



KANDAGIRI SPINNING MILLS LIMITED

37th Annual Report

2012 - 2013

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## Certification





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



## NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the Thirty Seventh 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 Wednesday, the 14th August, 2013 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, 2013 and the Profit and Loss account and the Cash Flow Statement for the year ended on that date together with the notes annexed thereto and the reports of the Directors and the Auditors thereon.
- 2 To appoint a director in the place of **Sri V. Mahadevan** who retires by rotation and being eligible, offers himself for re-appointment.
- 3 To appoint a director in the place of **Sri N. Asoka** 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 they 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 sub-clause (i) of clause (b) of sub-section (2A) of section 149 of the Companies Act 1956, approval of the Company be and is hereby accorded for commencement of new business stated in Clause III C (26) of the Memorandum of Association of the Company reproduced here below :

**III C (26)** "TO GENERATE POWER BY ESTABLISHING WIND TURBINES, GAS TURBINES, SOLAR POWER STATIONS AND ALSO GENERATE POWER FROM TIDAL WAVES OR BY ANY OTHER METHOD AND TO SELL SUCH POWER TO TAMIL NADU ELECTRICITY BOARD OR TO ANY OTHER PERSON, ORGANISATION OR GOVERNMENT BODY".

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to file pursuant to sub-clause(ii) of clause (b) of sub-section(2A) of section 149 of the Companies Act 1956, a duly verified declaration in **E-Form 20A** prescribed in the Companies (Central Government's) General Rules and Forms (Amendment) Rules 2006, within the prescribed period of time and to do all such acts, deeds and things as may be required to give effect to this resolution."

Place : Salem  
Date : 27<sup>th</sup> May 2013

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 him/her 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 TUESDAY, 6\* August 2013 to WEDNESDAY 14\* August 2013 (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:  

sales@kandagirimills.com      ksmcs@kandagirimills.com
- 4 Those members who have not so far encashed their dividend warrants for the year 2006 may send the unencashed dividend warrants immediately to the Company or approach the Company for payment thereof, as the same will be invalid after transfer of the unpaid amounts in July 2013 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 2006 also may return the warrant(s) to the Company or contact the Company furnishing their full address and their shareholding details for issue of fresh cheque in lieu of the unencashed dividend warrant(s). Unencashed/Unpaid dividend up to 2005 has already been transferred to the Investor Education and Protection Fund A/c of Government of India. As such no claim shall be made for dividend declared/paid prior to 2006.
- 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 or 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 member's communication 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 which will ensure safety and security for their shares.
- 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 V. Mahadevan**, is a Master of Commerce and a rank holder from Madras University. He has been an independent director of the Company from 28.7.2005. He has held the position as **Chairman/Managing Director** of State Bank of India and State Bank of Indore. He has also worked as financial expert at United Nations. He has more than four decades of experience in the field of banking and finance. He is also a member of the Audit Committee of this Company and an independent director and member of the Audit Committee of **Sambandam Spinning Mills Limited**. He does not hold any share in the Company. No other director is personally interested in his reappointment.
- (b) **Sri N. ASOKA**, a Chemical Engineer, is an industrialist. He is the Managing Director of Spark Engineers Private Limited, as **ISO-9001-2008** Certified Company and Managing Partner of Spark Enterprises. He is an Independent Director and member of the Audit Committee and the Remuneration Committee of this Company and also Sambandam Spinning Mills Limited, Salem. He has more than two decades of experience in the field of management. He is the recipient of '**Best Industrialist Award in 1991-92**' from the Department of Industries and Commerce, Government of Tamil Nadu. He shows keen interest in providing social welfare services to the needy. In recognition of his services as a **Rotarian** since **1988**, he was elected '**District Governor**' of Rotary International for **2011-12**. He is the Governing council member of the Salem Productivity Council. He does not hold any share in the Company. No other director is personally interested in his reappointment.

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

The Company is planning to install **SOLAR POWER GENERATION SYSTEM** in line with the Tamil Nadu Government's directions for all industries to install such facilities to meet the industry's needs and for augmenting the power supply in the state. Section 149 (2A) of the Companies Act requires that the members of the Company should approve, by a Special Resolution **before** commencement of any new business by the company which is not germane to the business which it has been carrying on at present. Accordingly, a special resolution at item No.5 is placed before the members. Board of directors commend the resolution for adoption. None of the directors is interested in the resolution.

Memorandum of association of the Company containing the clause stated in the resolution is available for inspection by members during business hours.

Registered Office :  
Mill Premises,  
Post Box No.3,  
Udayapatti, Salem - 636 014

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 presenting their 37th Annual Report together with the audited accounts for the year ended March 31, 2013 (the year).

### Performance Highlights

	2012-13	2011-12
Turnover	(Rupees lakhs)	
Export - Direct	—	137
- Merchandise	6584	4641
Domestic Sales	9453	7856
Other operating income	17	4
	<hr/>	<hr/>
Total Turnover	16054	12638
	<hr/>	<hr/>
Profit		
Gross profit (ie. profit before Interest, depreciation and tax)	2886	194
Cash profit/(loss)	1649	(1205)
(i.e. <b>profit/(loss)</b> before depreciation and tax)		
<b>Profit/(loss) before tax (PBT)</b>	828	(2008)
<b>Profit/(loss) after tax (PAT)</b>	585	(1298)
Earnings per share - basic and diluted (Rupees)	15.20	(33.72)

### Dividend

In view of the carried over losses as at March 31, 2013, no dividend is recommended by your board of directors for the financial year 2012-13.

### Financial Performance with respect to Operational Performance:

During the year under review, your company was able to effect a turnaround in performance through dedicated efforts aimed at improving operational efficiency, timely purchase of cotton in the market, remunerative prices and good demand for yarn, focus on optimal product mix and effective cost reduction practices, all of which resulted in improved sales and return to profitability. Your Company achieved a sales turnover of **Rs. 16054** lakhs as against **Rs. 12638** lakhs recorded in the previous year, registering an increase of about 27% over the previous year. Your Company has earned profit before tax of **Rs. 828** lakhs during the year as against loss of **Rs. 2008** lakhs in the previous year, despite the severe power cut which lead to abnormal increase in the power cost and high interest cost during the year.

Your Company's Wind Electric Generators (WEGs) recorded very good generation of electricity of the value of **Rs. 1094** lakhs during the year (as against **Rs. 671** lakhs during 2011-12) - 63% increase over the previous year, resulting in considerable 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:**

Indian economy in general has shown more resilience than some of the other developed economies around the world. However the worsening current account deficit and weakening rupee presented liquidity problem compelling Reserve Bank of India to take monetary tightening measures to tame the inflation.

The Spinning Industries faced unprecedented problems in many ways. Though demand for yarn in domestic and export markets were steady, spinning mills performance was affected due to severe shortage of power in Tamil Nadu which compelled the spinning mills to go in for third party power and own generation of power using diesel generators, which resulted in high power cost. Increasing interest rates further aggravated the problem and exerted severe pressure on profit margin.

In 2012-13 Cotton Prices remained stable mainly because of the lukewarm response from Cotton importers in China and Bangladesh and the cash crunch faced by domestic buyers. Yarn prices in domestic markets as well as overseas markets were quite satisfactory. Main reason for improvement in yarn export market was lifting of ban and anti dumping duty and reduction of import duty on Cotton Yarn by Turkey and Peru at the intervention of WTO. China also started buying more yarn instead of cotton from India due to price advantage.

**(b) Outlook**

The industry expects to improve its margin during the year. Demand for yarn has also been good both in domestic market and merchant export market. Your directors are very cautious about the cotton price and yarn price movements. Barring unforeseen circumstances, Company's performance will be good in the coming year.

**(c) Strategies and Future plans**

Your Company is also actively examining the possibility of reducing costs at all levels and evaluating new value added products, which will have fresh demand in domestic as well as international markets. To overcome the power shortage problem, your company is planning to install dedicated power feeder line from Tamilnadu Electricity Board, so that the Wind Turbine generated power and the third party purchased power can be used even during the power shut down period. By this process your company will be able to reduce the power cost substantially.

**(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 provides necessary accommodation and food facility to the Employees. Your Company has various welfare measures both government sponsored and privately envisaged. The Company also recognizes the importance of training and consequently deputed its work force to various work related courses/seminars including important issues like Total Quality Management (TQM). The fact that the relationship with the employees continues to be cordial is testimony to the Company's ability to retain high quality workforce.

**(f) Environmental Protection, Health and Safety (EHS)**

EHS continues to receive highest priority in all operational and functional areas at all locations of your Company. Systematic process safety analysis, audits and periodic safety inspections are carried out by external agencies and suitable control measures adopted for ensuring safe operations at the site. All the process, wherever required, are backed up by efficient scrubbing systems to take care of any fugitive emission into the environment.

**(g) Corporate Social Responsibility and Community Development Initiatives**

Your company's main activity is 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. Your Company, along with your group's associate Company Sambandam Spinning Mills Limited, is collaborating with a Multi Specialty Hospital 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 nearly 150 inmates of The Tamilnadu Association for the Blind School in Ayothiyapattinam, Salem District.

**(h) 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.



### **COST AUDIT REPORT**

As per the directions of the Cost Audit Branch of the Ministry of Corporate Affairs, M/s. S. MAHADEVAN & CO., Cost Accountants, Coimbatore, has been appointed Cost Auditor for audit of Cost Accounts of the Company and their report for the year ended 31st March 2012 has been submitted on 25.01.2013 to the Ministry of Corporate Affairs (VIDE SRN No.S20009809, dated 25-01-2013). Due date for submission of that Cost Audit Report was **31.01.2013**.

M/s. S. Mahadevan & Co. have been reappointed for Audit of Cost Accounts of the Company for the year ended 31.3.2013. Their reports for the year ended 31.3.2013 will be filed well before the due date.

### **Directors**

Sri N.Asoka and Sri V.Mahadevan retire by rotation and they are eligible for reappointment. 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 due compliance with the Code of Conduct.

### **Auditors**

The auditors, M/s. M.S. Krishnaswami & Rajan, Chartered Accountants, retire at the end of the ensuing annual general meeting and they have confirmed their eligibility and willingness to accept office, if 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, Practicing Company Secretaries, 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, 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, the Government of Tamil Nadu and other government agencies for their support, and look forward to their continued support in future.

Salem  
May 27, 2013

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