

SRI NACHAMMAI COTTON MILLS LIMITED





SRI NACHAMMAI COTTON MILLS LIMITED

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.,

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.

COMPLIANCE OFFICER

Mr. V. Sundaramoorthy.

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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 Numbers</u>	0427-2331879, 2330847, 2330466.
<u>Fax</u>	0427 - 2331951
<u>E-mail</u>	sncm@rediffmail.com
<u>Website</u>	www.sncmindia.com

**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 Seventh Annual General Meeting of Sri Nachammai Cotton Mills Limited** will be held on **Wednesday the 5th day of December, 2007 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 2007**, the audited Profit and Loss Account as at that date and the Auditors' Report thereon.
2. To appoint a Director in the place of **Smt. RM.UMAIYAL** who retires by rotation and being eligible, offers herself for reappointment.
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 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

5. To consider and if thought fit, to pass the following resolution as an "Ordinary Resolution".
RESOLVED that consent/approval be and is hereby accorded under Sections 198,269,309 and Schedule XIII and other applicable provisions of the Companies Act, 1956 for re-appointment of **Sri P.PALANIAPPAN**, as Chairman cum Managing Director for a period of One year from 19.12.2007 on the following remuneration perquisites and other terms and conditions:

I. Salary

Rs.1,25,000 p.m. (Rupees One Lakh and Twenty Five Thousand Only)

II. Commission

Commission computed on the basis of 5% of the net profit of the Company as reduced by their aggregate remuneration by way of salary and perquisites (exclusive of perquisites not to be included in the computation of ceiling on remuneration in Paragraph 2 of Part II of Schedule XIII).

Perquisites

1. The Chairman cum Managing Director shall be eligible to the following perquisites, which are not to be included in the computation of the ceiling on remuneration specified in Paragraph 2 of Section II of Part II of Schedule XIII to the Companies Act, 1956.
 - i. Contribution of Provident Fund, Superannuation Fund to the extent these either singly or part together are not taxable under the Income Tax Act, 1961.
 - ii. Encashment of leave at the end of tenure.
2. **Housing**
The Chairman cum Managing Director shall be entitled to house rent allowance subject to the ceilings. Sixty percent of the salary, over and above ten percent payable by the Chairman cum Managing director.
3. **Gas, Electricity, Water and Furnishings**
The expenditure incurred by the Company on gas, electricity, water and furnishings shall be valued as per the Income Tax Act, 1961. This shall, however, be subject to a ceiling of 10% of the salary of the Chairman cum Managing Director.
4. **Medical Reimbursement**
Medical expenses incurred for self and family subject to a ceiling of one month's salary in a year.
5. **Leave Travel Concession**
For self and family once in a year incurred in accordance with the rules of the Company.
6. **Club Fees**
Fees of clubs, subject to a maximum of two clubs, excluding admission and life membership fees.
7. **Personal Accident Insurance**
Premium not to exceed Rs.10,000 per annum.
8. **Car**
Car with driver for use on Company's business and Telephone at residence. Personal long distance calls and use of car for private purpose shall be billed by the Company.

SRI NACHAMMAI COTTON MILLS LIMITED

NOTICE OF ANNUAL GENERAL MEETING (Contd...)

9. Other Terms and Conditions

i. The Salary, commission and perquisites shall be subject to the overall ceiling under Sections 198 and 309 of the Companies Act, 1956.
 ii. In the event of absence or inadequacy of profits in any financial year during the tenure of Chairman cum Managing Director, he shall be paid the salary and perquisites as specified above, subject to the ceiling under paragraph 1(A) of Section II Part II of Schedule XIII to the Companies Act, 1956 as modified from time to time and subject further to the perquisites for the purpose of ceiling being reckoned exclusive of the specified perquisites in Paragraph II of Section II aforesaid.

6. To consider and if thought fit, to pass the following resolution as an "Ordinary Resolution".

RESOLVED that consent/approval be and is hereby accorded under Sections 198,269,309 and Schedule XIII and other applicable provisions of the Companies Act, 1956 for re-appointment of Smt. P.Umayal, as Joint Managing Director for a period of One year from 19.12.2007 on the following remuneration, perquisites and other terms and conditions:

I. Salary

Rs.1,25,000 p.m. (Rupees One Lakh and Twenty Five Thousand Only)

II. Commission

Commission computed on the basis of 5% of the net profit of the Company as reduced by their aggregate remuneration by way of salary and perquisites (exclusive of perquisites not to be included in the computation of ceiling on remuneration in Paragraph 2 of Part II of Schedule XIII).

Perquisites

1. The Joint Managing Director shall be eligible to the following perquisites, which are not to be included in the computation of the ceiling on remuneration specified in Paragraph 2 of Section II of Part II of Schedule XIII to the Companies Act, 1956.

- i. Contribution of Provident Fund, Superannuation Fund to the extent these either singly or part together are not taxable under the Income Tax Act, 1961.
- ii. Encashment of leave at the end of tenure.

2. Housing

The Joint Managing Director shall be entitled to house rent allowance subject to the ceilings. Sixty percent of the salary, over and above ten percent payable by the Joint Managing Director.

3. Gas, Electricity, Water and Furnishings

The expenditure incurred by the Company on gas, electricity, water and furnishings shall be valued as per the Income Tax Act, 1961. This shall, however, be subject to a ceiling of 10% of the salary of the Joint Managing Director.

4. Medical Reimbursement

Medical expenses incurred for self and family subject to a ceiling of one month's salary in a year.

5. Leave Travel Concession

For self and family once in a year incurred in accordance with the Rules of the Company.

6. Club Fees

Fees of clubs, subject to a maximum of two clubs, excluding admission and life membership fees.

7. Personal Accident Insurance

Premium not to exceed Rs.10,000 per annum.

8. Car

Car with driver for use on Company's business and Telephone at residence. Personal long distance calls and use of car for private purpose shall be billed by the Company.

9. Other Terms and Conditions

- i. The Salary, commission and perquisites shall be subject to the overall ceiling under Sections 198 and 309 of the Companies Act, 1956.
- ii. In the event of absence or inadequacy of profits in any financial year during the tenure of Joint Managing Director, he shall be paid the salary and perquisites as specified above, subject to the ceiling under paragraph 1(A) of Section II Part II of Schedule XIII to the Companies Act, 1956 as modified from time to time and subject further to the perquisites for the purpose of ceiling being reckoned exclusive of the specified perquisites in Paragraph II of Section II aforesaid.

**SRI NACHAMMAI COTTON MILLS LIMITED****NOTICE OF ANNUAL GENERAL MEETING (Contd...)****EXPLANATORY STATEMENT****AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956****Item Nos. 5 & 6:**

Sri P.Palaniappan was appointed as Chairman cum Managing Director and Smt. P.Umayal was appointed as Joint Managing Director for a period of five years from 19-12-2002 at the General Meeting of the Company held on 18-12-2002 and their period of appointment expires on 18.12.2007.

As recommended by the Remuneration Committee, the Board of Directors at the meeting held on 27-08-2007 has reappointed them as Chairman cum Managing Director and Joint Managing Director respectively for a period of One year from 19-12-2007 on the revised remuneration and perquisites and other terms and conditions as set out in the resolution.

Sri P.Palaniappan has rich experience in the varied fields of technical, financial, marketing and cotton purchase management. Smt.P.Umayal has rich experience in cotton selection, procurement and purchase and overall administration of the Company. Their experience will be highly beneficial to the Company.

The proposed re-appointment, remuneration and perquisites are within the limits prescribed in the Schedule XIII of the Companies Act, 1956 and require the approval of the Shareholders as per the provisions of the Companies Act, 1956. Accordingly, the resolution set out in Item nos. 5 & 6 are recommended by the Remuneration Committee and the Board of Directors for approval of this General Meeting.

Sri P.Palaniappan and Smt. P.Umayal may be deemed to be concerned or interested in the above re-appointment as it relates to their re-appointment and remuneration.

Sri P.Palaniappan and Smt. P.Umayal are related to Smt. RM.Umaiya, Director of the Company.

By order of the Board,

P. Palaniappan

Chairman cum Managing Director

Salem

27th August, 2007

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 **01.12.2007 to 05.12.2007** (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.

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	: Smt. RM.Umaiya.
Age	: 79 Years
Date of Appointment	: 18-08-1982
Experience	: 24 Years
Other Directorships	: Supreme Yam Spinners Limited.
Member of the Committee	: NIL.
Name	: Sri A.Alagappan.
Age	: 51 years
Qualification	: B.B.A.,
Date of Appointment	: 27-09-1996
Experience	: 27 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 are hereby presenting this 27th Annual Report together with the Audited Statement of Accounts for the Year ended 30th June 2007.

FINANCIAL RESULTS FOR THE YEAR

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

		Rs.
OPERATING PROFIT BEFORE INTEREST AND DEPRECIATION		1,64,28,319
Less: Interest		2,51,93,742
GROSS LOSS		87,65,423
Add: Depreciation		1,68,42,741
NET LOSS		2,56,08,164
Less: Balance brought forward	6,30,013	
Deferred Tax Asset	35,92,662	
		42,22,675
		2,13,85,489
Add : Provision for Fringe Benefit Tax	88,739	
Bonus and exgratia for prior year	14,68,909	15,57,648
NET LOSS		2,29,43,137
LOSS CARRIED OVER TO BALANCE SHEET		2,29,43,137

SRI NACHAMMAI COTTON MILLS LIMITED

REPORT OF BOARD OF DIRECTORS (Contd...)

REVIEW OF OPERATIONS

During the year under report, the Gross Loss of the Company is Rs.87.65 lakhs. During the year the workforce at our Chettinad units placed unreasonable demands on the management. Since their demands were not in accordance with the current textile industrial practice the management did not oblige. This resulted in 'A' unit workers to go on illegal strike from 02-11-2006 and 'B' unit workers to go on illegal strike from 02-01-2007. After prolonged discussion, the workers resumed work on 16th May 2007. Now, the running and the relationship between the management and workers have improved. Management is taking all steps to improve relationship with the workers without compromising on discipline and productivity. During the current year, the Company is expected to improve its performance due to adequate steps taken in timely procurement of raw material, upgradation of technology and various cost control measures taken across the units.

FIXED DEPOSITS

As on **30.06.2007**, 2 deposits amounting to **Rs.8,000** remaining unclaimed on the due dates and close follow up is being made to obtain instruction from the depositors.

DIRECTORS

The Directors **Smt. RM.Umaiya** and **Sri A.Alagappan** 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 **30.06.2007**

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 **30.06.2007** and of the loss 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 **30.06.2007** 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 annexed as 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 and Coimbatore Stock Exchanges and the Company has duly paid the Annual listing fees for the year **2007-2008**, except to Coimbatore Stock Exchange to which the Company has applied for de-listing.

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, there are no employees who are in receipt of remuneration of Rs.24 lakhs or more per annum and Rs.2 lakhs or more per month.

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
27th August, 2007

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, 2007. 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 30.06.2007	<u>Previous Year</u> Year ended 30.06.2006
A. POWER AND FUEL CONSUMPTION :		
1. Electricity		
(a) Purchased		
Units	1,64,63,374	2,47,43,397
Total Amount (Rs.)	7,71,21,928	10,24,96,995
Rate Per unit (Rs.)	4.68	4.14
(b) Own Generation		
(i) Through Diesel Generator		
Units	2,64,663	5,62,518
Units per litre of Diesel	3.22	3.32
Cost/Unit (Rs.)	9.22	8.42
(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)	63,44,906	81,23,082
Electricity Consumed (Units)	1,67,28,037	2,53,05,915
Electricity Consumed	2.64	3.12
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.	52,53,804
	Import of Capital Goods	Rs.	81,69,608
			1,34,23,412

Salem
27th August, 2007

For and on behalf of the Board of Directors,

P. PALANIAPPAN
Chairman cum Managing Director



SRI NACHAMMAI COTTON MILLS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

A. INDUSTRY STRUCTURE AND DEVELOPMENTS:

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), the global cotton production for the season 2006-2007 is estimated at 25.31 million tons. For 2007-08, the global production is projected at 25.22 million tons. As per ICAC, the average price of cotton in 2006-07, which was around 58 cents per pound is expected to be 62 cents per pound in 2007-08. The Indian cotton crop has been very good last year and we expect a bumper crop in the coming year due to increased acreage and more sowing of better seeds.

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. 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, 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.

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.