as required by various Statutes.

Directors have overall responsibility for the Company's internal control system, which is designed to provide a reasonable assurance for safeguarding of assets, reliability of financial records and for preventing and detecting fraud and other irregularities.

The system of internal control is monitored by the internal audit function, which encompasses the examination and evaluation of the adequacy and effectiveness of the system of internal control and quality of performance in carrying out assigned responsibilities. Internal Audit Department interacts with all levels of management and the Statutory Auditors, and reports significant issues to the Audit Committee of the Board.

Audit Committee supervises the financial reporting process through review of accounting and reporting practices, financial and accounting controls and financial statements. Audit Committee also periodically interacts with internal and statutory auditors to ensure quality and veracity of Company's accounts.

Internal Auditors, Audit Committee and Statutory Auditors have full and free access to all the information and records as considered necessary to carry out their responsibilities. All the issues raised by them have been suitably acted upon and followed up.

(ii) Conservation of energy, technology absorption and research and development and foreign exchange earnings and outgo

A. Conservation of energy

(a) Power and fuel consumption		2010-11	2009-10
1. Electricity			
(i) Purchased units*	'000 KWH	1,44,49	1,03,28
Total cost	Rs. lakhs	873	670
Cost/unit	Rs.	6.04	6.49
*net of units generated thro' Wind Energy Converters			
(ii) Own generation			
1) Through Diesel Generator			
Generated units	'000 KWH	39,64	45,42
Units per litre of diesel	KWH	3.30	3.30
Cost/unit	Rs.	10.97	10.52

**Annexure to Directors' Report (contd.)**

		2010-11	2009-10
2) Through Steam Turbine/Generator		—	—
3) Through Wind Energy Converters			
Generated units (fed to TNEB Grid)	'000 KWH	1,94,94	2,10,02
Cost/unit*	Rs.	2.66	2.42
*Cost includes maintenance charges, interest and depreciation			
2. Coal		—	—
3. Furnace oil		—	—
4. Others		—	—
(b) Consumption per unit of production			
Production (yarn)	Kgs. lakhs	69.30	66.04
Consumption of electricity	'000 KWH	3,79,07	3,58,72
Consumption per kg. of Yarn	KWH	5.47	5.43
B. Technology Absorption and Research and Development		—	—
C. Foreign Exchange Earnings and Outgo			
(a) Activities relating to exports			
Yarn exports (including merchandise exports)	Rs. lakhs	6192.27	4148.24
(b) Total Foreign Exchange used and earned			
1) CIF value of Imports			
Spares for Capital goods*	Rs. lakhs	25.29	6.36
Raw materials (cotton)*	Rs. lakhs	197.91	791.82
*exclusive of net exchange difference			
2) Other expenditure in foreign currency			
Interest	Rs. lakhs	54.15	39.67
Other matters	Rs. lakhs	5.34	5.37
3) Foreign exchange earned			
Yarn export	Rs. lakhs	295.11	628.79

(iii) Particulars of employees – information pursuant to Section 217(2A) of the Companies Act, 1956

A. Employed throughout the year and in receipt of remuneration aggregating to Rs.60,00,000 or more - Nil

B. Employed for part of the year and in receipt of remuneration of Rs. 5,00,000 or more per month - NIL

Note : Remuneration includes salary and value of perquisites, nature of employment being contractual.

Salem,
May 23, 2011

For and on behalf of the Board
R. Selvarajan
Chairman and Managing Director

(iv) Code of Conduct for the Senior Management

As required under Clause 49(1)(D) of the Listing Agreements with the Stock Exchanges, I hereby declare that all the Board members and senior management personnel of the Company have complied with the Code of Conduct of the Company for the year ended March 31, 2011.

Salem,
May 23, 2011

R. Selvarajan
Chairman and Managing Director

**Annexure to Directors' Report (contd.)**

B.K.SUNDARAM & ASSOCIATES
COMPANY SECRETARIES.
B.KALYANASUNDARAM,
B.Com.,AICWA.,ACS.,

OFFICE:
30,PANDAMANGALAM AGRAHARAM,
WORIUR,TRICHY-620003.
PHONE:0431-2761590.

To
 The Members,
 M/S KANDAGIRI SPINNING MILLS LIMITED

Sub: Compliance Certificate.

Ref: M/S KANDAGIRI SPINNING MILLS LIMITED Company Regn. No.: 181- 000762.

We have examined the registers, records, books and papers of the above said Company as required to be maintained under the Companies Act, 1956, (the Act) and the Rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31st March, 2011. In our opinion and to the best of our information and according to the examinations carried out by us and explanations furnished to us by the Company, its officers and agents, we certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made there under and all entries therein have been duly recorded.
2. The Company has duly filed the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, Regional Director, Central Government, Company Law Board or other authorities under the Act and the Rules made there under.
3. The Company being a Public Limited Company has the minimum prescribed paid-up capital.
4. The Board of Directors duly met 4 (FOUR) times on 29/05/2010, 12/08/2010, 30/10/2010 and 29/01/2011 in respect of which meetings proper notices were given and the proceedings were duly recorded and signed including the circular resolutions passed in the Minutes Book maintained for the purpose.
5. The Company has closed its Register of Members from 30/07/2010 to 12/08/2010 (both days inclusive) during the year under scrutiny.
6. The Annual General Meeting for the financial year ended on 31st March 2010 was held on 12/08/2010 after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in the Minutes Book maintained for the purpose.
7. No Extra-Ordinary General Meeting was held during the financial year under scrutiny.
8. The Company has not advanced loans to its directors and/or persons or firms or Companies referred in the section 295 of the Act during the year under scrutiny.
9. The Company has duly complied with the provisions of section 297 of the Act in respect of the contracts specified in that section.
10. The Company has made necessary entries in the register maintained under Section 301 of the Act.
11. The Company did not attract the provisions of Section 314 of the Act during the year under scrutiny.
12. The duly constituted committee of Directors has approved the issue of duplicate share certificates during the year under scrutiny.
13. (i) There was no allotment of shares /securities. The Company has delivered all the certificates on lodgment thereof for transfer/ transmission or any other purpose in accordance with the provisions of the Act.
- (ii) The Company has opened a separate Bank Account with Axis Bank Limited, Salem on 03/02/2011 and deposited a sum of Rs.76,98,500/-being the amount of interim dividend declared on 29.01.2011.
- (iii) The Company has issued warrants for dividends to all the members within a period of 30 (Thirty) days from the date of declaration and the amount of unclaimed/unpaid dividend remaining in a separate Account with Axis Bank Limited, Salem, as on 31.03.2011 was Rs. 2,71,048/-



- (iv) The Company has transferred Rs.2,10,350/-in unpaid dividend account which have remained unclaimed or unpaid for a period of seven years to Investor Education and Protection Fund by filing Form No.1-INV under SRN A95761128 dt.11-10-2010.
- (v) The Company has complied with the requirements of section 217 of the Act.
14. The Board of Directors of the Company is duly constituted and there were no new appointments of Directors, Additional Directors, Alternate Directors and Directors to fill casual vacancies during the year under scrutiny.
15. There was no appointment of Managing Director/Whole-time Director during the year under scrutiny.
16. The Company has no sole-selling agents.
17. The Company has obtained approval from the Regional Director pursuant to Section 297(1) of the Companies Act, 1956 in respect of the contracts with M/s Sambandam Siva Textiles Private Limited and M/s K.R.Manicka Mudaliar & Sons [Order No.F. No.2/M 8456/2002 dt. 8-2-2011]. The Company had filed an application with the Honourable Company Law Board seeking compounding orders in respect of transactions entered into with the concerns attracting Sec. 297 covering the period 25-07-2006 to 15-11-2007 and the orders of the CLB are awaited.
18. The Directors have disclosed their interest in other firms/companies to the Board of Directors pursuant to the provisions of the Act and the rules made there under.
19. The Company has issued NIL shares during the financial year under Scrutiny.
20. The Company has bought back NIL shares during the financial year under Scrutiny.
21. The Company has redeemed NIL preference shares/debentures during the year under scrutiny.
22. The Company had no occasion to keep in abeyance rights to dividend, rights shares and bonus shares pending registration of transfer of shares in compliance with the provisions of the Act.
23. The Company has complied with the provisions of Section 58A and 58AA read with Companies (Acceptance of Deposit) Rules, 1975 / the applicable directions issued by the Reserve Bank of India/ any other authority in respect of deposits accepted including unsecured Loans during the year under scrutiny attracting the provisions of sections 58A and 58AA read with Companies (Acceptance of Deposit) Rules, 1975 / the applicable directions issued by the Reserve Bank of India / any other authority.
24. The amount borrowed by the Company from directors, members, Public, Financial Institutions, Banks and others during the financial year ended 31-3-2011 was within the borrowing limit of Rs.300 Crores, approved by the Shareholders pursuant to Sec.293(1)(d) of the Act at the duly convened AGM held on 06/07/2007.
25. The Company has not made Loans and Investments or given guarantees or provided securities to other Bodies Corporate during the year under scrutiny.
26. The Company has not altered the provisions of the Memorandum with respect to situation of the Company's registered office from one State to another during the year under scrutiny.
27. The Company has not altered the provisions of the Memorandum with respect to the objects of the Company during the year under scrutiny.
28. The Company has not altered the provisions of the Memorandum with respect to name of the Company during the year under scrutiny.
29. The Company has not altered the provisions of the Memorandum with respect to share capital of the Company during the year under scrutiny.
30. The Company has not altered its Articles of Association of the Company during the year under scrutiny.
31. No prosecution was initiated against or show cause notices received by the Company for alleged offences under the Act and No fines and penalties or any other punishment were imposed on the Company during the year under scrutiny.
32. The Company has received Rs. NIL as security from its employees during the year under scrutiny.
33. The Company does not attract the provisions of Section 418 of the Companies Act, 1956.

Sd/-

Place : TRICHY – 3.

Name of Company Secretary : B.KALYANASUNDARAM

Date : 23.05.2011

C. P. No. : 2209