

SRI NACHAMMAI COTTON MILLS LIMITED



26th ANNUAL REPORT 2005 - 2006



BOARD OF DIRECTORS

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

COMPANY SECRETARY CUM CHIEF FINANCIAL OFFICER Sri V. Venkatesan, M.Com., M.B.A., ACS.,

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

INTERNAL AUDITOR Sri 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.

Contents

	Page No.
Notice of Annual General Meeting	- 02
Directors Report	- 05
Management Analysis and Discussion Report	- 09
Corporate Governance Report	- 11
General Shareholders Information	- 15
Auditors Report	- 19
Balance Sheet	- 22
Profit and Loss Account	- 23
Schedules to Balance Sheet and P&L Account	- 24
Notes forming part of the Accounts	- 33
Part IV Abstract	- 39

Contact Details

<u>Registered Office</u>	30, Sugavaneswara Road, Balaji Nagar, Salem – 636 004.
<u>Mills at</u>	Near Railway Station, Chettinad – 630 102. Sivaganga District.
<u>Phone Number</u>	0427-2331879, 2330847, 2330466
<u>Fax</u>	0427 – 2331951
<u>E-mail</u>	sncm@rediffmail.com
<u>Website</u>	www.sncmindia.com



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the **Twenty Sixth Annual General Meeting of Sri Nachammai Cotton Mills Limited** will be held on **Wednesday the 6th day of December, 2006 at 5.00 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 2006**, 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 R. VIJAYARAGHAVAN** who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in the place of **Sri A. ANNAMALAI** 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.

Salem
23rd August, 2006

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



NOTICE OF ANNUAL GENERAL MEETING

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 **01.12.2006** to **06.12.2006** (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 30th June, 1997 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.

Pursuant to Section 205C of the Companies Act, 1956, the Company has transferred all unpaid dividends for the period ended 30.06.1999 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 30.06.1999 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 30.06.2000 are requested to make the claim to the Company accordingly, without any delay.



NOTICE OF ANNUAL GENERAL MEETING (Contd...)

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	: Sri R. Vijayaraghavan
Age	: 56 Years
Qualification	: M.Sc., M.B.A., B.L.
Date of Appointment	: 04-06-1992
Experience	: 31 Years
Other Directorships	: <ol style="list-style-type: none">1. Sanco Trans Limited2. Neyveli Lignite Corporation Limited3. Amrutanjan Limited4. Redington India Limited5. Thiru Arooran Sugars Limited6. Shree Ambika Sugars Limited7. Terra Energy Limited8. India Nippon Electricals Limited9. Strategic Management & Marketing Consultancy Services Limited10. Prime Technology Resources Management Limited11. TVS Finance & Services Limited
Member of the Committee	: NIL.

Name	: Sri A. Annamalai
Age	: 50 years
Qualification	:
Date of Appointment	: 19.09.1997
Experience	: 9 Years
Other Directorships	: Supreme Yarn Spinners Limited.
Member of the Committee	: Remuneration Committee, Share Transfer Committee and Share Holders Grievances 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 26th Annual Report together with the Audited Statement of Accounts for the Year ended 30th June 2006.

FINANCIAL RESULTS FOR THE YEAR

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

		Rs.
OPERATING PROFIT BEFORE INTEREST AND DEPRECIATION		7,22,13,945
Less : Interest		3,02,80,270
GROSS PROFIT		4,19,33,675
Less : Depreciation		2,01,00,297
NET PROFIT		2,18,33,378
Add : Balance brought forward	20,44,140	
		20,44,140
		2,38,77,518
Less : Provision for Fringe Current Tax	14,00,000	
Deferred Tax Liability	56,61,916	
Provision for Fringe Benefit Tax	1,85,530	
Income Tax paid for prior year	6,676	
Proposed dividend @ 12.5% on Equity shares	53,58,000	
Corporate Dividend Tax	7,51,460	
Transferred to General Reserve	60,00,000	
Bonus and exgratia for prior year	38,83,923	2,32,47,505
NET PROFIT BEFORE APPROPRIATION		6,30,013
SURPLUS CARRIED OVER TO BALANCE SHEET		6,30,013



REPORT OF BOARD OF DIRECTORS (Contd...)

REVIEW OF OPERATIONS

During the year under report, the Gross profit of the Company is Rs.419.34 lakhs. We are glad to inform you that we have got **ISO Certification** for our Registered Office, Tirupur Sales Centre and B Unit. We would be subsequently getting ISO Certification for our other units. During the current year, the Company is expected to improve its performance due to adequate steps taken in timely procurement of raw materials, upgradation of technology and various cost control measures taken across the units.

FIXED DEPOSITS

As on **30.06.2006**, 5 deposits amounting to **Rs.40,000** remaining unclaimed on the due dates and close follow up is being made to obtain instruction from the depositors.

DIRECTORS

The Directors **Sri A. Annamalai** and **Sri R. Vijayaraghavan** 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 state that in the preparation of Annual Accounts for the year ended **30.06.2006**

1. That 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 **30.06.2006** 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 **30.06.2006** 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.



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 **2006-2007**.

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. 10b 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.

Salem.
23rd August, 2006

For and on behalf of the Board of Directors

P.PALANIAPPAN
Chairman cum Managing Director



SRI NACHAMMAI COTTON MILLS LIMITED

ANNEXURE TO DIRECTOR'S REPORT

Forming part of the Report of the Board of Directors for the year ended 30th June, 2006. 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 30.06.2006	<u>Previous Year</u> Year ended 30.06.2005
A. POWER AND FUEL CONSUMPTION :		
1. Electricity		
(a) Purchased		
Units	2,47,43,397	2,38,28,092
Total Amount (Rs.)	10,24,96,995	9,70,79,370
Rate Per unit (Rs.)	4.14	4.07
(b) Own Generation		
(i) Through Diesel Generator		
Units	5,62,518	6,47,772
Units per litre of Diesel	3.32	3.17
Cost/Unit (Rs.)	8.42	7.51
(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)	81,23,082	79,69,217
Electricity Consumed (Units)	2,53,05,915	2,44,75,864
Electricity Consumed	3.12	3.07
Per kg. of yarn (Units)		

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.	Nil
	Import of Spares	Rs.	47,29,860
	Import of Capital Goods	Rs.	4,50,13,418
			4,97,43,278

For and on behalf of the Board of Directors,

Salem
23rd August, 2006

P. PALANIAPPAN
Chairman cum Managing Director

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.

According to International Cotton Advisory Committee (ICAC), world production of cotton in 2004-05 was all time high at 26.30 million tons. For the season 2005-06 the global cotton production is estimated at 24.90 million tons. For 2006-07, the global production is estimated at 25.40 million tons. As per ICAC, the average price of cotton in 2004-05, which was around 52 cents per pound is expected to be 58 cents in 2005-06 and 61 cents in 2006-07. For the coming year, there is expected to be a good cotton crop as in the last year. During the reporting accounting year, yarn offtake was good and we expect the demand for yarn to increase for the coming year.

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.

B. OPPORTUNITIES, THREATS, RISKS AND CONCERNS:

The health of textile Industries is primarily dependent on adequate availability of quality cotton at competitive prices and right blend of Technology. 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, the setting up of the textile construction fund to provide financial support to viable and potentially viable units and TMC's support to improve market yards and ginning units. Units in Tamilnadu will benefit with the introduction of VAT with effect from 01.01.2007. The threat being competition from units situated in different parts of the world and the opportunity being unlimited export access to other countries. 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, 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.

Your company is a significant player in the coarse and medium segment in the Indian Cotton Yarn Market. Owing to a good monsoon, we expect a bumper cotton crop. The company continues to make special efforts to tap new markets, apart from traditional markets. With the abolition of sales tax on Hank Yarn, we are expecting an increase in demand for Hank Yarn