

# Kandagiri Spinning Mills Limited

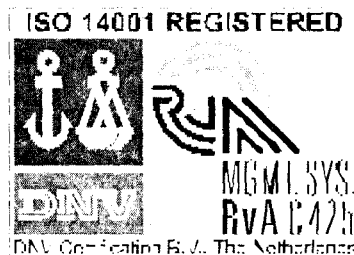
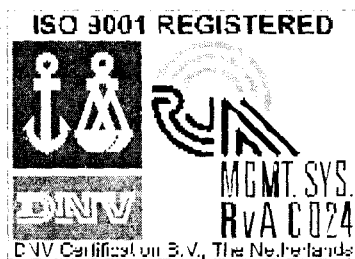
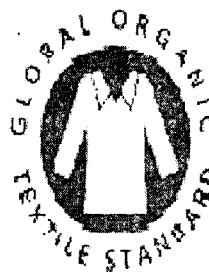
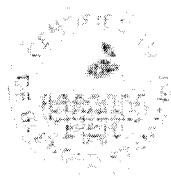


36th  
Annual Report  
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**Board of Directors** R. Selvarajan – Chairman and Managing Director  
S. Vijay Shankar – Joint Managing Director  
S. Devarajan  
S. Sivakumar  
V. Mahadevan  
P. S. Ananthanarayanan  
V. Gopalan  
N. Asoka

**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** Unit I Udayapatti RO.,  
Salem 636 140. Tamil Nadu.  
Unit II Seshanchavadi P.O.  
Salem 636 111. Tamil Nadu.  
Unit III M. Perumapalayam Cross Road, Mettupatty P.O.,  
Salem 636 111. Tamil Nadu.

**Wind Energy** Panangudi, Pazhavor, Udhayathoor  
**Converters** 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.



## NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the **Thirty Sixth Annual General Meeting** of the Company will be held at the Mill premises of Sambandam Spinning Mills Limited at Kamaraj Nagar Colony, Salem – 636 014 on **Monday, the 13<sup>th</sup> August, 2012 at 11.30 a.m** to transact the following business:

### Ordinary Business

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2012 and the Profit and Loss account together with the Notes annexed thereto and the Cash Flow Statement for the year ended on that date and the reports of the Directors and the Auditors thereon.
2. To appoint a director in the place of Sri P.S. Ananthanarayanan who retires by rotation and being eligible, offers himself for re-appointment:
3. To appoint a director in the place of Dr. V. Gopalan who retires by rotation and being eligible, offers himself for re-appointment:
4. To appoint auditors and to fix their remuneration and, in this connection to pass with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED that, pursuant to Section 224 of the Companies Act, 1956, M/s. M.S.Krishnaswami & Rajan, Chartered Accountants be and are hereby re-appointed Auditors of the Company from the conclusion of this meeting until the conclusion of the next Annual General Meeting on such remuneration and terms as may be determined by the Board of Directors of the Company."

### Special Business

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

"RESOLVED THAT pursuant to the provisions of Sections 198, 269 and 309, read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, (including any amendment thereto or enactment thereof for the time being in force), consent of the Company be and is hereby accorded for reappointment of Sri R. Selvarajan, Chairman and Managing Director of the Company, for a period of three years from 1.10.2012 to 30.09.2015 on the following terms and conditions recommended by the Remuneration Committee and approved by the Board of Directors of the Company.

- (a) Basic Salary Rs.1,80,000/- (Rupees one lakh and eighty thousand only) per month
- (b) Perquisites and allowances not exceeding Rs.1,20,000/- (Rupees One lakh and twenty thousand only) per month, details of which are set out in the Explanatory Statement."

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

"RESOLVED THAT pursuant to the provisions of Sections 198, 269 and 309, read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, ( including any amendment thereto or enactment thereof for the time being in force ), consent of the Company be and is hereby accorded for reappointment of Sri S. Vijay Shankar, Joint Managing Director of the Company, for a period of three years from 1.10.2012 to 30.09.2015 on the following terms and conditions recommended by the Remuneration Committee and approved by the Board of Directors of the Company.

- (a) Basic Salary Rs.1,20,000/- (Rupees One lakh and twenty thousand only) per month
- (b) Perquisites and allowances not exceeding Rs. 80,000/-(Rupees Eighty Thousand only) per month, details of which are set out in the Explanatory Statement."

Place: Salem  
Date: May 30, 2012

For and on behalf of the Board of  
Kandagiri Spinning Mills Limited  
R.Selvarajan  
Chairman and 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 and that the proxy need not be a member of the Company. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from **07.08.2012 to 13.08.2012** (both days inclusive).
3. Members are requested to contact M/s. Cameo Corporate Services Ltd., Registrars and Share Transfer Agents of the Company, at Subramaniam Building, No.1 Club House Road, Chennai 600 002 for recording any change of address, bank mandate, or nominations and for redress of grievance or contact the Company Secretary at the Registered Office of the Company. Members can also submit their grievances direct to the Company at the following e mail ID:

**ksmcs@kandagirimills.com , saies@kandagirimilis.com**

Those members who have not so far encashed their **dividend warrants for the year 2005** may send the unencashed dividend warrants to the Company or **approach the company immediately for payment thereof**, as the same will be invalid after transfer of the unpaid amounts in August 2012 to the Investor Education and Protection Fund of the Central Government, pursuant to Section 205 A (5) of the Companies Act, 1956. After transfer of the unpaid dividend to the above fund, shareholders will cease to have any claim over that amount. Members who have not encashed any other year's dividend warrants after 2005 also may return the warrant(s) to the Company or contact the Company with their shareholding details for issue of fresh cheque in lieu of the unencashed dividend warrant(s). Unencashed/Unpaid dividends upto 2004 have already been transferred to the Investor Education and Protection Fund A/c of Government of India. As such no claim can be made for the dividends declared/paid prior to 2005.

5. As per the provisions of Sections 109A and 109B of the Companies Act, 1956 facility for making nomination is available to shareholders in respect of the shares held by them. This will facilitate smooth transmission of shares after the life time of the shareholders, particularly those holding shares in sole name. Nomination forms can be obtained from M/s Cameo Corporate Services Limited, at Subramaniam Building, No.1, Club House Road, Chennai – 600 002.
6. Securities and Exchange Board of India (SEBI) vide its Circular No.MRD/DoP/Cir-05/2009, dated May 20, 2009 issued pursuant to Section 11 of the SEBI Act, 1992, read with Section 55A of the Companies Act, made it mandatory for shareholders to furnish copy of their PAN card to the Company/RTA for registration of transfer of their shares. This is applicable to every transfer of shares transacted in the securities market irrespective of the amount of such transaction. Shareholders are advised to take note of this circular and comply with the same whenever they intend to transfer their shares / acquire further shares.
7. Members are requested to inform the Company their e-mail ID to facilitate quick response from the Company. Ministry of Corporate Affairs has recognised e-mail communication to share holders as effective and efficient means of communication from the Company and also addressed to the Company. Members may register their e-mail id with the Company and also keep the Company informed of any changes in their e-mail ID.
8. As per SEBI Regulation (Regulation No 13) a person holding the Company's shares/acquiring the Company's shares (voting rights) exceeding 5% of the paid up share capital (one lakh ninety thousand equity shares of the Company together with their existing holdings) shall inform the Company within 4 working days of acquisition of the Company's shares before sending the share transfer documents to Cameo Corporate Services Ltd., for registering the shares in their name. Similarly persons already holding 5% or more (more than one lakh ninety thousand) equity shares of the Company shall inform the Company if they sell or transfer any of their shares within 4 working days of sale of their shares.
9. Members who have not so far dematerialized their shares are advised to demat the shares held in physical form.



10. Pursuant to Clause 49 of the Listing Agreement with Stock Exchanges, a brief resume of the directors who are proposed to be re-appointed on their retirement at this Annual General Meeting is given below:

- (a) Sri P.S. Ananthanarayanan, an Engineer cum Cost Accountant, has held high position in Balmer Lawrie & Company Limited. He has three decades of experience in the field of cost control and planning. He is also a Director and Chairman of the Audit Committee and the Remuneration Committee of Sambandam Spinning Mills Limited. He does not hold any shares in the Company.
- (b) Dr. V. Gopalan, a financial consultant, is a member of the Institute of Chartered Accountants, Cost Accountants and Company Secretaries and has held high 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. He is also a Director of Sambandam Spinning Mills Limited and a member of its Audit committee and Remuneration Committee. He does not hold any shares in the Company.

Dr. V. Gopalan was awarded Doctorate (Ph.D) by the Madras University for his Research work on "Financial Implications and Outcome of Cross Border Outbound Acquisitions from India". He had brought out in his research various gaps in the Indian Regulatory requirements with reference to Mergers and Acquisitions which received the attention of several policy makers. In his thesis, Dr.Gopalan suggested changes in the existing regulations of RBI, SEBI, Ministry of Corporate Affairs and Accounting Standards of ICAI.

Both the aforesaid Directors are members of the Audit Committee and the Remuneration Committee of the Company.

**Explanatory statement pursuant to Sec.173(2) of the Companies Act, 1956 for items No. 5 and 6:**

Remuneration Committee of the Company, at its meeting held on May 30, 2012, recommended reappointment of Sri R. Selvarajan, Chairman and Managing Director and Sri S. Vijay Shankar, Joint Managing Director for a period of three years from 1-10-2012 to 30-09-2015 and for payment of remuneration as stated in the respective resolutions. Board of Directors of the Company is of the opinion that Sri R. Selvarajan, Chairman and Managing Director and Sri S. Vijay Shankar, Joint Managing Director are fit and proper persons to hold the said office and that payment of remuneration to them as stated in the Resolutions are in the interest of the Company.

- (a) Perquisites and Allowances: Following are the perquisites/allowances payable to  
Sri R. Selvarajan, Chairman and Managing Director and  
Sri S. Vijay Shankar Joint Managing Director
  - (i) Company's contribution to provident fund; (ii) Payment of Gratuity and other retirement benefits;
  - (iii) Leave with full pay as per the rules of the Company with encashment of unavailed leave being allowed; (iv) Maintenance of residential accommodation, gas, water, electricity and power, furnishings and utility allowance; (v) reimbursement of medical expenses incurred in India and abroad for self and family including, in case of medical treatment abroad, air fare, boarding and lodging for patient and attendant; (vi) leave travel assistance and allowance; (vii) membership fees for clubs, including admission and life membership; (viii) hospitalisation and accident insurance; (ix) cost of insurance cover against the risk of any financial liability or loss because of any error of judgment; (x) free use of Company's car with driver for Company's work as well as for personal purpose along with driver, (xi) telephone, tele-fax and other communication facilities at Company's cost, (xii) subject to any statutory ceiling(s), the appointee may be given any other perquisites, benefits and facilities as the remuneration committee may, from time to time decide.



(b) Valuation of perquisites: Perquisites shall be valued as per the income tax rules, wherever applicable and at actual cost to the company in other cases.

(c) The Company's contribution to provident fund as per para (b)(i) above, payment of gratuity as per para (b)(ii) above and encashment of leave at the end of the tenure as per para (b)(iii) above shall not be included in the computation of perquisites for the purpose of the ceiling.

In terms of section II(1)(B) of Part II of Schedule XIII to the Companies Act, 1956, the Company can pay up to Rs.3,50,000/- per month by way of salary, perquisites and allowances to each whole time director, provided, the shareholders' approval by way of special resolution has been obtained for payment of managerial remuneration for a period not exceeding three years. Accordingly, the special resolutions at items No.5 and 6 are placed before the shareholders.

As required under clause (IV) of the proviso under Section II (1)(B) of Schedule XIII to the Companies Act, 1956, the additional information is furnished as under:

## I General Information

- (1) Name of the industry : Textile  
 (2) Date of commencement of Commercial Production : June 1976  
 (3) Financial Performance :

### Financial Highlights

Rs. lakhs

	2011-12	2010-11
Share Holders' funds	4102.60	5429.38
Non-Current Liabilities	6285.63	8046.45
Current Liabilities	6735.96	8803.62
Non-Current Assets	13138.08	13698.33
Current Assets	3986.11	8581.12
Income	12665.88	15194.86
Expenses	14673.77	13790.83
Profit / (Loss) before tax	(2007.89)	1404.03
Profit / (Loss) for the year after tax	(1297.89)	926.03
Earnings per Equity share (Face value Rs.10) -basic and diluted (in Rs.)	(33.72)	24.06
Total Capital employed	16879.18	21951.40
Net worth per share (Rs.)	106.58	141.05
Profit before Interest and Depreciation	193.69	3311.11
Retained earnings	Nil	1710.22
Dividend (%)	Nil	40


**(Rs. Lakhs)**

		<b>2011-12</b>	<b>2010-11</b>
4) Export Performance and net Foreign exchange	(i) Earnings in foreign exchange	<b>136.99</b>	295.12
Collaborations	No foreign collaboration		
	(ii) Expenditure in Foreign Currencies	<b>56.71</b>	59.48
5) Foreign investments or Collaborators, if any	Nil		

**II Information about the appointee:**
**(1) Background details:**

(1) Sri R. Selvarajan, 66 years of age, is a Matriculate. He became the Chairman and Managing Director of the Company on October 23, 2002 and has the distinction of leading the Company since then. He has been on the Board of various companies and has more than four decades of experience in the field of textiles.

(2) Sri S. Vijay Shankar, 34 years of age, is a Master Graduate of Business Administration. He became the Joint Managing Director of the Company on October 23, 2002 and has been leading the Company since then. He specialized in business administration and finance and has served the company for the past 9 years.

**(2) Past remuneration:**

(1) For Sri R. Selvarajan, Rs.3,00,000/- per month inclusive of perquisites such as House rent allowance, Medical reimbursement, gas, water and electricity, leave encashment, gratuity, club subscriptions and other usual perquisites.

(2) For Sri S. Vijay Shankar, Rs.2,00,000/- per month inclusive of perquisites such as House rent allowance, Medical reimbursement, gas, water and electricity, leave encashment, gratuity, club subscriptions and other usual perquisites.

**(3) Recognition and award: Nil**
**(4) (i) Job profile**

(1) As Chairman and Managing director Sri R. Selvarajan is in charge of the management of the affairs of the Company.

(2) As Joint Managing director Sri S. Vijay Shankar, is assisting the Managing Director in the management of the affairs of the Company.

**(ii) His suitability**

(1) Experience of Sri R. Selvarajan, for the last 35 years as Director of Sambandam Spinning Mills Limited and for the past 10 years as Managing Director of the company makes him ideally suitable for the said position.

(2) Experience of Sri S. Vijay Shankar, in the field of business administration and finance for the past 10 years in the Company makes him ideally suitable for the said position.





- |   |  |
|---|--|
| (5) Remuneration proposed   | (1) Rs.3,00,000/- per month inclusive of perquisites and other allowances as mentioned supra for Sri R. Selvarajan.  |
|   | (2) Rs.2,00,000/- per month inclusive of perquisites and other allowances as mentioned supra for Sri S. Vijay Shankar.   |
| (6) Comparative remuneration profile with respect to industry                                     | Information not available  |
| (7) Pecuniary relationship with the Company or relationship with the managerial personnel if any: | <p>(1) Sri R. Selvarajan holds 7,78,330 equity shares of Rs.10 each in the Company and he is related to Sri S. Vijay Shankar, Joint Managing Director.</p> <p>(2) Sri S. Vijay Shankar holds 4,09,582 equity shares of Rs.10 each in the Company and he is related to Sri R. Selvarajan, Chairman and Managing Director.</p> |

### III. Other information:

#### Reasons for inadequate profits, steps taken for improvement and expected increase in productivity:

The Company's profitability was significantly affected due to fall in the price of yarn engendered by the recession in the US and European economy, EB Power crisis in Tamilnadu and high cost of Finance. Management is contemplating to initiate measures towards development of value added products and cost cutting measures, which are expected to improve the productivity and profitability of the company.

The proposed remuneration of Sri R.Selvarajan, Chairman and Managing Director and Sri S. Vijay Shankar, Joint Managing Director are subject to the approval of the shareholders by way of special resolution at the ensuing Annual General Meeting of the Company.

Sri S. Vijay Shankar, Joint Managing Director is concerned with or interested in the aforesaid proposed remuneration payable to Sri R. Selvarajan, Chairman and Managing Director. Sri R. Selvarajan is concerned with or interested in the aforesaid proposed remuneration payable to Sri S. Vijay Shankar, Joint Managing Director.

Minutes of the Remuneration Committee Meeting and the Board Meeting regarding the re-appointment of the aforesaid whole time directors and the remuneration payable to them are available at the Registered Office of the Company and is open for inspection by members during office hours.

**The above explanatory statements together with the accompanying notice is to be treated as an abstract of the change in the terms of remuneration payable to Sri R. Selvarajan, Chairman and Managing Director and Sri S. Vijay Shankar, Joint Managing Director of the Company under section 302 of the Companies Act 1956.**

Registered Office :  
Post Box No.3,  
Udayapatti,  
Salem – 636 140.

For and on behalf of the Board of  
Kandagiri Spinning Mills Limited  
R.Selvarajan  
Chairman and Managing Director

**DIRECTORS' REPORT**

Your directors have pleasure in submitting their 36th Annual Report together with the Audited Statement of Accounts for the year ended March 31, 2012 (the year).

**Performance Highlights**

	2011-12	2010-11
	(Rupees lakhs)	
Gross sales/Income from operations		
Export - Direct	<b>137</b>	289
- Merchandise	<b>4641</b>	5903
	<b>4778</b>	6192
Domestic Sales	<b>7856</b>	8981
Other income	<b>4</b>	4
Total Turnover	<b>12638</b>	15177
Gross profit (ie. profit before interest and depreciation)	<b>194</b>	3311
Cash profit/(loss) (ie. profit/(loss) before depreciation)	<b>(1205)</b>	2188
Profit/(loss) before tax	<b>(2008)</b>	1404
Profit/(loss) after tax	<b>(1298)</b>	926
Earnings per share		
-basic and diluted Rs.	<b>(33.72)</b>	24.06

**Dividend**

In view of the loss incurred during the year, no dividend is recommended by your board of directors.

**Operating and Financial Performance**

Your company's revenue from operations during the year has fallen from Rs.15177 lakhs to Rs.12638 lakhs due to the steep fall in yarn prices triggered by the crashing of yarn prices in the first quarter of 2011-12. In view of the disparity of cotton prices with yarn price coupled with power cut by nearly 60%, your company incurred loss of Rs.2008 lakhs as against profit of Rs.1404 lakhs recorded in the previous year.

Your company's Wind energy converters (WEC) generated power of the value of Rs.671 lakhs (Rs.787 lakhs in 2010-11) resulting in savings in power cost.

**Management discussion and analysis**

The core business of the 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**

- (i) The last couple of years have seen almost all the economies of the world go through tumultuous times and India has been no exception to the troubled economic situation. With slackening global demand, tight liquidity situation, and the monetary tightening measures taken by Reserve Bank of India to tame inflation, the Indian industries experienced dampening economic activity.