



31st
Annual Report
2006-07

Malwa Cotton Spinning Mills Ltd.



MALWA COTTON SPINNING MILLS LIMITED

THE MANAGEMENT BOARD OF DIRECTORS

MR. JANGI LAL OSWAL
Chairman-cum-Managing Director
MR. S.P. ARORA (Nominee of IFCl)
MR. J.P. LEELRAIN (Nominee of IDBI)
MR. S.C. BITHAL (Nominee of PNB)
MR. RISHI OSWAL
MR. RAHUL OSWAL
MR. G.BANSAL
MR. B.S.MANN

AUDITORS

S.C.Vasudeva & Co., New Delhi

BANKERS

Punjab National Bank
State Bank of India
Vijaya Bank
The Jammu & Kashmir Bank Ltd.

REGISTERED OFFICE

Industrial Area - 'A'
Ludhiana - 141 003

WORKS

- i) Village Harigarh,
Raikot Road, Barnala (Punjab)
- ii) Village Patlian,
Paonta Sahib (Himachal Pradesh)
- iii) Village Harian, Kohara-Machhiwara Road,
Distt. Ludhiana (Punjab)

| CONTENTS | PAGE |
|---|-------|
| Notice | 1-2 |
| Financial Highlights | 3 |
| Director's Report | 4-7 |
| Management Discussion & Analysis Report | 8 |
| Corporate Governance | 9-13 |
| Auditors' Report | 14-15 |
| Balance Sheet | 16 |
| Profit and Loss Account | 17 |
| Cash Flow Statement | 18 |
| Schedules to the Accounts | 19-32 |



MALWA COTTON SPINNING MILLS LIMITED

NOTICE

Notice is hereby given that the THIRTY FIRST ANNUAL GENERAL MEETING of the Members of Malwa Cotton Spinning Mills Limited will be held in the premises of Mohan Dai Oswal Cancer Treatment & Research Foundation, Sherpur, G.T.Road, Ludhiana on Saturday, the 29th September, 2007 at 9.30 AM to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2007, Profit and Loss Account for the year ended on that date together with the Report of Auditors and Directors thereon.
2. To appoint a Director in place of Mr. B.S. Mann, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of G. Bansal, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors for the year 2007-08 and fix their remuneration.

Special Business

5. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution.

"RESOLVED THAT the consent of the Company be and is hereby accorded to the Board of Directors of the Company in terms of Section 293 (1) (a) and other applicable provisions, if any, of the Companies Act, 1956 to mortgage and/or charge the movable and immovable properties of the Company both present and future, and/or the whole or any part of the undertaking(s) of the Company together with the power to take over management of the business and concern of the Company in certain events of defaults (whether such power is contained in the documents creating the mortgage/charge

additional interest, liquidated damages, compound interest, commitment charges, premium on prepayment of the Loan Agreement(s) as amended from time to time"

"Resolved further that the Board of Directors be and is hereby authorized to finalize, settle and execute such documents/deeds/agreements/papers as may be required for creating aforesaid mortgage and/or charge and to do all such acts, deeds and things as may be deemed fit or considered necessary or incidental thereto in order to give effect to the said resolution"

By order of the Board

Place : Ludhiana
Dated : 30.06.2007

DINESH GUPTA
Company Secretary

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/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING, THE BLANK PROXY FORM IS ENCLOSED.
2. The Register of Members and the Share Transfer Books of the Company shall remain closed from 28th September, 2007 to 29th September, 2007 (both days inclusive).
3. Members holding shares in physical form are requested to notify the change in their addresses, if any, to the Registrar & Transfer Agent/Company immediately quoting their Folio Number(s). However, members holding shares in electronic mode may notify the change in the address, if any, to their respective Depository Participants.
4. Members desiring any information, as regards Accounts are requested to write to the Company at its Registered Office at least 10 days before the date of Annual General Meeting so as to enable the management to keep the information ready.
5. The copies of relevant documents can be inspected at the Registered Office of the company on any working day between 10.30 AM to 12.30 PM.
6. Members are requested to bring their copy of Annual Report along with them at the Annual General Meeting.
7. INFORMATION REQUIRED PURSUANT TO CORPORATE GOVERNANCE CLAUSE OF THE LISTING AGREEMENT(S) REGARDING THE DIRECTORS RE-APPOINTMENT IN THE ANNUAL GENERAL MEETING AS PROPOSED IN ITEM NO.2 AND 3 OF THE NOTICE IS AS UNDER :



MALWA COTTON SPINNING MILLS LIMITED

Mr. B.S. Mann

Mr. B.S. Mann is Commerce graduate and is a Technocrat having more than 52 years experience in textile industry. His date of birth is 04.06.1935 and date of appointment is 06.05.1997.

He is member of Audit Committee, Shareholders/Investors Grievance Committee & Remuneration Committee of the Company.

Mr. G.Bansal

Mr. G.Bansal is post Graduate and is a Financial Consultant. He has strong financial and accounting background and having more than 37 years experience. His date of birth is 18.01.1941 and date of appointment is 18.08.1992.

He is member of Audit Committee, Share Transfer Committee, Shareholders/Investors Grievance Committee & Remuneration Committee of the Company.

By order of the Board

Regd. Office
Industrial Area 'A'
Ludhiana
Dated : 30.06.2007

DINESH GUPTA
Company Secretary

ANNEXURE TO THE NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

ITEM NO.5

The company has been availing Working Capital facilities from Bankers under consortium arrangement. The Bankers have lnd charge on the moveable & immovable properties of the company against earlier sanctioned working capital facilities. As the bankers have asked for charge on the Export Bill Facilities of Rs.40 crore also it needs to be modified to include lnd charge on the properties of the Company for entire working capital facilities. Accordingly, your approval is solicited for the same pursuant to section 293(1)(a) of the Companies Act, 1956.

MEMORANDUM OF INTEREST:

None of the Directors is interested in this resolution.

By order of the Board

Regd. Office
Industrial Area 'A'
Ludhiana
Dated : 30.06.2007

DINESH GUPTA
Company Secretary



MALWA COTTON SPINNING MILLS LIMITED

FINANCIAL HIGHLIGHTS

(Rs. in Lac)

| | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 | 2001-02 | 2000-01 | 1999-2000 | 1998-99 | 1997-98 |
|-------------------------------------|----------|----------|----------|-----------|----------|-----------|-----------|-----------|-----------|------------|
| Share Capital | 3341.41 | 3341.41 | 3341.41 | 3283.00 | 3283.00 | 3283.00 | 1558.39 | 1558.39 | 1556.04 | 489.89 |
| Reserves | 6087.79 | 5432.85 | 4244.98 | 3267.46 | 6037.44 | 6602.91 | 8515.35 | 10666.37 | 10244.22 | 9561.81 |
| Net Worth | 9429.20 | 8774.26 | 7586.39 | 6550.46 | 9320.44 | 9885.91 | 10713.74 | 12224.76 | *11825.91 | **10117.85 |
| Fixed Assets(Gross) | 28220.17 | 27966.00 | 27545.99 | 27386.15 | 27229.28 | 26765.86 | 25950.52 | 24708.51 | 23170.15 | 19915.08 |
| Depreciation | 19977.91 | 18914.98 | 17672.65 | 16383.02 | 14988.16 | 13606.14 | 12120.44 | 10559.11 | 9063.38 | 7685.69 |
| Net Block | 8242.26 | 9051.02 | 9873.34 | 11003.13 | 12241.12 | 13159.72 | 13830.08 | 14149.40 | 14106.77 | 12229.39 |
| Investments | 999.64 | 1093.83 | 1205.91 | 1205.91 | 2599.76 | 2599.76 | 2718.76 | 2627.04 | 2627.04 | 2279.04 |
| Net Current Assets | 18490.34 | 18732.16 | 16152.74 | 14595.87 | 13809.89 | 12734.80 | 12696.10 | 14313.20 | 14356.70 | 13218.12 |
| Net Assets Employed | 27732.24 | 29038.08 | 27771.94 | 27060.62 | 28697.18 | 28570.35 | 29350.68 | 31116.71 | 31293.55 | 27733.56 |
| Book Value Per Equity Share(Rs.) | 152.82 | 142.21 | 122.96 | 117.26 | 166.85 | 176.98 | 191.80 | 218.84 | 212.58 | 206.44 |
| Gross Income | 42415.14 | 38059.29 | 36452.81 | 36285.74 | 35993.80 | 36860.69 | 39001.73 | 37101.60 | 35176.23 | 37053.60 |
| Export Sales(FOB) | 8223.58 | 7133.26 | 7383.20 | 11573.78 | 13618.63 | 12339.88 | 14671.15 | 13334.27 | 11904.82 | 13197.20 |
| Gross Profit/(Loss) | 2052.98 | 2862.96 | 1760.41 | (1574.52) | 806.44 | (254.01) | 8.18 | 2175.00 | 1735.69 | 3081.05 |
| Depreciation | 1112.89 | 1260.46 | 1318.17 | 1442.45 | 1382.02 | 1539.31 | 1618.86 | 1522.85 | 1413.68 | 1317.87 |
| Profit/(Loss) Before Tax | 940.09 | 1602.50 | 442.24 | (3016.97) | (575.58) | (1793.32) | (1610.68) | 652.15 | 322.01 | 1763.18 |
| Profit/(Loss) After Tax | 518.74 | 1188.62 | 748.15 | (1108.03) | (335.35) | (1761.29) | (1611.28) | 552.15 | 286.01 | 1563.18 |
| Equity Dividend (%) | - | - | - | - | - | - | - | - | 15.00 | 40.00 |
| Earning Per Share (Rs.) | 2.71 | 13.51 | 6.90 | (25.88) | (11.58) | (36.48) | (31.11) | 9.89 | 5.14 | 31.89 |
| Cash Earning Per Share(Rs.) | 20.74 | 33.94 | 29.42 | (0.06) | 13.16 | (8.92) | (2.14) | 37.14 | 30.55 | 58.78 |

* Includes Application money for shares and warrants Rs.25.65 Lacs

** Includes Application money for warrants Rs.66.15 Lacs

Reserves include deferred tax liability.



MALWA COTTON SPINNING MILLS LIMITED

DIRECTORS' REPORT

Dear Members,

The Directors of your Company are pleased to present their 31st Annual Report on the business of the Company together with the Audited Accounts of the Company for the year ended 31st March, 2007.

| | (Rs. in Lac) | |
|---|----------------|----------------|
| FINANCIAL RESULTS | 2006-07 | 2005-06 |
| Profit before financial expenses & depreciation | 4776.44 | 5159.62 |
| Financial expenses | 2723.46 | 2296.66 |
| Depreciation | 1112.89 | 1260.46 |
| Profit before tax | 940.09 | 1602.50 |
| Provision for taxation | | |
| - Current Tax | 106.00 | - |
| - Fringe Benefit Tax | 30.00 | 35.00 |
| - Deferred Tax | (76.91) | (77.42) |
| - Deferred Tax Adjustments | 362.26 | 456.30 |
| Wealth Tax for earlier year written back | 0.22 | 0.19 |
| Income Tax for earlier year written back | 11.70 | - |
| Income Tax for earlier year | - | 0.94 |
| Profit for the year after tax adjustments | 530.66 | 1187.87 |
| Balance brought forward | (1570.27) | (2658.14) |
| Transfer to Reserve for Bad and Doubtful debts & Advances | - | 100.00 |
| Balance Carried to Balance Sheet | (1039.61) | (1570.27) |

YEAR IN RETROSPECT

The company has recorded profit before depreciation, interest & tax of Rs. 4776 lac as compared to previous year Rs.5160 lac. The performance of the company has decreased as increase in selling prices doesn't commensurate with raw material prices and the gain is set off against higher raw material prices. Your company has been laying emphasis on higher production/sale of value added yarns/threads, which have better realization as compared to conventional yarn.

PRODUCTION

During the year, the company has achieved total production of 249 lac kgs for all types of yarns compared to previous year's production of 239 lac kgs. The cotton yarn production was 145 lac kgs. against 144 lac kgs. in the previous year and other yarns production was 104 lac kgs. against 95 lac kgs. in the previous year. Thread production of 42 lac kgs. was also achieved by the company against 38 lac kgs. in the previous year. The value added yarn production was increased by 11%

TURNOVER

During the year, your company has recorded gross sales of Rs.42038 lac against Rs.37365 lac in the previous year. The company has achieved yarn sale of Rs.26412 lac, Thread sale of Rs. 12283 lac and others of Rs. 3343 lac in the

current year ending 31st March, 2007 against sale of yarn Rs.24245 lac, Thread of Rs. 11015 lac and others of Rs.2105 lac in the previous year. Export of yarn was at Rs. 8519 lac (CIF) against Rs.7428 lac (CIF) in the previous year.

Barnala Unit

The Barnala unit has achieved production of 85 lac kgs of Yarn and capacity utilization of 95% in the current year. Part of the capacity for production of conventional yarn is shifted for production of finer count of value added yarns/threads.

The EOU unit was operating at 99% capacity utilization and production of 50 lac kgs of yarn recorded during the year. The plant is equipped with the machinery of latest technology to meet the demand for high quality yarn in the international market. Your company has got the EOU unit De-bonded in December, 2006.

PAONTA SAHIB UNIT

The Paonta Sahib unit was also operating at optimum capacity utilization of 94% and has production of 97 lac kgs of yarns. Ring Doubling Frame, Cheese Winder & Cone Winders were added for manufacturing of high value added yarns. The Company has partly shifted its existing capacity for production of Cotton & Synthetic Yarn with the finer count of value added yarn.

MACHHIWARA UNIT

The company's strength lies in value added products. At present, the focus is on the production of value added products. The company has increased its capacity of thread, specialized yarns and value added products to 12 TPD. Dyeing machines, Soft Packaging Winder, Wet Scrubber, Tube Winding machines, Polishing machines, Cop Banding machines etc. are installed at Machhiwara. The unit had achieved production of 42 lac kgs of value added products during the year, showing an increase of 11% over the previous year production.

The capacity utilisation of Worsted unit, with installed capacity of 5,040 spindles, was 76% and was not up to the mark. The unit had achieved production of 17 lac kgs of yarn. The company has changed its product-mix for increasing the capacity utilisation and also introducing new products with better realisation.

SUBSIDIARY COMPANIES

M/s Oswal Chartak, Uzbekistan, the subsidiary, did not commence its activities since inception. The company has written off investment in equity shares as well as advance of its subsidiary. At the close of the year, there was no subsidiary. Therefore statement u/s 212 of the Companies Act, 1956 is not annexed.

FIXED DEPOSITS

The Company has not accepted/renewed any deposits from the public during the year under review under section 58A of the Companies Act, 1956.



MALWA COTTON SPINNING MILLS LIMITED

INDUSTRIAL RELATIONS

Your company has cordial relations with employees and no man-day was lost during the year. The company is very thankful to its employees for the wholehearted support in achieving optimum level of efficiency.

COMPLIANCE OF LISTING AGREEMENT

The equity shares of the Company are listed at Bombay Stock Exchange Ltd. and National Stock Exchange of India Ltd.. The Company has paid annual listing fee up to 31st March, 2008.

Your company has got its securities voluntarily de-listed w.e.f. January 23, 2007 from The Delhi Stock Exchange Association Ltd. & January 18, 2007 from Ludhiana Stock Exchange Ltd.

CORPORATE GOVERNANCE

As per Clause 49 of the Listing agreement, a separate Report on Corporate Governance together with Management Discussion and Analysis and certificate from Company's Auditors is annexed and forms part of the report.

AUDITORS

M/s. S.C.Vasudeva & Co., auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting and being eligible, offered themselves for re-appointment.

AUDITORS' REPORT

The Auditors' Report on the Accounts is self-explanatory and required no comments except non-disclosure of segment results separately in respect of sewing thread segment in accordance with Accounting Standard (AS)-17. Results of the operations of the sewing thread segment is compiled to the extent it could be computed from the books of account, however results of the textile segment (yarn & sewing thread) is disclosed as per Accounting Standard (AS)-17.

DIRECTORS' RESPONSIBILITY STATEMENT

Directors' Responsibility Statement pursuant to the provision of section 217(2AA) of the Companies Act, 1956 is attached as per Annexure 'C' and forms part of the report.

DIRECTORS

S/Shri G. Bansal and B.S. Mann retire at the ensuing Annual General Meeting and are eligible for appointment as Directors subject to retirement by rotation. They offer themselves for the re-appointment.

Sh. K.C. Salota, nominee of PNB and Sh. R.C. Pandey, nominee of IFCI ceased to be Directors of the company. The Board places on record its appreciation for the services rendered during their tenure as Directors of the Company.

Sh. S.C. Bithal, nominee of PNB and Sh. S.P. Arora, nominee of IFCI, were appointed as Directors on the Board of the company. They are welcome on the board.

ACKNOWLEDGEMENT

The Board of Directors place on record its appreciation for the valuable assistance, support and guidance extended to the company by the Financial Institutions and Banks. The company also acknowledges the support and co-operation received from dealers, retailers and agents for promoting various products of the company. The Board also wish to express its deep gratitude for the continued support from its shareholders and the employees and appreciate the co-operation and unstinted support extended to the company.

DISCLOSURE OF PARTICULARS

Statement of particulars of employees pursuant to Section 217(2A) of the Companies Act, 1956 is attached as per Annexure 'A'

Information as per the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earning and outgo is given in Annexure 'B' forming part of this Report.

For and on behalf of the Board

Place : Ludhiana
Dated : 30.06.2007

JANGI LAL OSWAL
Chairman-cum-Managing Director



MALWA COTTON SPINNING MILLS LIMITED

ANNEXURE 'A' TO THE DIRECTORS' REPORT

PARTICULARS OF EMPLOYEES

Statement of Particulars of Employees under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 and Forming Part of Directors' Report for the year ended 31.03.2007.

| Name | Age | Date of Employment | Qualification | No. of years Experience | Designation & Nature of Duties | Remuneration (Rs. In Lac) | Last Employment held | Designation with last employer | Period of Service with last employer (Years) |
|--------------------|-----|--------------------|---------------|-------------------------|---------------------------------|---------------------------|-----------------------------|--------------------------------|--|
| Mr.Jangi Lal Oswal | 56 | 09.04.1980 | B.A. II Year | 36 | Chairman-cum- Managing Director | 25.94 | Oswal Woollen Mills Limited | Commercial Manager | 9 |

1. The appointment of Mr. Jangi Lal Oswal is on contractual basis.
2. Mr. Jangi Lal Oswal is related to Mr. Rishi Oswal and Mr. Rahul Oswal, Directors of the Company.
3. The remuneration includes salary, cash allowances/and perquisite value of other non cash perquisites.

For and on behalf of the Board

Place : Ludhiana
Dated : 30.06.2007

JANGI LAL OSWAL
Chairman-cum-Managing Director

ANNEXURE 'B' TO THE DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(1)(e) READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

I. CONSERVATION OF ENERGY

The company continues to accord high priority to energy conservation.

- a) Some of the initiatives undertaken for conservation of energy
 - Use of energy efficient motors and modernization of various machines.
 - Improvement in power factors by providing capacitor on different load centers.
 - Electronic Soft start units with Power Saving features installed at various machines.
 - Installation of flat belt, flat pulley & FRP fans at humidification plant.
 - Energy efficient lighting system and modernize mechanical devices.
- b) Further proposed and investment for reduction of energy consumption.
 - Modernization/replacement of obsolete plant & machinery.
- c) Overall impact of measures of above resulting in energy saving.
 - Not ascertainable precisely.
- d) Total energy consumption and energy consumption per unit of production as per Form A in respect of industries specified in the schedule.

FORM A

(Disclosure of particulars with respect to conservation of energy)

A. POWER AND FUEL CONSUMPTION

| | | 2006-2007 | 2005-2006 |
|---------------------------|-----------|-----------|-----------|
| 1. Electricity | | | |
| a) Purchased | | | |
| Units | Lac units | 1057.31 | 1048.90 |
| Total Amount | Rs. Lacs | 3879.81 | 3904.53 |
| Rate/Unit | Rs. | 3.67 | 3.72 |
| b) Own generation | | | |
| Through diesel | | | |
| Generator | | | |
| Units | Lac units | 54.59 | 32.81 |
| Unit/Litre | | 3.43 | 3.38 |
| Rate/Unit | Rs. | 8.52 | 7.60 |
| 2. Coal(B & C grade)/Husk | | | |
| Quantity | Tonnes | 17604.47 | 16585.03 |
| Total Cost | Rs.Lacs | 443.70 | 323.78 |
| Average rate | Rs./Tonne | 2520.39 | 1952.24 |



MALWA COTTON SPINNING MILLS LIMITED

B CONSUMPTION PER UNIT OF PRODUCTION

| | | | |
|-------------|---------------------------|---------|---------|
| Electricity | Per Tonne in unit | 4467.18 | 4523.36 |
| Coal/Husk | Per kg of Fibre/Yarn Dyed | 2.63 | 2.67 |

II. TECHNOLOGY ABSORPTION

Efforts are being made in Technology Absorption as per Form B.

FORM - B

RESEARCH AND DEVELOPMENT (R&D)

- Continuous efforts are being made for developing new products and to improve the existing products. The company has successfully launched and captured new markets in value added yarn due to its R&D efforts.
- With the ongoing efforts by R&D, benefits derived are -
 - Improvement in quality of its products.
 - Development of specialized yarn
 - Consistency in work performance and reduction in waste.
- Future plan of action
The company is doing R&D on continuous basis to improve the quality of existing products and introduction of new products.
- Expenditure on R & D

| | 2006-2007 | (Rs. in Lac) 2005-2006 |
|--|-----------|---------------------------|
| a) Capital | 0.55 | -- |
| b) Recurring | 62.96 | 40.68 |
| c) Total | 63.51 | 40.68 |
| d) Total R&D Expenditure as a percentage of total turnover | 0.15% | 0.11% |

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

- Efforts in brief, made towards technology absorption, adaptation and innovation.
 - Absorption and adaptation of new indigenous technology are being made.
- Benefit derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc.
 - Not ascertainable.
- Information regarding technology imported during the last 5 years : Nil

III. FOREIGN EXCHANGE EARNINGS AND OUTGO

- Activities relating to exports; initiatives taken to increase exports; development of new export market for products and services; and export plans.
- Total Foreign Exchange earned and used :

| | 2006-2007 | (Rs. in Lac) 2005-2006 |
|-------------------------------|-----------|---------------------------|
| Foreign Exchange earned (FOB) | 8223.58 | 7133.26 |
| Foreign Exchange used (CIF) | 141.19 | 105.78 |

ANNEXURE 'C' TO THE DIRECTORS' REPORT

Directors' Responsibility Statement

Pursuant to the provisions of section 217(2AA) of the Companies Act, 1956 it is hereby confirmed:

- That in preparation of the annual accounts, the applicable accounting standards have been followed, along with proper explanation relating to material departures.
- That the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period.
- That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- That the directors have prepared the annual accounts on a going concern basis.

For and on behalf of the Board

Place : Ludhiana
Dated : 30.06.2007

JANGI LAL OSWAL
Chairman-cum-Managing Director



MALWA COTTON SPINNING MILLS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry Structure and Developments

Textile industry holds significant status in the India. It is independent industry, from the basic requirement of raw materials to the final products, with huge value addition at every stage of processing. Textile sector accounts about 14% of the total industrial output and 16% of export earning. Textile industry is the largest industry in terms of employment economy, expected to generate 12 million new job opportunities by 2010. It generates massive potential for employment in the sectors from agricultural to industrial.

The textile industry at global level is undergoing a major reorientation towards non-clothing application of textile known as technical textile. This segment is growing roughly at twice rate of textile for clothing applications and now account for more than half of total textile production. Technical textile has many applications including bed-sheets, filtration and abrasive material, furniture upholstery, thermal protection and blood-absorbing materials, seatbelts, adhesive tape, and multiple other specialized products and applications. India must take adequate measures for capturing this market by promoting research and development in this sector.

Opportunities & Threats

The textile industry is being modernized, which has set aside \$5bn for investment in improvisation of machinery. International brand such as Levis, Wal-Mart, JC Penny, Gap, Marks & Spencer are sourcing more and more fabrics and garments from India. Further, India's cotton production increased by 57% over the last five years and 3 million additional spindles and 30,000 shuttle-less looms were installed. The regulatory policies is helping out to enhance infrastructures of apparel parks, specialized textile parks, EPZ & EOUs.

Technical textile in today era has very significant presence. The processing involve in producing technical textile require expensive equipment and skilled workers. At present, this segment is concentrated in developed countries. A major loophole in textile industry is its huge fragmentation in industrial structure which resulted in lower productivity, distorted the competitiveness of industry and unfavourable labour laws, higher shipping cost etc.

Segment wise Product wise performance

Detailed performances have already been discussed in Director's Report.

Future Outlook

India enjoys benefit of having plentiful resources of raw material. India with an annual production of 15 - 16.5 million bales is the world's third largest cotton producer - after China & USA and second largest cotton consumer after China. India also has the largest area under cotton cultivation and produces around 11% of world's cotton. India is becoming a keen competitor for US cotton growers in selling the fibre to China. There is wide range of cotton fibre available and has rapidly developing synthetic fibre industry. India is the world's second largest producer of textile garments after China. Indian textile industry accounts for about 23% of the world's spindle capacity, making it the second highest after China, about 6% of global rotor capacity and highest loom capacity - including handlooms with 61% share. India accounts for about 12% of the world's production of textile fibres and yarns.

Textile exports are targeted to reach \$50bn by 2010, \$25bn of which will go to the USA. With the elimination of quota restrictions, the market has become more competitive, however, it sounds an opportunity

because better material will be possible with the traditional inputs so far available in the Indian markets.

Risks & Concerns

Huge fragmentation in industry structure, which is led by small scale companies, is a major loophole in the Indian textile industry. Since most of the companies are small in size, the industry leadership which can be inspirational model for the rest of the industry is missing. The industry veterans portrays the present productivity of factories at half to as low as one-third of level, which might be attained. In many cases, smaller companies do not have the fiscal resources to enhance technology or invest in the high-end engineering of processes. The skilled labour is cheap in absolute terms, however, most of this benefit is lost by small companies. The Govt. policies, which made this deformation, have been gradually removed now, but their impact will be seen for some more time.

The industry still face problems like various taxes and excise imbalances. However, an outline of VAT is being implemented in place of all other tax diversifications, which will clear these imbalances once it is imposed fully. Labour laws are relatively unfavourable to the industry, but there has been movement gradually towards the forming labour laws.

India also lacks in basic infrastructure facilities viz. roads, ports, shortage/higher power cost and labour reforms. Moreover, the foreign buyers has a logistic disadvantage due to higher shipping cost and also much more delivery time comparing to other competitor countries like China, Mexico etc. However, several initiatives have been taken by the Govt. to remove these bottlenecks.

Internal Control System and their adequacy

The company has a proper and adequate system of internal control commensurate with the size of the Company. The Company is also having Internal Audit Department, which ensures adherence to all internal control policies and procedures.

The Audit Committee of Board of Directors continuously reviews the adequacy of internal controls.

Financial/operational Performance

(Rs. In Lac)

| Particulars | 2006-07 | 2005-06 |
|------------------------------|---------|---------|
| Turnover & Other Income | 42382 | 37345 |
| PBDIT | 4776 | 5160 |
| Interest & Financial Charges | 2723 | 2297 |
| Depreciation | 1113 | 1260 |
| Profit before Tax | 940 | 1603 |
| Profit after Tax | 531 | 1188 |
| Earning Per Share (Rs.) | 2.71 | 13.51 |

Human Resources/Industrial Relations

Human resource is the most significant and valuable asset of the Company. Industrial relations at all units of the company remained cordial and peaceful during the year. Your company has not lost a single man-day during the year and every member of the company contributes to the company's growth and reputation.

For and on behalf of the Board

Place : Ludhiana
Dated : 30.06.2007

JANGI LAL OSWAL
Chairman-cum-Managing Director