



Annual Report 2006 - 07

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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. A. Vasudevan (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)
 (Resigned w.e.f. 01.08.2007)
 Mr. B. Siva Reddy, Director(Technical)
 (Resigned w.e.f. 01.09.2007)
 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
 Syndicate Bank
 Bank of India
 Andhra Bank

Regd. Office

Satyanarayana Enclave
 Icon Block, 2nd Floor
 Madinaguda,
 Hyderabad -500 049.

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.

Garments Division

Textile Park, IDA Pashamylaram, Patancheru Mandal
 Medak District, A.P. -502 319.



PRIYADARSHINI SPINNING MILLS LTD.

NOTICE

Notice is hereby given that the 26th Annual General Meeting of Priyadarshini Spinning Mills Limited will be held on Friday, the 28th day of September, 2007 at 10.30 A.M. at Hotel Pearls Inn, S.S. Heights, 1st Floor, Opp. Deepti Srinagar Bus Stop, Madinaguda, Hyderabad 500 049, to transact the following Business:

ORDINARY BUSINESS:

1. To Consider and adopt the Audited Balance Sheet as at March 31, 2007, 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 appoint a Director in place of Mr. Kamlesh Gandhi, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Dr. K. Raja Veeraiah, who retires by rotation and being eligible, offers himself for re-appointment.
4. 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.

By order of the Board

for **PRIYADARSHINI SPINNING MILLS LIMITED**

HARISH CHERUKURI

Managing Director

Place: Hyderabad

Date : August 29, 2007

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 **26.09.2007 to 28.09.2007 (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 and March 31, 2006 are requested to make their claim to the Company.
4. Please take notice that the Company's Registered & Corporate office has been shifted to **Satyanarayana Enclave, Icon Block, 2nd Floor, Madinaguda, Hyderabad -500 049** from 208, Nilgiri, Aditya Enclave, Ameerpet, Hyderabad -500 038 with effect from May 9, 2007.
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 maintaining.
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.



PRIYADARSHINI SPINNING MILLS LTD.

DIRECTORS' REPORT AND MANAGEMENT DISCUSSION & ANALYSIS:

Dear members,

The Directors of your Company have pleasure in presenting the 26th Annual Report together with the audited statement of accounts for the year ended March 31, 2007.

FINANCIAL RESULTS

(Rs. in lakhs)

	Current year ended 31.03.2007	Previous year ended 31.03.2006
1. Sales and other Income	18655.24	14719.52
2. Profit before interest and depreciation	1735.08	1559.17
3. Interest and Finance Charges	672.39	532.91
4. Depreciation	649.90	631.46
5. Profit after interest and depreciation	412.79	394.80
6. Provision for Taxation		
a) Current Tax	46.31	33.22
b) Fringe Benefit Tax	10.65	15.20
c) Deferred Tax/(Asset)	153.61	135.94
7. Profit brought forward from previous year	1299.71	1204.22
8. Profit and Loss A/c Balance	1501.93	1414.65
APPROPRIATIONS		
1. Dividend	-	100.80
2. Dividend Tax	-	14.14
3. Surplus carried forward to Balance Sheet	1501.93	1299.71

REVIEW OF OPERATIONS:

During the year under review, your Company has registered a turnover of Rs.187 Crores as against Rs.147 Crores in the previous year showing an increase of 27%. The profit before tax increased to Rs.413 lakhs as against Rs.395 lakhs in the previous year, which is an increase of 4.56% over the previous year. Though the year started well, certain factors like increase in raw material prices, fall in cotton yarn prices, increase of interest rates and sudden appreciation of the rupee has severely affected the industry as a whole and we are not an exception. Due to the appreciation of rupee all textile exports from yarn to garments have come down drastically and this has also affected the domestic market.

TEXTILE INDUSTRY:

The textile sector was expected to see a major jump in exports with an end of quota regime, following termination of Multi-fibre Agreement (MFA) on

January 1, 2005. However, post-MFA, there is a marginal increase in exports from India when compared with other South Asian countries. For instance, India's garment exports to the US grew by just over 7% in 2006, compared with 28% and 23% growth recorded by Indonesia and Bangladesh, respectively.

Appreciation of rupee had severe impact on the textile industry. The latest estimates from the Cotton Textile Promotion Council (Texprocil) suggest that the sector is losing 6% on profitability due to a stronger rupee. The situation is further exacerbated due to less rise in currencies of competing nations against the US dollar. During the first quarter of fiscal 2007-08, Indonesian Rupiah has risen 4%, while the Bangladeshi Taka has remained more or less flat as compared to 8% increase of rupee against dollar. The currencies of competing nations have not appreciated



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in the same proportion. Freight rates have increased by approximately 50% due to shortage of containers and congestion at ports. This has added an additional 2% to the cost of the yarn. Combination of rupee appreciation and increase in freight rates resulted in increase of yarn cost by 10%. This is significant for an industry where the average margin is approximately 5%.

Because of these factors, Indian textile exports to the US witnessed a negative growth for the first time in several decades in January-March this year. The decline was more pronounced in the apparel sector (2.1%) than the overall textile category (0.43%). The US accounts for 33% of India's total textile exports. Due to slowdown in export market, significant amount of this yarn has been shifted to domestic market which in turn has effected realizations in domestic market.

In order to bail out the sector, the finance ministry has announced a relief package. The relief package includes increase in DEPB/ Duty Drawback rates and lower interest on Export Packing Credit (EPC). The announced package gives a little solace to the industry as it compensates approximately 33% of the loss suffered by industry for Polyester / Viscose blended yarn exporters and 10% of the loss suffered by the cotton yarn exporters.

OUTLOOK ON OPPORTUNITIES, RISK AND CONCERN:

The fundamental growth drivers of Indian economy remain strong during the current year. The consumption is growing in response to growing per capita income, population and strong retail push. With regards to textiles, there are significant opportunities in the domestic market as more consumers are buying readymade garments and also consumption of the cloth per capita continues to increase due to growth in the economy which is adding to the purchasing power of the consumers.

Macroeconomic factors including rupee appreciation, increase in freight rates and increase in interest rates are the major risk factors presently for the textile

industry. If appreciation of rupee continues and freight rate remain at the present level, then the competitiveness of industry vs. other countries will decrease. Since the products would be diverted to the domestic market, the price realization will decrease even though there is growth in the domestic consumption.

Also there has been increase in interest cost by approximately 2% in the past one year. If government increases interest rates further to control inflation, it will be additional burden to the industry which will further impact the margins.

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.

DIVIDEND :

Due to uncertainty in textile industry and funds requirement for stabilisation of garment division and dyeing unit, your Directors are unable to recommend any dividend on share capital of the Company.

SHIFTING OF REGISTERED AND CORPORATE OFFICE TO OWN OFFICE PREMISES:

The Company has purchased office premises for its registered and corporate office and the office is shifted to the new premises situated at Satyanarayana Enclave, Icon Block, 2nd Floor, Madinaguda, Hyderabad -500 049 on May 9, 2007.



PRIYADARSHINI SPINNING MILLS LTD.

EXPANSION:

The Company has successfully completed its expansion at its spinning units resulting in increase of spindle capacity to 82,176 from 60,240 spindles and the capacity is being utilized fully. Expansion of Dyeing capacity from 1 MT to 10 MT per day is also completed.

GARMENTS DIVISION :

The Company's state of art technology garment division has commenced its first phase of commercial production in the month of August, 2007.

EXPORTS:

On the export front, your Company has shown impressive performance by achieving export turnover of Rs.64.94 crores during the year 2006-07 as compared to Rs.28.29 crores in the previous year registering a growth of 129%. The reasons for increase in exports are stable relations with foreign buyers, new markets are being explored and increase in mercantile trading.

WIND MILL:

During the year under review, the 1.8 MW Wind Power Project at Ramagiri, Anantapur District, Andhra Pradesh has generated 27,49,944 units as against the 24,85,882 units in the previous year.

GAS POWER PROJECT:

During the year under review, 3MW Gas based Power Project situated at Y. Kothapalli Village, P. Gannavaram Mandal, East Godavari District, Andhra Pradesh was not in operation due to non availability of gas from the isolated well allotted to us by Oil and Natural Gas Corporation (ONGC) and the Company is planning to shift the gas engine for re-installation at appropriate place where gas is available.

FIXED DEPOSITS:

The Fixed Deposits outstanding as on 31.3.2007 amounts to Rs.4,00,53,000 and there were no overdue deposits.

INSURANCE:

The properties of the Company including its buildings, plant and machinery and stocks are adequately

insured.

CORPORATE GOVERNANCE :

The Company is in conformity with the code of Corporate Governance enunciated in clause 49 of the listing agreement with Stock Exchanges. A separate report on Corporate Governance is annexed hereto and form part of Directors' Report together with a certificate from the Auditors of the Company confirming compliance of the conditions of Corporate Governance.

DIRECTORS RESPONSIBILITY STATEMENT:

Pursuant to section 217(2AA) of the Companies Act, 1956, your Directors confirm that:

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- ii) such accounting policies have been selected and applied them consistently and made judgments 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 of the Company for that year;
- iii) the proper and significant care have been taken for the maintenance of adequate accounting records in accordance with provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) the annual accounts have been prepared on a going concern basis.

DIRECTORS:

During the year under review, Syndicate Bank, Corporate Finance Branch, Panjagutta, Hyderabad has appointed Mr. A. Vasudevan in place of Mr. H. Suresh Prabhu as its nominee Director on the Board of the Company.

In accordance with the Provisions of the Companies Act, 1956 and Articles of Association of the Company, your Directors Mr. Kamlesh Gandhi and Dr. K. Rajaveeraiah retire by rotation and being



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eligible offer themselves for re-appointment.

STATUTORY AUDITORS:

M/s P.Srinivasan & Company, Chartered Accountants, the Statutory Auditors of the Company retire at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment.

CONSERVATION OF ENERGY:

Conservation of energy, Technology Absorption & Foreign exchange earnings and information pursuant to Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 are annexed hereto and form part of this report.

PARTICULARS OF EMPLOYEES:

In terms of sub-section (2A) of section 217 of the Companies Act, 1956, the Company has no employee drawing salary exceeding Rs.24.00 Lakhs per annum or Rs.2.00 Lakhs per month during the year under review.

INDUSTRIAL RELATIONS:

Your Company's industrial relations continued to be cordial throughout the year under review at all the units.

ACKNOWLEDGMENT:

Your Directors take this opportunity to offer their sincere thanks for continued assistance and cooperation extended to the Company by various departments of the Central and State Governments, Government Agencies, Financial Institutions, Banks, and other statutory authorities.

Your Directors also take this opportunity to offer their sincere thanks to shareholders, customers, and other related organizations, who through their continued support and cooperation, have helped in the Company's growth.

Your directors also wish to thank the employees at all levels for the co-operation extended by them in achieving the results.

for and on behalf of the Board of Directors

Place: Hyderabad

Date : August 29, 2007

HARISH CHERUKURISRINIVAS KODALI

Managing Director Executive Director

ANNEXURE TO DIRECTORS' REPORT

Information pursuant to Section 217 (1)(e) of Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

1. CONSERVATION OF ENERGY :

The Company has taken various steps over the previous years to conserve energy wherever possible. This process continues to remain a thrust area. Energy audit and inter unit studies are carried out on a regular basis for taking necessary steps for reduction of energy consumption.

The required information regarding Energy Consumption is given in the prescribed Form-A.

2. TECHNOLOGY ABSORPTION :

The required information is given in the prescribed Form-B.

3. FOREIGN EXCHANGE EARNINGS AND OUTGO :

The foreign exchange earnings & outgo during the year under review were as follows:

- | | |
|-----------------------------|--------------------|
| i) Foreign Exchange used | : Rs. 13,44,45,945 |
| ii) Foreign Exchange earned | : Rs. 58,24,97,025 |



PRIYADARSHINI SPINNING MILLS LTD.

FORM - A**FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY:****A. Power and Fuel Consumption:**

	2006-2007	2005-2006
1. Electricity :		
a) Purchased :		
Units (in lakhs of KWH)	484.71	248.85
Total amount (Rs.in lakhs)	1524.61	813.72
Average Rate : (Rs./Unit)	3.15	3.27
b) Own Generation :		
i) Through Diesel Generators		
Units (in lakhs of KWH)	0.21	1.00
Units per Litre of Diesel Oil	2.28	3.22
Average Cost : Rs. /Unit	15.24	8.74
ii) Through Wind Mills		
Units generated (in lakhs KWH)	27.50	24.86
Value (Rs.lakhs)	86.57	84.40
Average Rate (Rs./Unit)	3.15	3.40
iii) Through Gas Power Project		
Units generated (in lakhs KWH)	-	189.76
Value (Rs.lakhs)	-	638.02
Average Rate (Rs./Units)	-	3.36
2. Coal	(Quality : 'B & D' Round used in boiler for fiber/yarn dyeing)	
Quantity (Tons)	1371.43	1031.17
Total Amount (Rs. in lakhs)	29.76	24.11
Average Rate (Rs./Kg)	2.17	2.34
3. Furnace Oil	Nil	Nil
4. Others	Nil	Nil

B. Consumption per unit of production :

	Standard	Current Year	Previous Year
Yarn Production (Kgs. in lakhs)	-	111.24	88.93
Fibre/yarn Dyed (Kgs. in lakhs)	-	11.07	10.46
Electricity(Units/Kg of Yarn)	-	4.58	4.76
Coal(Kgs/Kg of Dyed Fibre/yarn)	-	1.24	0.93

FORM - B**Form for Disclosure of particulars with respect to Technology Absorption : Nil****Research and Development (R&D) :**

With the establishment of Research & Development department, the Company is in a position to explore the development of new varieties of Yarn & with more value addition.



PRIYADARSHINI SPINNING MILLS LTD.

REPORT ON CORPORATE GOVERNANCE:

1. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE :

Your Company firmly believes that good corporate practices underscore its drive towards competitive strength and sustained performance. These practices are also powerful tool for building trust and long term relationship with stakeholders of the Company. Your Company's thrust on transparency, integrity, accountability and disclosure has enabled it to accomplish best Corporate Governance practices.

2. BOARD OF DIRECTORS :

a) Composition

The Board has Ten Directors comprising two Executive Directors, two Executive Independent Directors and six non-executive Independent Directors. The non-executive Directors are eminent professionals drawn from amongst persons with experience in business, finance, research and industry. The Composition of the Board is as under:

Name of the Director	Category of Director	No. of other Directorships held (including Private Companies)	Attendance at Board meeting (No. of Board meetings)	Attendance at last AGM
Mr. Harish Cherukuri	Managing Director	1	5 (6)	Attended
Mr. Srinivas Kodali	Executive Director	-	6 (6)	Attended
Mr. A.K. Tyagi	Executive Independent	-	1 (6)	Attended
Mr. B. Siva Reddy	Director (Technical)	-	5 (6)	Attended
Dr. K. Rajaveeraiah	Non-executive Director	-	1 (6)	No
Mr. Kamlesh Gandhi	Non-executive Director	6	6 (6)	Attended
Mr. K. Rama Mohana Rao	Non-executive Director	1	4 (6)	No
Mr. G. Anantharaman	IDBI Nominee Director	1	6 (6)	No
Mr. S. Prahalathan Iyer	Exim Bank Nominee Director	1	5 (6)	No
Mr. A. Vasudevan *	Syndicate Bank Nominee Director	1	5 (6)	No

* Appointed as Syndicate Bank Nominee Director w.e.f. 28.09.2006 in place of Mr. H. Suresh Prabhu and attendance of Mr. H. Suresh Prabhu is considered as attendance of Mr. A. Vasudevan.

b) Board Meetings

The Board of Directors met 6 (six) times during the year 2006-2007 on April 29, 2006, July 31, 2006, August 24, 2006, September 28, 2006, October 28, 2006 and January 31, 2007.

3. BOARD COMMITTEES:

The Board of Directors has constituted three committees of the Board:

a) Audit Committee

The Committee comprises the following three non-executive independent Directors. The Committee has powers similar to those stated in the listing agreement

and shall exercise most of the functions as per the terms of reference in line with the requirements of the listing agreement.

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

The Committee met four times during the year 2006-2007 on April 29, 2006, July 31, 2006, October 28, 2006 and January 31, 2007.

b) Remuneration Committee

The Committee periodically reviews and recommend payment of salaries, commission and other terms and conditions of the Whole-Time Directors, subject to