

# SRI NACHAMMAI COTTON MILLS LIMITED



**28th ANNUAL REPORT 2007 - 2008**



## SRI NACHAMMAI COTTON MILLS LIMITED

### **BOARD OF DIRECTORS**

<b>Chairman cum Managing Director</b>	Sri. P.Palaniappan, B.E.,M.S.(U.S.A.),
<b>Joint Managing Director</b>	Smt.P.Umayal, B.Sc.,
<b>Directors</b>	Smt. RM.Umaiya Sri. Amrathlal A.Gandhi, B.Sc., Sri. A.Alagappan, B.B.A., Sri. A.Annamalai Sri. C.S.Thirumalai, M.A.,PGDMA., ACMA., AICWA., MIIE., Sri. Perumal Madhavagopal, L.T.M.,

### **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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## 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 Eighth Annual General Meeting of Sri Nachammai Cotton Mills Limited** will be held on **Tuesday the 16<sup>th</sup> day of December, 2008 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 **30<sup>th</sup> June 2008**, the audited Profit and Loss Account as at that date and the Auditors' Report thereon.
2. To appoint a Director in the place of **Sri. C.S. THIRUMALAI** who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in the place of **Sri. AMRATHAL A. GANDHI** who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint an Auditor 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 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 19.12.2008 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).
  - III **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 19.12.2008 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).

#### III 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 Company 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, she 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.

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

RESOLVED that Sri . Perumal Madhava Gopal who was co-opted as an Additional Director of the Company by the Board of Directors who ceases to hold office under Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation.



## SRI NACHAMMAI COTTON MILLS LIMITED

### NOTICE OF ANNUAL GENERAL MEETING (Contd...)

#### 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 11.12.2008 to 16.12.2008 (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. Unclaimed dividends for the financial years 1995-96, 1996-1997, 1997-1998 & 1998-1999 were transferred on 3rd August, 2002, 7th October, 2003, 22nd February, 2005 and 14th February, 2006 respectively, to the Investor Education and Protection Fund ("IEPF") as required under Section 205C of the Act.

### 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 one year with effect from 19.12.2007 by the Board of Directors at its Meeting held on 27.08.2007 and their period of reappointment expires on 18.12.2008.

As recommended by the Remuneration Committee, the Board of Directors at the meeting held on 28-08-2008 has reappointed them as Chairman cum Managing Director and Joint Managing Director respectively for a period of One year from 19-12-2008 on the same 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 and Smt. RM. Umaiya is interested being related to Sri. P.Palaniappan and Smt. P.Umayal.

#### Item No. 7:

Sri. Perumal Madhava Gopal was co-opted as an Additional Director of the Company 28.01.2008 by the Board of Directors of the Company. According to the provisions of Section 260 of the Companies Act, 1956, he holds office as Director only up to the date of ensuing Annual General Meeting. As required by Section 257 of the Act, a notice together with requisite deposit has been received from a member signifying his intention to propose his appointment as a Director. The Board considers it desirable that the Company should continue to avail itself of his services and therefore commend the same for passing it as an Ordinary Resolution. None of the Directors except Sri. Perumal Madhava Gopal deemed to be interested in the above resolution.

Salem

28<sup>th</sup> August, 2008

Annexure:

#### Reappointment of Directors

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

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

	1	2
Name	<b>Sri. C.S.Thirumalai</b>	<b>Sri. Amrathlal A. Gandhi</b>
Age	73 Years	75 years
Date of Appointment	28.09.2001	05.06.1995
Experience	50 years	53 years
Other Directorships	Nil	Nil
Member of the Committee:	Audit Committee & Remuneration Committee	Audit Committee, Remuneration 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 are hereby presenting this 28<sup>th</sup> Annual Report together with the Audited Statement of Accounts for the Year ended 30<sup>th</sup> June, 2008.

### FINANCIAL RESULTS FOR THE YEAR

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

	30-06-2008	30-06-2007
	Rs.	Rs.
<b>OPERATING PROFIT BEFORE INTEREST</b>		
<b>AND DEPRECIATION</b>	<b>3,86,01,660</b>	<b>1,64,28,319</b>
Less: Interest	<u>4,55,95,760</u>	<u>2,51,93,742</u>
<b>GROSS LOSS</b>	<b>69,94,100</b>	<b>87,65,423</b>
Add: Depreciation	<u>1,98,82,215</u>	<u>1,68,42,741</u>
<b>LOSS BEFORE TAX</b>	<b>(2,68,76,315)</b>	<b>(2,56,08,164)</b>
Deferred Tax Asset/(Liability)	<b>1,21,00,672</b>	<b>35,92,662</b>
Fringe Benefit Tax	<b>(59,671)</b>	<b>(88,739)</b>
Fringe Benefit Tax for prior year	<b>(5,350)</b>	<b>--</b>
Excess Income Tax Provision reversed	<b>1,06,000</b>	<b>--</b>
<b>LOSS AFTER TAX</b>	<b>(1,47,34,664)</b>	<b>(2,21,04,241)</b>
Bonus and Exgratia for Prior year	<b>(13,81,380)</b>	<b>(14,68,909)</b>
Dimunition in value of investments	<b>(49,252)</b>	<b>--</b>
<b>Deficit transferred to Balance Sheet</b>	<b>(1,61,65,296)</b>	<b>(2,35,73,150)</b>



## SRI NACHAMMAI COTTON MILLS LIMITED

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

#### REVIEW OF OPERATIONS

During the year under review, the turnover of the Company increased by 41.91%. Gross Loss before depreciation decreased from Rs. 87.65 lakhs to Rs. 70.16 lakhs. The loss was on account of the following factors.

The demand for yarn from garment exporters had fallen due to the appreciation of the Indian Rupee against the USD.

Cotton prices had increased over 50% but there was no proportionate increase in yarn Prices.

Power supply from the grid was erratic with frequent power failures and poor quality of power causing production loss.

Cost of most inputs had gone up drastically including interest costs.

During the current year, the Company is expected to improve its performance with the depreciation of the Indian rupee and more demand for yarn at higher prices.

#### FIXED DEPOSITS

As on **30.06.2008**, one deposit amounting to **Rs. 5,000/-** remaining unclaimed on the due dates and close follow up is being made to obtain instruction from the depositor.

#### DIRECTORS

The Directors Sri. C.S.Thirumalai and Sri. Amrathlal A.Gandhi 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.

Sri. AR.Annamalai, Director passed away on 14.09.2007.

Sri. R.Vijayaraghavan, resigned from his Directorship with effect from 23.10.2007.

Sri. Perumal Madhava Gopal was appointed as Additional Director with effect from 28.01.2008.

The Board expresses its appreciation for the services rendered by Sri. AR.Annamalai and Sri. R.Vijayaraghavan towards the growth of the company.

The Particulars of the Director proposed to be appointed or re-appointed are given in the Report on Corporate Governance of this Annual Report.

#### 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 **30.06.2008**

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 **30.06.2008** 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 30.06.2008 on a going concern basis.





## SRI NACHAMMAI COTTON MILLS LIMITED

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

#### 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.

#### 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 **2008-2009**, except to Coimbatore Stock Exchange to which the Company has applied for de-listing on 22.08.2005.

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, 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.

#### 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

**28<sup>th</sup> August, 2008**

For and on behalf of the Board of Directors,

**P.PALANIAPPAN**

Chairman cum Managing Director

#### ADDENDUM TO DIRECTORS REPORT

In respect of Auditors qualification with regard to non-Confirmation from Parties, it is stated that steps are being taken to get the Confirmation in the future.

Salem

**28<sup>th</sup> August, 2008**

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

Particulars Pursuant to Section 217(1)(c) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

#### A. CONSERVATION OF ENERGY

Though your Company does not have energy intensive operations, it continues to pursue energy Conservation Measures.

Energy Conservation Measures adopted by your Company are as follows:

- (i) Continuous monitoring of energy consumption including space optimization to achieve energy efficiencies.
  - (ii) Scheduled Preventive Maintenance of Plant and Machinery.
  - (iii) Regular Cost Review with action plans as effective utilization of Power during peak and non peak hours.
- Your Company will continue to tightly monitor and control overall energy expenses.

#### FORM A

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

	<u>Current Year</u> Year ended 30.06.2008	<u>Previous Year</u> Year ended 30.06.2007
<b>A. POWER AND FUEL CONSUMPTION :</b>		
1. Electricity		
(a) Purchased		
Units	2,39,27,440	1,64,63,374
Total Amount (Rs.)	10,36,79,028	7,71,21,928
Rate Per unit (Rs.)	4.33	4.68
(b) Own Generation		
(i) Through Diesel Generator		
Units	1,56,116	2,64,663
Units per litre of Diesel	3.24	3.22
Cost/Unit (Rs.)	9.30	9.22
(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 :</b>		
Yarn produced (kgs)	82,14,929	63,44,906
Electricity Consumed (Units)	2,40,83,556	1,67,28,037
Electricity Consumed Per kg. of yarn (Units)	2.93	2.64

#### B. 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.

#### C. PARTICULARS ON FOREIGN EXCHANGE EARNINGS AND OUTGO

<b>EARNINGS :</b>	Direct Exports	Rs.	Nil
<b>OUTGO :</b>	Import of Raw Material	Rs.	Nil
	Import of Spares	Rs.	2,14,102
	Import of Capital Goods	Rs.	3,33,060
			5,47,162

For and on behalf of the Board of Directors,

Salem  
28<sup>th</sup> August, 2008

**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 organised sector and continues to be the predominant supplier of Cotton Yarn in the World.

The Indian textile industry is presently going through a very challenging phase. The increase in cotton prices, freight and other input costs along with erratic power supply is making the Indian textile industry face intense pressure from other competing nations. However, with the withdrawal of the duty on cotton imports, removal of incentive on cotton exports, appreciation of the USD and pick up in the demand for textile products from India, one can expect the textile industry to perform better in the current year.

#### B. OPPORTUNITIES, THREATS, RISKS AND CONCERNS:

The increased purchasing power and liberal spending patterns of the young and growing Indian population and signs of pickup in demand for Indian textile products from international buyers holds much promise for the Textile industry. The spiraling inflation, slowing of the economic growth all over the world, hardening interest rates, currency volatility and crude prices are affecting the entire economy and the textile industry also.

#### 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. "Textiles"

#### 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.