



Annual Report 2005 - 06



PRIYADARSHINI  
SPINNING MILLS LTD.

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**PRIYADARSHINI SPINNING MILLS LTD.**

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## PRIYADARSHINI SPINNING MILLS LTD.

### Board of Directors

Mr. G. Anantharaman (IDBI Nominee)  
 Mr. S. Prahalathan Iyer (Exim Bank Nominee)  
 Mr. H. Suresh Prabhu (Syndicate Bank Nominee)  
 Dr. K. Rajaveeraiah  
 Mr. K.V. Rao (Alternate Director to Dr. K. Rajaveeraiah)  
 Mr. Kamlesh Gandhi  
 Mr. K. Rama Mohana Rao  
 Mr. A.K. Tyagi, Director (Commercial)  
 Mr. B. Siva Reddy, Director (Technical)  
 Mr. Srinivas Kodali, Executive Director  
 Mr. Harish Cherukuri, Managing Director

### Company Secretary

Mr. M.V.R.L. Subrahmaneswara Rao

### Audit Committee

Mr. Kamlesh Gandhi  
 Mr. K. Rama Mohana Rao  
 Dr. K. Rajaveeraiah

### Shareholders Committee

Dr. K. Rajaveeraiah  
 Mr. Srinivas Kodali  
 Mr. Harish Cherukuri

### Remuneration Committee

Mr. K. Rama Mohana Rao  
 Mr. Kamlesh Gandhi  
 Dr. K. Rajaveeraiah

### Statutory Auditors

M/s. P. Srinivasan & Co.,  
 Chartered Accountants  
 2-2-18/18/5, C-31, D.D. Colony  
 Near Ahobhila Mutt  
 Hyderabad -500 013.

### Bankers

State Bank of India  
 Union Bank of India  
 Bank of India  
 Andhra Bank

### Regd. Office

208, Nilgiri,  
 Aditya Enclave, Ameerpet  
 Hyderabad -500 038.

### Mktg. Division

G-9, Nahar & Seth Indl. Estate  
 Plot No.29, B/D, Chakala Road  
 Andheri (East)  
 Mumbai -400 093.

### WORKS

Unit-I  
 Sadashivpet  
 Medak District  
 A.P. -502 291.

Unit-II  
 Doddavarappadu  
 Maddipadu Mandal  
 Prakasam District, A.P. -523 211.

Wind Mill  
 Ramagiri  
 Anantapur District  
 A.P. -515 001.

### Gas Power Project

Y. Kothapalli Village, P. Gannavaram Mandal,  
 East Godavari District, A.P. -533 240.



## PRIYADARSHINI SPINNING MILLS LTD.

### NOTICE

Notice is hereby given that the 25th Annual General Meeting of Priyadarshini Spinning Mills Limited will be held on Thursday, the 28th day of September, 2006 at 10.30 A.M. at Sri Sagi Ramakrishnam Raju Community Hall, 8-3-222/R/1, 'E' Block, Madhuranagar, Hyderabad-500 038, to transact the following Business:

#### ORDINARY BUSINESS:

1. To Consider and adopt the Audited Balance Sheet as at March 31, 2006, the Profit and Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
2. To declare a dividend on equity shares of the Company.
3. To appoint a Director in place of Dr. K. Rajaveeraiah, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. K. Rama Mohana Rao, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office till the conclusion of the next Annual General Meeting and to fix their remuneration. M/s. P.Srinivasan & Co., Chartered Accountants, the retiring Auditors of the Company are eligible for re-appointment.

#### SPECIAL BUSINESS:

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

RESOLVED THAT pursuant to section 260 of the Companies Act, 1956 and Article 36 (e) of the Articles of Association of the Company, Mr. B. Siva Reddy, who was appointed as an Additional Director of the Company by the Board of Directors at their meeting held on January 28, 2006 with effect from February 1, 2006 and who holds the office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice under section 257 of the Companies Act, 1956, in writing,

proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company subject to retirement by rotation under Articles of Association of the Company.

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

RESOLVED THAT pursuant to Sections 198, 269, 309, 310 and other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956, and subject to the approval of Financial Institutions, consent of the company be and is hereby accorded to the appointment of Mr. B. Siva Reddy, as Director (Technical) for a period of 3 years with effect from February 1, 2006 on the following terms and conditions:

- A. Salary : Rs.30,000/- ( Rupees Thirty Thousand only) per month.
- B. Perquisites : Perquisites in Part-I will be restricted to an amount equivalent to Annual Salary to be reckoned on the basis of actual expenditure or liability incurred by the Company as provided under explanation to Section 198 of the Companies Act, 1956. Expenditure incurred by the Company under Part-II will not be considered for computation of ceiling on perquisites to the extent they are not taxable under the Income Tax Act. Expenditure incurred by the Company under Part-III will not be considered as perquisites. Subject to the above the Director (Technical) will be allowed the following:

#### PART - I

- i) Housing including gas, electricity, water and furnishings (Non-interchangeable):
  - a) Expenditure incurred by the Company on hiring accommodation is limited to 30% of his salary over and above amount payable by the Director (Technical) as per income tax rules.



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b) Expenditure incurred by the Company on gas, electricity, water and furnishings will be evaluated as per the Income Tax Rules, 1962 and will be subjected to a ceiling of 10% of the Salary.

c) In case no accommodation is provided, house rent allowance at 30% of the salary will be payable. In case the accommodation provided is a Company owned or leased, he shall pay by way of rent as applicable under income tax rules from time to time.

ii) Medical benefits for self and family (Non-interchangeable): Reimbursement of expenses actually incurred, the cost of which to the Company shall not exceed half month salary in a year or one and half month salary in a block of 3 years.

iii) Leave Travel Concession : Leave Travel Concession for self and family once in a year in accordance with the rules of the Company.

iv) Personal Accident Insurance : Annual Premium not to exceed Rs.4,000/-.

v) Fees of Clubs : Subject to a maximum of 2 Clubs. No life membership or admission fee will be paid by the Company.

### PART - II

vi) Company's Contribution towards Provident Fund : As per the rules of the company, but not to exceed 12% of Salary or such higher rate as are not taxable under the Income Tax Act, 1961.

vii) Company's Contribution towards Pension/Superannuation Fund : As per the rules of the Company, but it shall not together with the Company's contribution to Provident Fund, exceed the limits laid down by the Income Tax Act, 1961 from time to time.

viii) Gratuity (Non-interchangeable) : Not to exceed half month's salary for each completed year of Service.

### PART - III

ix) Car: Use of Car for Company's business. The Director (Technical) shall pay for use of the Car for personal purpose.

x) Telephone : Telephone facility will be provided at residence. All long distance personal calls shall be logged and paid by the Director (Technical).

C. Privilege Leave : On full pay and allowances as per the rules of the Company but not exceeding One month leave for every 11 months of service subject further to the condition that Leave accumulated but not availed of will not be allowed to be encashed.

D. Others: Reimbursement of actual entertainment expenses, actual travelling and hotel expenses for the Company's business and/or allowances as per the Company's rules.

3. To consider and, if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

RESOLVED THAT the consent of Company be and is hereby accorded for voluntary delisting of equity shares of the Company from Madras Stock Exchange Limited, Chennai and The Ahmedabad Stock Exchange Limited, Ahmedabad, with effect from April 1, 2007, subject to the provisions of the Companies Act, 1956, Securities Contracts (Regulation) Act, 1956 and the rules framed there under, Listing Agreement(s) entered into with Stock Exchange(s), Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003, or any amendment or modification thereof and subject to such other approvals, permissions and sanctions as may be necessary by any authority or authorities.

RESOLVED FURTHER THAT the authority be and is hereby accorded to the Board of



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Directors or any person(s) authorized by the Board, to do all such acts, deeds and things as may be necessary, expedient and desirable for the purpose of giving effect to this resolution.

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

RESOLVED THAT pursuant to the provisions of section 293(1)(d) of the Companies Act, 1956, consent of the members be and is hereby accorded to borrow from time to time, any sum or sums of money not exceeding Rs.200 crores (Rupees Two Hundred crores only) upon such terms and conditions as they may deem fit, notwithstanding that money borrowed together with the money already borrowed by the Company (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) will exceed the aggregate of the paid up share capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose, provided that the total amount so borrowed by the Board shall not exceed the limit of Rs.200 crores (Rupees Two Hundred crores only).

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

RESOLVED THAT consent of the members be and is hereby accorded pursuant to the provisions of section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, to the Board of Directors of the Company to mortgage and/or create charge, in addition to the mortgages/charges created / to be created by the Company in such form and manner and with such ranking and at such time or times on such terms and conditions as the Board may

determine, any one or more of the Company's movable and / or immovable properties both present and future and / or the whole or any part of undertaking(s) of the Company together with the power to take over the management of the business and / or concern of the Company in certain events of default in favour of Lenders/Agents/ Trustees for securing the borrowings for an aggregate nominal value not exceeding Rs. 200 crores (Rupees Two Hundred crores only), comprising of Fully secured convertible / Partly secured convertible / non convertible debentures, loans and any other secured debt instruments, together with interest, further interest thereon, accumulated interest, remuneration to the Trustees / Agents, premium, if any, on redemption, costs, charges, expenses and other monies payable by the Company in terms of the loan agreement/Trust deed and other documents to be finalized and executed between the Company and Lender(s)/Agent(s)/Trustee(s) and such other terms and conditions and covenants in respect of the enforcement of the security as may be stipulated in that behalf and agreed to between the Board of Directors or Committee thereof and the Lender(s)/Agent(s)/Trustee(s).

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board be and is hereby authorized to do all such things, acts, deeds and matters as it may in its absolute discretion consider necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard thereto.

for PRIYADARSHINI SPINNING MILLS LIMITED

Place: Hyderabad

Date : August 24, 2006

HARISH CHERUKURI

Managing Director



## PRIYADARSHINI SPINNING MILLS LTD.

### NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy instead of himself/herself and such proxy need not be a member of the Company. But a proxy so appointed shall not have right to speak at the meeting. Proxy forms, to be valid, shall be lodged with the Company not less than 48 hours before the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from **26.09.2006 to 28.09.2006** (both days inclusive).
3. As per the provisions of the Companies Act, 1956, the amount of dividend remaining unclaimed for a period of seven years shall be transferred to the Investor Education & Protection Fund. Thereafter, the shareholders shall not be able to claim any unpaid dividend from the said fund or from the Company. Therefore, the shareholders who have not encashed the dividend warrant(s) so far for the financial year ended March 31, 2005 are requested to make their claim to the Company.
4. Please take notice that the previous Registrars and Share Transfer Agents namely M/s. Ikon Visions Private Limited has informed to the Company about their inability to continue their services as Registrar and Share Transfer Agents of the Company with effect from April 1, 2006. Hence, the Company in compliance with the SEBI directions, has appointed M/s. XL Softech Systems Limited as common agency for share registry work (physical and Electronic).
5. Members holding shares in physical form are requested to intimate any change in their address quoting their registered folio number to the Registrars and Share Transfer Agents namely M/s. XL Softech Systems Limited, Plot No.3, Sagar Society, Road No.2, Banjara Hills, Hyderabad-500 034.
6. Members holding shares in electronic form are requested to intimate any change in their address to the depository participant (DP) with whom the demat account is maintained.
7. Members are requested to bring admission slip duly filled in along with their copies of Annual Report to the Meeting.
8. Members are also requested to send their queries, if any, on the accounts well in advance, so as to enable the Company to place relevant records and information at the time of Annual General Meeting.



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

#### ITEM NO. 1 & 2.

The Board of Directors at its meeting held on January 28, 2006 has appointed Mr. B. Siva Reddy as an Additional Director of the Company pursuant to section 260 of the Companies Act, 1956 and Article 36(e) of the Articles of Association of the Company with effect from February 1, 2006 and holds office up to this Annual General Meeting. The Company has received a notice in writing from a member along with a deposit of Rs.500/- proposing the candidature of Mr. B. Siva Reddy for the office of the Director under provisions of section 257 of the Companies Act, 1956.

The Board of Directors has also appointed Mr. B. Siva Reddy as Director (Technical) of the Company with effect from February 1, 2006 on the terms and conditions as set out in the resolution in special business as item No.2 of the notice to this Annual General Meeting.

Mr. B. Siva Reddy has worked in the Company in various capacities from the year 1987. Before appointing him on the Board, he worked as President (Production) at Unit-I, Sadashivpet. He holds Diploma in Textiles and gained rich knowledge in the textile field and his services would be helpful for the Company as Director (Technical).





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Your Board considered Mr. B. Siva Reddy's contribution to the Company as President (Production) and commend resolutions for your approval.

No other Director is concerned or interested in the resolutions except Mr. B. Siva Reddy.

### ITEM NO. 3

The Company shares are not traded on the Madras Stock Exchange Limited and the Ahmedabad Stock Exchange Limited for the last so many years. The Company believes that no particular benefit is available to the shareholders of the Company by continuing the listing of the equity shares on the above Stock Exchanges. The Company is therefore contemplating the delisting of its equity shares from the Madras Stock Exchange Limited and the Ahmedabad Stock Exchange Limited as per guidelines issued by the Securities and Exchange Board of India (SEBI).

As per the provisions of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003, an exit opportunity need not be provided to the shareholders of the Company on delisting of its equity shares from the Stock Exchanges, provided the equity shares of the Company continue to be listed at The Bombay Stock Exchange Limited or at National Stock Exchange of India Limited.

The Company's equity shares listing will continue on 'The Bombay Stock Exchange Limited', having nation wide trading terminals.

Pursuant to the guidelines issued by SEBI on voluntary delisting by Companies of their securities from the Stock Exchanges, it is now proposed to seek the shareholders' approval by way of Special Resolution as set out in the special business as item No.3 of the notice of the meeting for voluntary delisting of Company's equity shares from 'The Madras Stock Exchange Limited and The Ahmedabad Stock Exchange Limited'.

Your Directors commend the resolution for your approval.

No Director is concerned or interested in the resolution.

### ITEM NO.4 & 5

At Company's Extraordinary General Meeting held on August 5, 1994, the members authorized the Board of Directors of the Company to borrow up to a limit of Rs.100 crores. To meet the Capital investment requirements for its expansion, it may necessary for the Company to obtain additional borrowings. Therefore, members approval is being sought pursuant to provisions of section 293(1)(d) of the Companies Act, 1956, to increase borrowing limit up to Rs.200 crores (Rupees Two Hundred crores only).

At Company's Extraordinary General Meeting held on August 5, 1994, the members authorized the Board of Directors of the Company to mortgage the assets of the Company up to a limit of Rs.100 crores (Rupees One Hundred crores only). In order to meet financial requirements for expanded activities, the Board of Directors of the Company has to borrow funds from time to time and such borrowing(s) is/are required to be secured by creation of mortgage/charge on the assets of the Company both movable and immovable, present and future. In terms of provisions of section 293(1)(a) of the Companies Act, 1956, shareholders approval is required authorizing the Board to mortgage and/or charge the assets and undertaking(s) of the Company.

The resolutions set out in special business as items No.4 and 5 of the notice of the meeting are intended to give requisite authority to the Board of Directors of the Company to borrow and create mortgage / charge in excess of paid up capital and free reserves and up to Rs.200 crores.

Your Directors commend the resolutions for your approval.

No Director is concerned or interested in the resolutions.

by the order of the Board  
for PRIYADARSHINI SPINNING MILLS LIMITED

HARISH CHERUKURI  
Managing Director

Place: Hyderabad

Date : August 24, 2006





## PRIYADARSHINI SPINNING MILLS LTD.

### DIRECTORS' REPORT

Your Directors have pleasure in presenting the 25th Annual Report of the Company together with the audited statement of accounts for the year ended March 31, 2006.

### FINANCIAL RESULT

(Rs. in lakhs)

	Current year ended 31.03.2006	Previous year ended 31.03.2005
1. Sales and other Income	14719.52	13971.21
2. Profit before interest and depreciation	1559.17	1336.03
3. Interest	532.91	498.03
4. Depreciation	631.46	586.18
5. Profit after interest and Depreciation	394.80	251.82
6. Provision for Taxation		
a) Current Tax	33.22	19.75
b) Fringe Benefit Tax	15.20	-
c) Deferred Tax/(Asset)	135.94	(7.86)
7. Profit brought forward from previous year	1204.22	1096.12
8. Profit and Loss A/c Balance	1414.65	1336.05
<b>APPROPRIATIONS</b>		
1. Transferred to General Reserve	-	60.00
2. Dividend	100.80	63.00
3. Dividend Tax	14.14	8.83
4. Surplus carried forward to Balance Sheet	1299.71	1204.22

### DIVIDEND:

Your Directors have recommended dividend on the equity capital at the rate of 10% for the year ended March 31, 2006. There will be no tax deduction at source on dividend payments but your Company will absorb 14.025% of dividend amount towards dividend tax and educational cess.

### REVIEW OF OPERATIONS:

During the year under review, Company's turnover marginally increased to Rs.147 crores as against the Rs.140 crores in the previous year registering a growth of 5%. Though the increase in turnover is marginal, the profit before tax (PBT) increased to Rs.395 lakhs as against Rs.252 lakhs in the previous year, thus registering a growth of 56%.

The profit from operations (EBIDT) increased from Rs.1336 lakhs to Rs.1559 lakhs which is an increase of Rs.223 lakhs over the previous year. This is due to improvement in yarn sales realization and operational efficiency.

The Lesser production in the year under review is due to conversion from synthetic to cotton and increase in the average count. Even though production is less, there is an increase in turnover due to higher value addition.

### OPPORTUNITIES, RISK AND CONCERN:

The strong growth in India's Economy as well as the dismantling of the Multi Fibre Agreement (MFA) has provided opportunity as well as rates.



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challenges for textile industry. The many leading retailers in Europe and US have increased sourcing from India since the quota barrier has been removed and also reducing the risk of sourcing from a single country (China). The liberalization has also opened up competition from other countries viz., Southeast Asia and Eastern Europe. Since retailers are large in size, they are using their large buying capacity to negotiate lower rates. Therefore suppliers also need to have economies of scale to be the lowest cost producer. Integration from raw material to garment is also important because retailers are looking for quick deliveries which are possible only if resources are available within the company. Therefore opportunity exists for companies which are integrated and have economies of scale.

Interest rates in India have started to increase as rates have increased in US and Europe. Rising interest rates could impact the margins in the current year. Also appreciation in the rupee could affect the export margins.

### OUTLOOK FOR THE CURRENT YEAR:

Company is expanding its spindle capacity from 67392 to 82000 spindles by the end of September, 2006. Expansion will be completed within the existing infrastructure to reduce capital cost per spindle. Even though it has disrupted production in the first two quarters of this fiscal year, reduced capital and operating cost over long term will weigh over the temporary loss. Benefits of reduced operating cost should be reflected in the last two quarters of fiscal year 2006-07.

As a part of the integration strategy, cotton yarn dyed capacity is being expanded from the present one ton per day to ten tons per day in two phases. The first phase of the expansion to five tons per day is expected to be completed by the end of October, 2006. Final phase is expected to be completed by end of February, 2007. After completion, it will be one of largest cotton yarn dyeing units in the south. Since there is significant value addition, margins are expected to be better than spinning.

As large retailers in US and Europe have started sourcing garments from India, demand for garments is growing significantly in India. In order to cater to this market, state of the art Garment unit is being set up near Hyderabad, Andhra Pradesh with a capacity to produce two million shirts per annum. The Unit is expected to be operational by end of February, 2007.

### ADEQUACY OF INTERNAL CONTROLS:

The Company has a proper and adequate system of internal controls to ensure that all assets are safeguarded, and protected against loss from unauthorized use or disposition, and that transactions are authorized, recorded, and reported correctly. The internal control system is supplemented by an extensive programme of internal audits, review by management and documented policies, guidelines and procedures.

The internal control system is designed to ensure that the financial and other records are reliable for preparing financial statements and other data and for maintaining accountability of assets. The audit Committee comprising independent Directors will review the internal control systems on quarterly basis.

### RIGHTS ISSUE:

During the year under review, your Company has issued 37,80,000 equity shares of Rs.10/- each at a premium Rs.15/- to the existing shareholders on rights basis. Total amount raised under the aforesaid issue was Rs.945 Lakhs and utilized for the working capital requirements of the Company.

### CHANGE IN REGISTRARS AND SHARE TRANSFER AGENTS (RTA)

Please take note that the previous Registrars and Share Transfer Agents has informed to the Company about their inability to continue their services as Registrars and Share Transfer Agents. In order to comply with the SEBI Regulations, the Company has appointed M/s. XL Softech Systems Limited, Plot No.3, Sagar Society, Road No.2, Banjara Hills, Hyderabad - 500 034 as new Registrar and Share Transfer Agents of the Company for both Electronic and Physical Share Registry work.