

SRI NACHAMMAI COTTON MILLS LIMITED



24th ANNUAL REPORT 2003 - 2004



SRI NACHAMMAI COTTON MILLS LIMITED

BOARD OF DIRECTORS

Chairman cum Managing Director	Shri.P.Palaniappan, B.E.,M.S.(U.S.A.),
Joint Managing Director	Smt.P.Umayal, B.Sc.,
Directors	Smt. RM.Umaiya Shri. AR.Annamalai Shri. R.Vijayaraghavan, M.Sc., M.B.A., B.L., Shri. Amrathlal A.Gandhi, B.Sc., Shri. A.Alagappan, B.B.A., Shri. A.Annamalai Shri. C.S.Thirumalai, M.A.,PGDMA., ACMA., AICWA., MIE.,

COMPANY SECRETARY

Shri. V. Venkatesan, M.Com., M.B.A., ACS.,

AUDITORS

Messrs.M.S.Jagannathan & Visvanathan
Chartered Accountants, Coimbatore - 641 002.

INTERNAL AUDITOR

Shri.PL.Arumugam, M.Com.,FCA.,
Chartered Accountant, Salem - 636 004

BANKERS

Indian Overseas Bank
Salem Main Branch, Salem - 636 001

REGISTRAR AND SHARE TRANSFER AGENTS

Cameo Corporate Services Limited
'Subramanian Building'
No.1, Club House Road, Chennai - 600 002.

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SRI NACHAMMAI COTTON MILLS LIMITED

Registered Office: 30, Sugavaneswara Road, Balaji Nagar, SALEM 636 004.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Twenty Fourth Annual General Meeting** of **Sri Nachammai Cotton Mills Limited** will be held on **Thursday the 9th day of December, 2004** at **4.45 P.M.** at **Hotel Sarathy Classics, 8/3, Park Street, Fairlands, Salem – 636 016** to transact the following business. All the Shareholders are requested to attend the same.

AGENDA

ORDINARY BUSINESS

1. To receive, consider and adopt the Directors' Report, the audited Balance Sheet for the year ended 30th June 2004, the audited Profit and Loss Account as at that date and the Auditors' Report thereon.
2. To consider declaration of Dividend on Equity Shares.
3. To appoint a Director in the place of Sri. A. Alagappan who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in the place of Sri. C.S. Thirumalai who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint an Auditor or Auditors for the Company to hold office from the close of this Annual General Meeting till the close of the next Annual General Meeting and to fix his/their remuneration.

SPECIAL BUSINESS

6. To consider and if thought fit, to pass, with or without modification, the following resolution as an "Ordinary Resolution"

"RESOLVED THAT the consent of the Company be and is hereby accorded under the provisions of Section 293(1)(d) of the Companies Act, 1956 to the Board of Directors of the Company to borrow from time to time such sum or sums of money as they may deem necessary for the purpose of the business of the Company, notwithstanding that the monies to be borrowed together with the monies already borrowed by the Company [apart from temporary loans obtained from the Company's Bankers in the ordinary course of business] and remaining outstanding at any point of time 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 upto which monies may be borrowed by the Board of Directors and which shall remained outstanding at any given point of time shall not exceed the sum of Rs.100 Crores (Rupees one hundred crores only)"

Salem
27.08.2004

By order of the Board,
P.Palaniappan
Chairman cum Managing Director



SRI NACHAMMAI COTTON MILLS LIMITED

NOTICE OF ANNUAL GENERAL MEETING (Contd...)

EXPLANATORY STATEMENT

(Pursuant to Section 173(2) of the Companies Act, 1956)

ITEM NO.6

In accordance with the resolution passed by the members of the Company at the Annual General Meeting held on 30th August 1995, the amount outstanding consequent to loans borrowed by the Board of Directors on behalf of the Company cannot exceed Rs.50 Crores at any point of time. As on 30-06-2004 borrowings of the Company amounted to Rs.22,73,16,688/-. In view of growth in business of the Company, it may be necessary for the company to borrow monies from various sources consequent to which the amount outstanding could exceed the present limit of Rs. 50 Crores.

The Board of Directors accordingly recommends the new limit to the extent as set out in the resolution, for approval of the members. None of the Directors of the Company is in any way, concerned or interested in the said resolution.

Salem
27.08.2004

By order of the Board,
P.Palaniappan
Chairman cum Managing Director

Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote instead of himself and the Proxy need not be a member of the Company.
2. Information as required under Clause 49 of the Listing Agreement in respect of re-appointment of Directors are provided in the Annexure to the notice.
3. The instrument appointing Proxy should however be deposited at the Registered Office of the Company not less than forty-eight hours before the commencement of the Meeting.
4. The Register of Members and Share Transfer Books of the Company shall remain closed from 30.11.2004 to 09.12.2004 (both days inclusive).
5. Members holding share in Physical form are requested to intimate immediately any changes in their address to the Company's Share Transfer Agent, M/s Cameo Corporate Services Limited, 'Subramanian Building' No. 1, Club House Road, Chennai – 600 002 and members holding shares in dematerialized form may inform the same to their respective Depository Participant.
6. Pursuant to Section 205A of the Companies Act, 1956, the Company has transferred all unclaimed equity dividends upto the financial year ended 31st March, 1995 to the General Revenue Account of the Central Government. Shareholders who have not encashed the dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Stock Exchange Buildings, II Floor, Trichy Road, Singanallur, Coimbatore – 641005 in the prescribed form which will be supplied by the Company on request.



SRI NACHAMMAI COTTON MILLS LIMITED

NOTICE OF ANNUAL GENERAL MEETING (Contd...)

Pursuant to Section 205C of the Companies Act, 1956, the Company has transferred all unpaid dividends for the period ended 30.06.1997 to the Investor Education and Protection Fund and no claim shall lie against the Company or the Central Government for such transferred amount.

The unpaid dividend for the year ended 30.06.1998 which remains unclaimed for a period of seven years from the date of transfer to the Unpaid Dividend Account will be transferred to the Investor Education and Protection Fund; upon such transfer, no claim shall lie against the Company or the Central Government for such unclaimed dividend. Members who have not encashed the dividend warrants for the year ended 30.06.1998 are requested to make the claim to the Company accordingly, without any delay.

Annexure:

Reappointment of Directors

A brief resume in respect of the proposed reappointment of Directors is given below in terms of Clause 49 of the Listing Agreement.

Name	:	Shri. A. Alagappan
Age	:	48 Years
Qualification	:	B.B.A.,
Date of Appointment	:	27.09.1996
Experience	:	24 Years
Other Directorships	:	Nil
Member of the Committee	:	Audit Committee and Remuneration Committee
Name	:	Shri. C.S. Thirumalai
Age	:	67
Qualification	:	M.A., PGDMA., ACMA., AICWA., MIIE.,
Date of Appointment	:	28.09.2001
Experience	:	46 Years
Other Directorships	:	Nil
Member of the Committee	:	Audit Committee and Remuneration Committee



SRI NACHAMMAI COTTON MILLS LIMITED

Registered Office: 30, Sugavaneswara Road, Balaji Nagar, SALEM 636 004.

REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS

Ladies and Gentlemen,

Your Directors have great pleasure in presenting this 24th Annual Report together with the Audited Statement of Accounts for the Year ended 30th June 2004.

FINANCIAL RESULTS FOR THE YEAR

The financial results for the year under review are furnished below:

		Rs.
OPERATING PROFIT BEFORE INTEREST AND DEPRECIATION		6,16,58,438
Less : Interest		2,70,52,958
GROSS PROFIT		3,46,05,480
Less : Depreciation		2,09,00,824
NET PROFIT		1,37,04,656
Add : Deferred Tax Asset	21,56,739	
Provision for diminution in the value of investment	57,420	
B/F Surplus	7,30,364	29,44,523
		1,66,49,179
Less : Provision for Taxation	93,00,000	
Income Tax for prior years	65,426	93,65,426
NET PROFIT BEFORE APPROPRIATION		72,83,753
Proposed dividend @ 10%	42,86,400	
Corporate dividend Tax	5,49,195	
Transfer to General Reserve	20,00,000	68,35,595
SURPLUS CARRIED OVER TO BALANCE SHEET		4,48,158



SRI NACHAMMAI COTTON MILLS LIMITED

REPORT OF BOARD OF DIRECTORS (Contd....)

DIVIDEND

The performance of the Company during the year was satisfactory. Your Directors recommend a dividend of 10% for the year ended June 30, 2004, on the paid-up equity share capital for the year absorbing Rs.42,86,400/-

REVIEW OF OPERATIONS

During the year under report, the Gross profit of the Company has gone up from Rs.281.89 lakhs to Rs.346.05 lakhs. The overall improvement in the profit was as a result of various factors such as lower interest burden due to proactive debt restructuring and better productivity due to continuous technology upgradation. During the current year, the Company is expected to sustain its performance due to adequate steps taken in timely procurement of raw materials and various cost control measures taken across the units.

FIXED DEPOSITS

As on 30.06.2004, 4 deposits amounting to Rs.18000 remaining unclaimed on the due dates and close follow up is being made to obtain instruction from the depositors.

The Company's present rate of interest payable on the Fixed Deposits is 10% with effect from the date of release of newspaper advertisement.

DIRECTORS

The Directors Sri. A. Alagappan and Sri. C.S. Thirumalai retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. The details as required under Clause 49 of the Listing Agreement is attached.

DIRECTORS RESPONSIBILITY STATEMENT:

As per amended Section 217(2AA) of the Companies Act 1956, the Board of Directors states that in the preparation of Annual Accounts for the year ended 30.06.2004

1. That in the preparation of Annual Accounts for the year ended 30.06.2004, the applicable accounting standards have been followed and there are no material departures.
2. That the Directors have selected such accounting policies in consultation with the statutory auditors 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 ended 30.06.2004 and of the profit of the Company for that year.
3. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. That the Directors have prepared the Annual Accounts for the year ended 30.06.2004 on a going concern basis.

CORPORATE GOVERNANCE

Reports on Management Discussion and Analysis and Corporate Governance along with a certificate from the auditors of the Company regarding compliance in accordance with Clause 49 of the Listing Agreements with Stock Exchanges are made a part of the Annual Report.



SRI NACHAMMAI COTTON MILLS LIMITED

REPORT OF BOARD OF DIRECTORS (Contd...)

LISTING

The Equity Shares of the Company are listed in Mumbai, Chennai and Coimbatore Stock Exchanges and the Company has duly paid the Annual listing fees for the year 2004-2005.

M/s. Cameo Corporate Services Limited, Chennai is the Registrar for providing depository services through National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for holding Shares in Electronic mode (De-mat) by our Shareholders and also Registrar for Share Transfer Services for physical segment.

AUDITORS

M/s. M.S.Jagannathan & Visvanathan, Auditors retire at the ensuing Annual General Meeting and they are eligible for reappointment.

PARTICULARS OF EMPLOYEES

In accordance with Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules 1975, as amended, the names and other particulars of the employees of the Company who are in receipt of remuneration of not less than Rs.24 lakhs per annum and Rs.2,00,000 per month is NIL.

STATEMENT SHOWING DETAILS OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, EXPORTS AND FOREIGN EXCHANGE EARNINGS AND OUTGO

In accordance with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules 1988 a Statement showing details of conservation of Energy, Technology absorption, Exports and Foreign Exchange earning and outgo is annexed to this report.

REPLY TO AUDITORS' REMARKS:

Regarding non-reconciliation / confirmation of balances of Sundry Debtors and Sundry creditors and advances and provisions thereof bad and doubtful debts / advances, the explanation given in note no. 8b is self-explanatory.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their deep sense of appreciation for the tremendous support from the Bankers M/s. Indian Overseas Bank, the shareholders, depositors, all our suppliers and customers. The Board also wishes to place on record their appreciation for the contribution made by the employees at all levels. Your Company's consistent growth was made possible by the sincere, hard work, solidarity, co-operation of all staff and employees at all levels of the Company.

Salem.

27th August, 2004

For and on behalf of the Board of Directors

P.PALANIAPPAN

Chairman cum Managing Director



SRI NACHAMMAI COTTON MILLS LIMITED

ANNEXURE TO DIRECTORS' REPORT

Forming part of the Report of the Board of Directors for the year ended 30th June, 2004. Particulars as required under Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 made under Section 217(1)(e) of the Companies Act, 1956.

FORM A

Form for disclosure of particulars with respect to Conservation of Energy.

	<u>Current Year</u> Year ended 30.06.2004	<u>Previous Year</u> Year ended 30.06.2003
A. Power and Fuel Consumption		
1. Electricity		
(a) Purchased		
Units	2,37,41,372	1,70,63,118
Total Amount (Rs.)	9,70,71,226	6,99,95,513
Rate Per unit (Rs.)	4.09	4.10
(b) Own Generation		
(i) Through Diesel Generator		
Units	18,35,221	32,09,758
Units per litre of Diesel	3.37	3.33
Cost/Unit (Rs.)	4.51	4.14
(ii) Through Steam Turbine/ Generator	Nil	Nil
2. Coal	Nil	Nil
3. Furnace Oil	Nil	Nil
4. Other/Internal Generation	Nil	Nil
B. Consumption per unit of Production		
Yarn produced (kgs)	95,89,148	70,61,986
Electricity Consumed (Units)	2,55,76,593	2,02,72,876
Electricity Consumed per Kg. of Yarn (Units)	2.67	2.87

PARTICULARS OF TECHNOLOGY ABSORPTION

The Company has no R & D Division. The Company is a member of South India Textile Research Association and gets the benefits of their research.

PARTICULARS ON FOREIGN EXCHANGE EARNINGS AND OUTGO

EARNINGS:	Direct Exports:	Rs.	Nil
OUTGO:	Import of Raw Material	Rs.	5,43,69,352
	Import of Spares	Rs.	48,09,570
	Import of Capital Goods	Rs.	25,31,906
			6,17,10,828

For and on behalf of the Board of Directors,

P. PALANIAPPAN

Chairman cum Managing Director

Salem

27th August, 2004



SRI NACHAMMAI COTTON MILLS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

A. INDUSTRY STRUCTURE AND DEVELOPMENT

Textile Industry is the largest employer of workforce after agriculture, playing a crucial and pivotal role in the Indian Economy. Its importance to the Indian economy is recognised for its significant contribution to Industrial production and export earnings. The textile Industry can be classified under 4 categories: Spinning, Weaving, Knitting and Processing. The Indian Spinning Sector is largely in the organized Sector and continues to be the predominant supplier of Cotton Yarn in the world.

During the latter part of the reporting accounting year, the cotton prices skyrocketed due to short supply of Cotton in the international markets. The increase in cotton prices were not matched by a corresponding increase in the yarn prices. For the coming year, the area under cotton cultivation has gone up and favourable monsoon is forecast, thus a bumper crop and decline in cotton prices is expected.

Company's strong emphasis on technology upgradation and modernization has helped the Company to have a qualitative edge in the market. Besides your Company is continuously enhancing its operational efficiency, productivity and cost control which has resulted in improving the bottom line in a highly competitive environment.

B. OPPORTUNITIES, THREATS, RISKS AND CONCERNS

The Indian Textile Industry was not able to grow and develop to its full potential, due to several years of distorted fiscal structure, which favoured fragmentation and Tax evasion.

The Budget presented on 8.7.2004 has provided a level playing field for all cotton textile concerns. The mandatory Cenvat chain has been abolished and there will be no mandatory excise duty on cotton textiles. The health of textile Industries is primarily dependent on adequate availability of quality cotton at competitive prices. The competitiveness of the Indian textile industry could improve due to measures like the Technology upgradation fund, the slashing of import duties on textile machinery and the setting up of the textile construction fund to provide financial support to viable and potentially viable units. Cotton availability has been highly volatile and will continue to do so in the future due to various natural factors. The quality of the Indian Cotton has been deteriorating year to year due to high level of contamination. The management is continuously keeping a watch on the cotton market and has purchased good cotton at reasonable prices and has adequately covered the Company's requirement. The units, which are cost-effective, superior in technology, and quality – conscious and service oriented will only survive.

C. SEGMENT - WISE OR PRODUCT - WISE PERFORMANCE

At present, the segmental reporting are not applicable to the company as the Company has only single reportable business segment i.e. "Yarn Segment"

D. OUTLOOK

The future of the textile industry is full of surprises and challenges. Only the mills, which warrant customer satisfaction, value for money at a low cost, good working capital management and clear vision for the future can survive in the highly competitive years to come. The management of your Company is working in that direction.