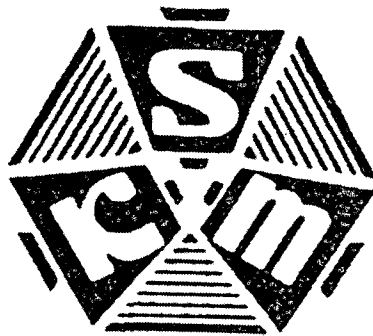


Kandagiri Spinning Mills Limited



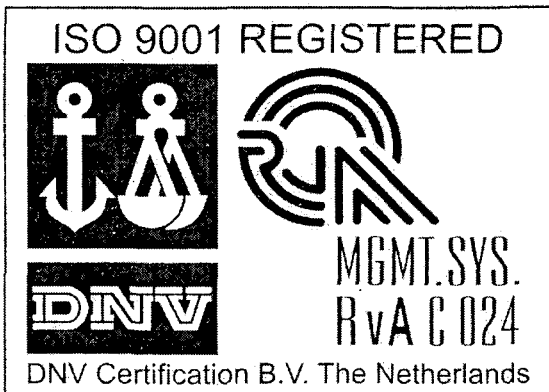
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Certification





KANDAGIRI SPINNING MILLS LIMITED

Registered Office : Udayapatti P.O., Salem - 636140

NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the Thirty Third Annual General Meeting of the Company will be held at the Mill premises of Sambandam Spinning Mills Limited at Kamaraj Nagar Colony, Salem – 636 014 on Wednesday, the 23rd September 2009 at 11.45 hours to transact the following business:

Ordinary Business

1. To receive, consider and adopt the audited Balance Sheet as at March 31, 2009, Profit and Loss account and Cash Flow Statement for the year ended on that date and the report of the directors and the auditors thereon.
2. To appoint a director in the place of Sri V. Gopalan who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a director in the place of Sri P.S. Ananthanarayanan who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint auditors and to fix their remuneration and, in this connection to pass with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED that, pursuant to Section 224 of the Companies Act, 1956, M/s. M.S.Krishnaswami & Rajan, Chartered Accountants be and are hereby re-appointed Auditors of the Company from the conclusion of this meeting until the conclusion of the next Annual General Meeting on such remuneration and terms as may be determined by the Board of Directors of the Company."

Special Business

5. To consider, and if thought fit, to pass with or without modification, the following Resolution, as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 198, 269 and 309, read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, (including any amendment thereto or enactment thereof for the time being in force), consent of the Company be and is hereby accorded for reappointment of Sri R. Selvarajan, Chairman and Managing Director of the Company, for a period of three years from 1.10.2009 to 30.09.2012 on the following terms and conditions recommended by the Remuneration Committee and approved by the Board of Directors of the Company.

- (a) Basic Salary Rs.1,80,000 (Rupees one lakh and eighty thousand only) per month.
- (b) Perquisites and allowances not exceeding Rs.1,20,000 (Rupees one lakh and twenty thousand only) per month, details of which are set out in the Explanatory Statement."



6. To consider, and if thought fit, to pass with or without modification, the following Resolution, as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 198, 269 and 309, read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, (Including any amendment thereto or enactment thereof for the time being in force) consent of the Company be and is hereby accorded for reappointment of Sri S. Vijay Shankar, Joint Managing Director of the Company, for a period of three years from 1.10.2009 to 30.09.2012 on the following terms and conditions recommended by the Remuneration Committee and approved by the Board of Directors of the Company.

- (a) Basic Salary Rs.1,20,000 (Rupees one lakh and twenty thousand only) per month.
- (b) Perquisites and allowances not exceeding Rs.80,000 (Rupees eighty thousand only) per month, details of which are set out in the Explanatory Statement."

For and on behalf of the Board of
Kandagiri Spinning Mills Limited
R.Selvarajan
Chairman and Managing Director

Place : Salem
Date : June 25 2009

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of self and such proxy need not be a member of the Company. Proxies, in order to be effective, must be received at the Registered office of the Company by 11.45 am on Monday, the 21st September 2009.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from Thursday, September 17, 2009 to Wednesday September 23, 2009 (both days inclusive).
3. Members are requested to contact M/s.Cameo Corporate Services Ltd., Registrars and Share Transfer Agents of the Company, at Subramaniam Building, No.1 Club House Road, Chennai 600 002 for recording any change of address, bank mandate, or nominations and for redress of grievance or contact the Registered Office of the Company. Members can also submit their grievances direct to the Company at the following e mail ID
ksmcs@kandagirimills.com
4. Those members who have not so far encashed their dividend warrants for the year 2001-02 may claim or approach the Company for payment thereof as the same will be transferred in the first week of October 2009 to the Investor Education and Protection Fund of the Central Government, pursuant to Section 205 A(5) of the Companies Act, 1956. After transfer to the above fund, shareholders will cease to have any claim over that amount. Members who have not encashed any other year's dividend warrant after 2002 also may return the warrant(s) to the Company for revalidation / payment by fresh cheque.
5. As per the provisions of Section 109A and 109B of the Companies Act, 1956 facility for making nomination is available to the shareholders in respect of the shares held by them. This will facilitate smooth transmission of the shares after the life time of the shareholders, particularly those holding shares in sole name. Nomination forms can be obtained from M/s.Cameo Corporate Services Ltd., Registrars and Share Transfer Agents of the Company.
6. Securities Exchange Board of India vide its Circular No.MRD/DoP/Cir-05/2009, dated May 20, 2009 issued pursuant to Section 11 of the SEBI ACT, 1992, read with Section 55A of the Companies Act, made it mandatory for the shareholders to furnish a copy of their PAN card to the Company/RTA for registration of transfer of their shares. This is applicable to every transfer of shares transacted in the securities market irrespective of the amount of such transaction. Shareholders are advised to take note of this circular and comply with the same whenever they intend to transfer their shares.



7. Pursuant to Clause 49 of the Listing Agreement with Stock Exchanges, a brief resume of the directors who are proposed to be re-appointed on their retirement at this Annual General Meeting is given below:
- (a) Sri P.S.Aanathanarayanan, is an Engineering graduate and a Cost and Management Accountant. He has over forty years of experience in various Companies before his retirement as Executive Director of M/s.Balmer Lawrie & Company Limited, a Government of India enterprise. He has been an Independent Director of the Company from 23.10.2002. He is now a Financial and Management Consultant and he is also a director in Sambandam Spinning Mills Limited and chairman of its Audit Committee and the Remuneration Committee. He does not hold any shares in the Company.
 - (b) Sri. V.Gopalan, is a Commerce Graduate and member of ICSI, ICAI & ICWAI. He held positions as Vice President of ICICI Limited, Director Finance and Company Secretary of Cognizant Technology solutions India Limited. He is now a Financial Consultant. He has more that two decades of experience In finance and administration. He has been an Independent Director of the Company from 19.1.2004. He is also a Director in Sambandam Spinning Mills Limited and a member of its audit committee and the Remuneration Committee. He does not hold any shares in the Company.

8. Explanatory statement pursuant to section 173(2) of the Companies Act, 1956 for the items No.5 and 6:

Sri R. Selvarajan and Sri S. Vijay Shankar were appointed as Managing Director and Joint Managing Director respectively with effect from April 1, 2005 for a period of five years on a remuneration of Rs.3,00,000 and Rs.2,00,000 per month respectively. Their reappointment is due on 01-04-2010. Sri R. Selvarajan was redesignated as Chairman and Managing Director of the Company at the Board meeting held on May 29, 2008.

The remuneration committee, at its meeting held on July 30, 2009, recommended reappointment of Sri R. Selvarajan, Chairman and Managing Director and Sri S. Vijay Shankar, Joint Managing Director for a period of three years from 01-10-2009 to 30.09.2012 and for payment of remuneration as stated in the respective resolutions. The Board of Directors, at its meeting held on July 31, 2009, has also approved the same. The Remuneration Committee and the Board of Directors of the Company are of the opinion that Sri R. Selvarajan, Chairman and Managing Director and Sri S. Vijay Shankar, Joint Managing Director are fit and proper persons to hold the said office and that payment of remuneration to them as stated in the Resolution are in the interest of the Company.

- (a) Perquisites and Allowances: Following are the perquisites/allowances payable to the aforesaid whole-time Directors.
 - (i) Company's contribution to provident fund; (ii) Payment of Gratuity and other retirement benefits; (iii) Leave with full pay as per the rules of the Company with encashment of unavailed leave being allowed; (iv) Maintenance of residential accommodation, gas, water, electricity and power, furnishings and utility allowance; (v) reimbursement of medical expenses incurred in India and abroad for self and family including, in case of medical treatment abroad, air fare, boarding and lodging for patient and attendant; (vi) leave travel assistance and allowance; (vii) membership fees for clubs, including admission and life membership; (viii) hospitalisation and accident insurance; (ix) cost of insurance cover against the risk of any financial liability or loss because of any error of judgement; (x) free use of Company's car with driver for Company's work as well as for personal purpose along with driver, (xi) telephone, tele-fax and other communication facilities at Company's cost, (xii) subject to the statutory ceiling(s), the appointee may be given any other perquisites, benefits and facilities as the remuneration committee may from time to time decide.
- (b) Valuation of perquisites: Perquisites shall be valued as per the income tax rules, wherever applicable and at actual cost to the company in other cases.
- (c) The Company's contribution to provident fund as per para (a) (i) above, payment of gratuity as per para (a) (ii) above and encashment of leave at the end of the tenure as per para (a) (iii) above shall not be included in the computation of perquisites for the purpose of the ceiling.



In terms of Section II (1)(B) of Part II of Schedule XIII of the Companies Act, 1956, the Company can pay upto Rs.3,00,000 per month by way of salary, perquisites and allowances to each whole time director, provided, the shareholders' approval by way of special resolution has been obtained for payment of managerial remuneration for a period not exceeding three years. Accordingly, the special resolutions at Items No.5 and 6 are placed before the shareholders.

As required under clause (IV) of the proviso under Section II (1)(B) of Schedule XIII of the Companies Act, 1956, the additional information is furnished as under:

I General Information

- (1) Name of the industry : Textile
 (2) Date of commencement of Commercial Production : June 1976
 (3) Financial Performance :

Financial Highlights

(Rs. Lakhs)

	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
Fixed assets	13887.99	11670.22	8636.44	7444.76	4885.30	3910.87
Investments	245.00	245.00	245.00	245.00	257.06	151.60
Current assets – net	2742.55	2824.75	2999.21	2146.47	2524.91	2627.89
Miscellaneous expenditure	63.20	94.85	132.10	166.54	180.82	211.94
Total capital employed	16938.74	14834.82	12012.75	10002.77	7848.09	6902.30
Shareholders' funds	4425.60	2391.63	2034.92	1920.60	1723.72	1603.84
Loan funds	11214.89	11021.59	8794.22	7119.99	5289.19	4657.59
Deferred tax liability-net	1298.25	1421.61	1183.61	962.18	835.18	640.87
Net worth per share (Rs.)	115	62	53	50	45	42
Sales and other income	8587.84	8226.66	8775.11	7486.80	6935.29	5916.91
Profit before Interest and Depreciation	1242.59	1937.39	2165.76	1731.33	1308.04	1299.48
Profit / (loss) before tax	(384.67)	700.57	724.69	607.78	524.26	335.21
Profit / (loss) after tax	(266.32)	457.57	470.19	432.78	288.95	180.21
Retained earnings	462.80	950.19	1173.51	932.26	643.71	556.94
Dividend (%)	-	20	50	50	35	35
Earnings per share (Rs.)	(6.92)	11.89	12.22	11.24	7.51	4.68



		2009	2008
		(Rs. Lakhs)	
(4) Export Performance and net Foreign exchange	(i) Earnings in foreign exchange	-	-
Collaborations	(ii) Expenditure in Foreign Currencies	1242.37	1245.91
(5) Foreign investments or Collaborators, if any	Nil		

II Information about the appointee:

- (1) Background details:
- (1) Sri R. Selvarajan, 64 years of age, is a Matriculate. He has been the Managing Director of the Company from October 23, 2002 and has the distinction of leading the Company since then. He has been on the Board of various Companies and has more than four decades of experience in the field of textiles.
- (2) Sri S. Vijay Shankar, 32 year of age, is an MBA (Master of Business Administration). He became the Joint Managing Director of the Company on October 23, 2002 and has been leading the Company since then. He specialized in business administration and finance and has served the Company for the past 7 years.
- (2) Past remuneration:
- (1) For Sri R. Selvarajan, Rs.3,00,000/- per month inclusive of perquisites such as House rent allowance, Medical reimbursement, gas, water and electricity, leave encashment, gratuity, club subscriptions and other usual perquisites.
- (2) For Sri S. Vijay Shankar, Rs.2,00,000/- per month inclusive of perquisites such as House rent allowance, Medical reimbursement, gas, water and electricity, leave encashment, gratuity, club subscriptions and other usual perquisites.
- (3) Recognition and award :
- Nil
- (4) (i) Job profile :
- (1) As Chairman and Managing director Sri R. Selvarajan is in charge of the management of the affairs of the Company.
- (2) As Joint Managing director Sri S. Vijay Shankar, is assisting the Managing Director in the management of the affairs of the Company.
- (ii) His suitability :
- (1) Experience of Sri R. Selvarajan, for the past 35 years as Director in Sambandam Spinning Mills Limited and for the past 7 years as Managing Director of the Company makes him ideally suitable for the said position.
- (2) Experience of Sri S Vijay Shankar, in the field of business administration and finance for the past 7 years in the Company makes him ideally suitable for the said position.



- | | |
|---|--|
| (5) Remuneration proposed : | (1) Rs.3,00,000 per month inclusive of perquisites and other allowances as mentioned supra for Sri R. Selvarajan
(2) Rs.2,00,000 per month inclusive of perquisites and other allowances as mentioned supra for Sri S. Vijay Shankar. |
| (6) Comparative remuneration profile with respect to industry : | Information not available |
| (7) Pecuniary relationship with the Company or relationship with the managerial personnel if any: | (1) Sri R. Selvarajan holds 7,78,330 equity shares of Rs.10 each in the Company and he is related to Sri S. Vijay Shankar, Joint Managing Director.
(2) Sri S. Vijay Shankar holds 4,09,582 equity shares of Rs.10 each in the Company and he is related to Sri R. Selvarajan, Managing director. |

III. Other information:

Reasons for inadequate profits, steps taken for improvement and expected increase in productivity :

The Company's profitability was significantly affected due to continued power cut, erratic power supply, increase in power cost due to increase in diesel price and high price of purchased power from private power producers, increase in the price of raw material(Cotton), decrease in the selling price of yarn due to excessive supply of the product in the domestic market consequent upon diversion of the stock meant for exports to the domestic market arising out of global economic slow down, recession in the US economy and appreciation of rupee. Management completed the expansion project in July 2008 Initiated action for development of value added products and implemented cost cutting measures through out the organization, which are expected to improve the productivity and profitability of the company.

The proposed reappointment and payment of remuneration to Sri R. Selvarajan, Chairman and Managing Director and Sri S. Vijay Shankar, Joint Managing Director are subject to the approval of the shareholders by way of special resolution at the ensuing Annual General Meeting of the Company.

Sri S. Vijay Shankar, Joint Managing Director is deemed to be concerned with or interested in the reappointment and the remuneration payable to Sri R. Selvarajan, Chairman and Managing Director and Sri R. Selvarajan, Chairman and Managing Director is deemed to be concerned with or interested in the reappointment and the remuneration package to Sri S. Vijay Shankar, Joint Managing Director.

The above explanatory statements together with the accompanying notice is to be treated as an abstract of the change in the terms of remuneration payable to Sri R. Selvarajan, Chairman and Managing Director and Sri S. Vijay Shankar, Joint Managing Director of the Company under section 302 of the Companies Act 1956.

Registered office :
Mill Premises,
Udayapatti P.O,
Salem - 636 140.

For and on behalf of the Board of
Kandagiri Spinning Mills Limited
R. Selvarajan
Chairman and Managing Director



KANDAGIRI SPINNING MILLS LIMITED.

Regd. Office ; Mill Premises, P.B. No.3, Udayapatti P.O., Salem - 636 140.

ATTENDANCE SLIP

Please complete this Attendance Slip and hand it over at the entrance of the meeting hall.

I hereby record my presence at the Thiry Third Annual General Meeting of the Company held at the Mill Premises, Sambandam Spinning Mills Ltd., Kamaraj Nagar Colony, Salem - 636 014 on WEDNESDAY the 23rd September 2009 at 11.45 hours

Member's Name & Address :

Folio / DP ID / Client ID No.

No.of Shares

Proxy's Name

Signature of the Attending Member / Proxy



KANDAGIRI SPINNING MILLS LIMITED.

Regd. Office : Mill Premises, P.B. No.3, Udayapatti P.O., Salem - 636 140.

PROXY FORM

I / We of being a Member(s) / of Kandagiri Spinning Mills Limited, hereby appoint..... of or failing him / her as my / our proxy to vote for me / us on my / our behalf at the Thiry Third Annual General Meeting of the Company to be held on Wednesday the 23rd September 2009 at 11.45 hours at the Mill Premises, Sambandam Spinning Mills Ltd., Kamaraj Nagar Colony, Salem - 636 014 and at any adjournment thereof.

Signed this day of September, 2009

Address :

Folio No.:

DP ID No.:

Client ID No.:

No. of Shares

Signature

Member Name :



N.B. : 1 This proxy form must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the meeting. (i.e.) before 11.45 a.m. on 21.09.2009, 2.Proxy need not be a member, 3.Attendance Slip should be sent to the proxy appointed by the member and not to the Company, 4.Strike out blank space not used, 5. Members should sign duly affixing 15 Paise Revenue Stamp. Unstamped or unsigned proxy is invalid and is liable for rejection, 6. A shareholder may vote either for or against each resolution (clause 34(g) of listing agreement).

CUT HERE



Chairman Emeritus	S.P. Ratnam
Board of Directors	R. Selvarajan – Chairman and Managing Director S. Vijay Shankar – Joint Managing Director S. Devarajan M. Rajamani V. Mahadevan P. S. Ananthanarayanan V. Gopalan N. Asoka
Statutory Auditors	M.S. Krishnaswami & Rajan
Cost Auditors	S. Mahadevan & Co
Bankers	State Bank of India Karnataka Bank Limited Axis Bank Limited
Registered Office	Post Box No.3, Mill Premises Udayapatti P.O. Salem 636 140. Tamil Nadu
Spinning Plants	Unit I : Udayapatti P.O., Salem 636 140. Unit II : Seshanchavadi P.O. Salem 636 111. Unit III : M. Perumapalayam Cross Road Mettupatty P.O., Salem 636 111.
Wind Energy Converters	Panangudi, Pazhavor, Udhayathoor and Parameshwarapuram Villages Radhapuram Taluk, Tirunelveli District, Tamilnadu. Melamaruthappapuram Village Veerakeralam Pudur Taluk, Tirunelveli District, Tamilnadu. Gudimangalam Village Udumalpet Taluk, Coimbatore District, Tamilnadu.



Significant Information

Rs. lakhs

Particulars	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
1. Fixed assets	13887.99	11670.22	8636.44	7444.76	4885.30	3910.87
2. Net current assets	2742.55	2824.75	2999.21	2146.47	2524.91	2627.89
3. Total capital employed	16938.74	14834.82	12012.75	10002.77	7848.09	6902.30
4. Shareholders' funds	4425.60	2391.63	2034.92	1920.60	1723.72	1603.84
5. No. of shares	38,49,250	38,49,250	38,49,250	38,49,250	38,49,250	38,49,250
6. Net worth per share (Rs.)	115	62	53	50	45	42
7. Turnover – gross	8726.68	8327.25	8887.82	7582.15	7139.83	6330.84
8. Turnover – net	8584.97	8219.70	8762.85	7440.12	6927.84	5911.37
9. Gross profit – PBDIT	1242.59	1937.39	2165.76	1731.33	1308.04	1299.48
10. Profit/(loss) before tax – PBT	(384.67)	700.57	724.69	607.78	524.26	335.21
11. Profit/(loss) after tax – PAT	(266.32)	457.57	470.19	432.78	288.95	180.21
12. Retained earnings	462.80	950.19	1173.51	932.26	643.71	556.94
13. Dividend (%)	—	20	50	50	35	35
14. Earnings per share - - Basic (Rs.)	(6.92)	11.89	12.22	11.24	7.51	4.68
15. Installed capacity – Spindles	67,388	56,588	54,188	49,388	39,932	39,932
– Rotors	552	552	552	384	384	168

Note: Net worth per share in 2008-09 is after reckoning revaluation reserve



CORPORATE GOVERNANCE REPORT

1. Company's philosophy on corporate governance

The Company's philosophy on corporate governance is delineated below:

- Effectiveness measured by the quality of its leadership resulting in the best performance
- Accountability through openness, public disclosure and transparency of activities.
- Conforming to high standards in financial policies, internal controls, constant attention towards high quality of its products and continuous upgrading of skill.
- Responsible and responsiveness to stakeholders including shareholders, investors, customers, employees, lenders and government agencies.
- Sustaining a healthy and ever improving bottom line.
- Upholding the spirit of social responsibility and
- Create a management team with entrepreneurial and professional skills

2. Board of directors

The eight member Board of Directors consists of an executive Chairman and Managing Director, four non executive independent Directors, one executive Director and two non executive "non-independent" Directors. Details of the composition and attendance of the Board and Committees thereof and the shares of the Company held by them are given separately in this Report. Personal information about the directors being reappointed is mentioned in the Directors' Report and in the Notice convening the Annual General Meeting and therefore is not separately mentioned in this Report.

None of the directors on the Board is a member of more than 10 Committees and Chairman of more than 5 Committees (as specified in Clause 49(1)(C) of the Listing Agreement with the Stock Exchanges) across all Companies in India of which he is a Director. All the directors have certified that the disqualifications mentioned under Section 274(1)(g) of the Companies Act, 1956 do not apply to them.

The non-executive directors are entitled to sitting fees for every meeting of the Board or Committee thereof attended by them. The executive directors including the Chairman and Managing Director, are entitled to remuneration as per their terms of appointment and the details of such remuneration received by them are given separately in this Report. The executive Directors, including the Chairman and Managing Director, received remuneration up to November 2008 and have waived voluntarily their remuneration from December 2008 to March 2009 in view of the loss for the year.

Code of Conduct

The Code of Conduct laid down by the Company is applicable to the Board of Directors and all employees of the Company. This Code of Conduct emphasizes the Company's commitment to compliance with the highest standards of legal and ethical behaviour. All the Directors and the senior management have adhered to the Code of Conduct of the Company during the year and have signed declarations of compliance to the Code of Conduct. The declaration signed by Sri R. Selvarajan, Chairman and Managing Director is given separately in the Annual Report.



Directorship held by the existing Directors and shares of the Company held by them as on March 31, 2009 are given below:

Name of the Director	Executive/ Non-Executive/ Independent	No. of other Director ship	Number of Committees of which member*	Number of shares of the company held as on 31.03.09
Sri R. Selvarajan	Chairman and Managing Director	4	1	7,78,330
Sri S. Vijay Shankar	Joint Managing Director	1	2	4,09,582
Sri S. Devarajan	Non-Executive	6	3	91,660
Sri M. Rajamani	Non-Executive	1	1	51,130
Sri P. S. Ananthanarayanan	Independent	1	2	Nil
Sri V. Mahadevan	Independent	3	3	Nil
Sri V. Gopalan	Independent	2	2	Nil
Sri N. Asoka	Independent	2	4	Nil

*Only Audit Committee, Share Transfer Committee and Investor Grievance Committee are considered as per Clause 49(1)(C) of the Listing Agreement with Stock Exchanges.

Audit Committee

The Audit Committee presently consists of four non executive independent Directors and one non executive director. Sri V. Gopalan, an independent Director, is the Chairman of the Audit Committee. The Chairman and Managing Director, Internal Auditor, Statutory Auditors and the Cost Auditors are invitees to Audit Committee meetings. The terms of reference of the Audit Committee cover all the areas mentioned under Clause 49 of the Listing Agreement with the Stock Exchanges and Section 292A of the Companies Act, 1956, besides other terms as may be referred by the Board of Directors. The broad terms of reference of the Audit Committee are to review financial reporting process and all financial results, statements and disclosures and recommend the same to the Board, review the internal audit reports and internal control systems and procedures and discuss the same with the internal auditors, to meet the statutory auditors and discuss their findings, the scope of audit, audit qualifications, if any, reviewing related party transactions, compliance with the listing agreements and other legal requirements and the Company's financial and risk management policies and compliance with statutory requirements.

Share Transfer Committee

The Share Transfer Committee was constituted to specifically look into the share transfers. Share transfers are effected by the Registrar and Transfer Agent (RTA) Cameo Corporate Services Limited, Chennai, on the authorisation given by the Board. The transfers/transmissions effected by the Registrar are submitted to the Share Transfer Committee for confirmation. Sri R. Selvarajan, Chairman and Managing Director chairs the meetings of the Committee. Sri S. Vijay Shankar, executive Director and Sri S. Devarajan, non executive Director, are members of this Committee. Sri S. Vijay Shankar is the Compliance officer. Minutes of the Committee meetings are circulated to all Directors and discussed at the Board meetings.

Investor Grievance Committee

The Investor Grievance Committee was constituted to specifically look into the redressal of investors' complaints/grievances. Sri N. Asoka, non executive independent Director chairs the meetings of the Committee. Sri S. Vijay Shankar, executive Director and Sri M. Rajamani, non executive Director, are members of this Committee. Sri S. Vijay Shankar, executive director, is the Compliance officer. Minutes of the Committee meetings are circulated to all Directors and discussed at the Board meetings.



Finance Committee

The Finance Committee was constituted to consider the borrowings and deployment of funds. Sri R. Selvarajan, Chairman and Managing Director, Chairs the meetings of the Committee. Sri S. Vijay Shankar , executive Director and Sri S. Devarajan, non executive director, are members of this Committee. Sri S. Vijay Shankar , executive director, is the Compliance officer. Minutes of the Committee meetings are circulated to all Directors and discussed at the Board meetings.

Remuneration Committee

The Remuneration Committee was constituted to consider the remuneration and other benefits to the executive directors. The Committee consists of 3 non executive independent Directors, namely Sri P. S. Ananthanarayanan, Sri V. Gopalan and Sri N. Asoka. Sri P. S. Ananthanarayanan chairs the meetings of the Committee. Sri S. Vijay Shankar , executive director, is the Compliance officer. Minutes of the Committee meetings are circulated to all Directors and discussed at the Board meetings.

3. Attendance of Directors

Remuneration and attendance of Directors at the meetings of the Board or Committee thereof during the year ended March 31, 2009

Name of the Directors	Executive/ Non-Executive/ Independent	Board Meeting	Audit Committee Meeting	Share transfer and Investor Grievance Committee	AGM held on 27.9.08	Directors sitting fees Rs.	Directors remune- ration Rs.
Sri R. Selvarajan	Chairman and Managing Director	5	—	4	1	—	24,00,000
Sri S. Vijay Shankar	Joint Managing Director	5	—	4	1	—	16,00,000
Sri S. Devarajan	Non Executive	5	5	4	1	72,500	—
Sri M. Rajamani	Non Executive	5	—	4	1	12,500	—
Sri P. S. Ananthanarayanan	Independent	5	5	—	1	92,500	—
Sri V. Mahadevan	Independent	5	5	—	1	87,500	—
Sri V. Gopalan	Independent	5	5	—	1	92,500	—
Sri N. Asoka	Independent	5	5	—	1	92,500	—
Sri S.P. Ratnam	Non Executive	1	—	—	—	2,500	—
Sri S. Dinakaran	Non Executive	1	—	—	—	2,500	—
Sri S.P. Rajendran	Non Executive	1	—	—	—	2,500	—
Sri S. Sivakumar	Non Executive	1	—	—	—	2,500	—
Sri M. Sigamani	Non Executive	—	—	—	—	—	—
Sri Rajan Mehra	Nominee of ICICI Bank	—	—	—	—	—	—

Note :

- (1) Five Board meetings were held during the year on May 29, 2008, July 31, 2008, September 27, 2008, October 31, 2008 and January 29, 2009. Share Transfer Committee meetings and Investors Grievance Committee meetings were held on May 29, 2008, July 31, 2008, October 31, 2008 and January 29, 2009. Audit committee meetings were held on May 27 and 28, 2008, July 30, 2008, October 30, 2008 and January 28, 2009.
- (2) Sri S.P. Ratnam, Sri S.P. Rajendran, Sri S. Dinakaran, Sri S. Sivakumar and Sri M. Sigamani resigned from the board on May 29, 2008. ICICI Bank Ltd. withdrew the nomination of Sri Rajan Mehra with effect from December 12, 2008.



4. General Shareholder Information

A. The 33rd Annual General Meeting of the Company will be held September 23, 2009 at 11.45 a.m. at the mill Premises of Sambandam Spinning Mills Limited, Kamaraj Nagar Colony, Salem 636 014. The previous three Annual General meetings were held on the following dates:

Year	Date	Time	Venue
2006	28-06-2006	11.30 a.m.	Sambandam Spinning Mill Premises, Kamaraj Nagar Colony, Salem 636 014.
2007	06-07-2007	12.15 p.m.	Sambandam Spinning Mill Premises, Kamaraj Nagar Colony, Salem 636 014.
2008	27-09-2008	11.30 a.m.	Sambandam Spinning Mill Premises, Kamaraj Nagar Colony, Salem 636 014.

Two Special resolutions were passed at the Annual General Meeting held on September 27, 2008 to approve the restructure of the remuneration payable to the two executive directors of the Company.

A Special resolution was passed at the Annual General Meeting held on June 28, 2006 for delisting the Company's shares from the Madras Stock Exchange Limited and the Coimbatore Stock Exchange Limited.

No extra ordinary general meeting of the members was convened during the aforesaid three years and no special resolution was put through postal ballot last year and the Company does not propose to pass any special resolution through postal ballot process during this year.

B. Book Closure Period

The Book Closure period is September 17, 2009 to September 23, 2009 (both days inclusive).

C. Financial Calendar for year 2009-2010

Board meetings to be held in 2009-2010 : July 2009, September 2009, October 2009, January 2010 and June 2010

Annual General Meeting for 2009-10 : 34th AGM will be held in September, 2010

D. Listing on Stock Exchanges

Annual Listing Fee has been paid and all requirements, including submission of quarterly reports and certificates to the stock exchange, where the shares of the Company are listed, have been duly complied with. The shares of the Company are listed in the Bombay Stock Exchange Limited (Stock Code : 521242).

For Dematerialisation of shares, the ISIN No. allotted to the Company is **INE292D01019**. The shares are available for trading in the depository system of both the National Securities Depository Limited (NSDL) and the Central Depository Services Limited (CSDL). So far 67.93% of the total shares of the Company are in dematerialised form.

E. Registrar and transfer agents

The share management work, both physical and demat, is being handled by the Registrars and Share Transfer Agents of the Company whose name and address is given below:

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

Phone : 044-28460390 (5 lines)
Fax no.:044-28460129

e-mail : cameo@cameoindia.com


F. Market Price (BSE) during the Period April 1, 2008 to March 31, 2009

Month	High (Rs.)	Low (Rs.)
April 2008	80.50	65.25
May ..	76.90	65.55
June ..	73.75	62.30
July ..	71.10	60.00
August ..	69.00	56.90
September ..	69.80	47.15

Month	High (Rs.)	Low (Rs.)
October 2008	44.20	34.30
November ..	39.80	35.00
December ..	48.00	35.20
January 2009	43.40	28.00
February ..	36.30	20.00
March ..	25.30	19.00

G. Means of communication

The annual, half-yearly and quarterly results are regularly published in the English and vernacular newspapers and are also posted on the Company's website at www.kandagirimills.com. These are also sent to the stock exchanges concerned in accordance with the listing agreement. Further all communication regarding share transactions, change of address, nominations etc. should be addressed to the Registrars and Share Transfer Agents named above or to the Company at the following address:

Kandagiri Spinning Mills Limited,
Post bag no.3, Udayapatti P.O.
Salem 636 140.

Phone : 0427-2244400

Fax no.:0427-2244422

e-mail : sales@kandagirimills.com

H. Distribution of shareholding as on March 31, 2009

Shares held	Shareholders	%	No. of Shares	%
1 - 5000	3441	92.62	4,06,844	10.57
5001 - 10000	107	2.88	84,134	2.19
10001 and above	167	4.50	33,58,272	87.24
Total	3715	100.00	38,49,250	100.00

I. Shareholding pattern as on March 31, 2009

Category	No. of shares held	%
Indian Promoters	26,90,172	69.89
Financial Institutions	—	—
Bodies Corporate	1,73,781	4.52
Non Resident Indians	568	0.01
Indian Public	9,84,195	25.57
Clearing member	534	0.01
Total	38,49,250	100.00

J. Disclosures

- (i) Details of transactions with any of the related parties as specified in Accounting Standards issued under section 211(3) of the Companies Act, 1956 have been reported in the Notes to the Accounts. There is no transaction of material nature with any of the related party, which was in conflict with the interests of the Company.
- (ii) There was no non-compliance, penalties or strictures imposed on the Company by any Stock exchange, SEBI, or any other statutory authority on any matters relating to capital market during the last three years.



- (iii) The Management Discussion and Analysis Report forms part of the Directors' Report.
- (iv) The Company does not have any subsidiary.
- (v) There have been no public issues, rights issues or other public offerings during the past five years.
- (vi) Plant locations of the Company are given below:

Spinning mills

Unit – I Udayapatti P.O., Salem 636 140.

Unit – II Seshanchavadi P.O., Salem 636 111.

Unit – III M. Perumapalayam Cross Road, Mettupatti P.O., Salem 636 111.

Wind energy converters

Panangudi, Pazhavor, Udhayathoor and Parameshwarapuram villages,
Radhapuram Taluk, Tirunelveli District, Tamilnadu.

Melamaruthappapuram Village, Veerakeralam Pudur Taluk, Tirunelveli Dt., Tamilnadu.

Gudimangalam Village, Udumalpet Taluk, Coimbatore District, Tamilnadu.

Auditors' certificate on compliance with the conditions of Corporate Governance under Clause 49 of the Listing Agreements

To

The Members of Kandagiri Spinning Mills Limited

1. We have examined the compliance with the conditions of Corporate Governance by Kandagiri Spinning Mills Limited (the Company) for the year ended March 31, 2009 as stipulated in clause 49 of the listing agreements of the said Company with the stock exchanges in India, with the relevant records and documents maintained by the Company and furnished to us and report on Corporate Governance as approved by the Board of Directors.
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to procedures and implementation thereof, adopted by the Company for ensuring the said compliance. It is neither an audit nor an expression of opinion on the financial statements of the Company.
3. Based on the aforesaid examination and according to the information and explanations given to us, we certify that the Company has complied with the said conditions of Corporate Governance as stipulated in the above mentioned listing agreements.
4. We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For M.S. Krishnaswami & Rajan

Chartered Accountants

M.K. Rajan-Partner

Membership No.4059

Place : Salem

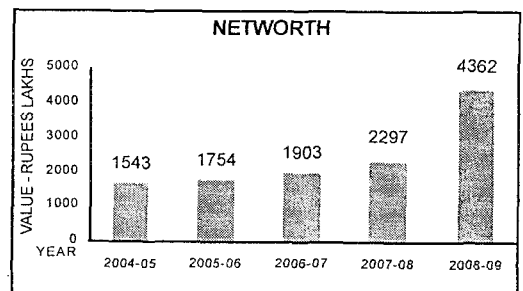
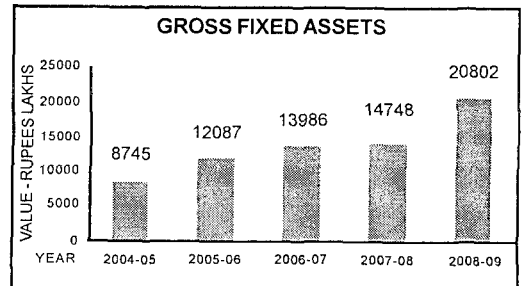
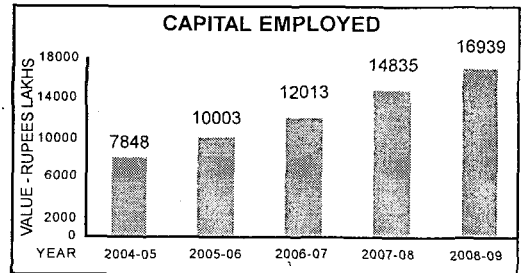
Date : June 25, 2009

DIRECTORS' REPORT

Your directors present the 33rd Annual Report and Audited Accounts for the year ended March 31, 2009 (the year).

Performance highlights

	2009	2008
	(Rs. lakhs)	
Turnover - gross		
Direct export	547	—
Merchandise export	2626	2926
	3173	2926
Domestic	5553	5397
Conversion charges earned	1	5
	8727	8328
Less sales tax and cess recovery	142	108
Total turnover	8585	8220
Gross profit (i.e. profit before interest and depreciation)	1243	1937
Cash profit (i.e. profit before depreciation)	344	1283
Profit/(loss) before tax	(385)	701
Profit/(loss) after tax	(266)	458
Earnings per share – Basic Rs.	(6.92)	11.89

**Dividend payout**

Due to the loss incurred by the Company, your directors have not recommended any dividend for the year ended March 31, 2009.

Management discussion and analysis

The core business of the Company is manufacture and sale of cotton yarn. The management discussion and analysis given below discusses the key issues of the cotton yarn spinning sector.

(a) Industry performance

The year under review was a difficult year for the textile industry. Several factors such as economy slowdown in USA, global recession in the money market, lack of demand for yarn, high cost of raw material due to hike in the minimum support price of cotton by Government of India, frequent power cut, erratic power supply, high cost of fuel and increase in borrowing costs have adversely affected the performance of textile industry.

**(b) Company's performance**

In spite of the above said exceptional factors, more importantly the adverse factor created on account of the power supply situation in Tamil nadu, your Company could achieve a turnover of Rs.8585 lakhs against Rs.8220 lakhs of previous year. However the profitability of your Company was adversely affected by the above said factors. In spite of a record cotton crop, prices continued to rule abnormally high on account of the Government's decision allowing additional exports of cotton. Thus your Company was faced with a situation of lower price for its finished products and higher cost for its raw material, resulting in drop in the profits. Your Company's expansion project involving installation of 10,800 spindles was completed in July 2008.

Your Company's Wind energy converters (WEC) generated power of the value of Rs.645 lakhs as against Rs.638 lakhs in the previous year. During the year also, your Company earned Carbon Credit income of Rs.128 lakhs as against Rs.293 lakhs in 2007-08.

(c) Outlook

Presently the textile industry is witnessing a turnaround and the demand for yarn is picking up in the domestic market. Export market is also showing signs of improvement. The textile industry is looking forward to stimulus packages from the Central Government. Availability of private power is expected to ease the power supply position. As a consequence Company's productivity is expected to improve and result in better utilization of the installed capacity. Barring unforeseen circumstances, your directors are confident that during the current year your Company will be able to increase its turnover significantly and earn profits.

(d) Strategies and Future plans

As part of future plans, your Company will take up further expansion of the spinning unit and explore the possibilities of value addition by manufacture of products like slub yarn, compact yarn, etc., provided the prevailing situation continues to improve. The Company's foray into manufacture of geo textiles is expected to fructify in the near future.

(e) Risks and concerns**(i) Industry risk**

The main twin risks in this industry, especially in the cotton yarn spinning sector, are the procurement price of cotton for its quality and the yarn realisation vis a vis the cotton cost. Raw material prices, as is common with every industry, are conditioned by their supply position in the market. This problem invariably gets compounded by the impact of import duty on cotton which sometimes renders the prices uneconomical.

In the case of marketing of yarn, the price realisation depends on the demand from garment manufacturers and power loom sector. In recent times the competition from the emerging economies in the neighbouring countries such as Sri Lanka, China and Pakistan with their comfortable status engendered by the preferential treatment in USA and EU markets pose a real challenge to the textile yarn spinning units in India.

The vagaries in the power situation accentuated by the late onset of monsoon also affected the smooth flow of production resulting in higher cost without corresponding increase in the realisation.

(ii) Currency risk

Derivative instruments associated with import of cotton and machinery equipments and export of yarn can cause significant adverse results if not properly hedged. Your Company is taking the requisite ongoing steps to closely monitor the exchange rate movements.



(iii) Leverage risk

A Company poised on expansion mode runs the risk of adverse debt leveraging which may affect its financials significantly. Realising this, a close watch is being kept on optimum utilisation of the funds raised and consequently your Company does not envisage the said risk to adversely affect the Company.

(iv) Quality risk

Quality of yarn manufactured is the single most important factor that will take a Company forward in its success story. Your Company has been aware of the said importance from its inception and the progress that it has made through the years was mainly because of the strict adherence to the quality of its yarn which has resulted in the Company reaping the best possible price for its yarn, both in the internal and international markets. The award of ISO 9001:2000 and ISO 14001 accreditation to the Company and Organic cotton standards certificate of the Control Union Certifications, Netherlands are fitting testimony of the efforts taken by the Company in this regard.

(f) Internal control and systems

The Company has in place well established internal control procedures covering various areas such as procurement of raw materials, production planning, quality control, maintenance planning, marketing, cost control and debt servicing and steps are taken without loss of time, whenever any weakness is observed, to correct the same.

(g) Financial performance

- (i) Share Capital/Reserves – Your Company's reserves and surplus as of March 31, 2009 improved to Rs.4040 lakhs due to revaluation of net assets, covering the paid up share capital by 10.47 times.
- (ii) Loan funds – Since the expansion project was completed during July 2008; no fresh funding was raised during the year under review.
- (iii) Fixed Assets - Pay out on account of capital expenditure on completion of the expansion project during the year was Rs.745 lakhs.
- (iv) Debtors – Increase in receivables (trade) to Rs.1514 lakhs from Rs.1029 lakhs during the year was on account of increased competition resulting in the Company extending its credit period and poor off take of yarn.
- (v) Loans and advances – Increase in advances to Rs.747 lakhs from 636 lakhs was mainly due to non receipt of TUF interest subsidy.
- (vi) Current liabilities – Decrease in current liabilities to Rs.929 lakhs from Rs.1304 lakhs was mainly due to pay off liabilities towards cotton purchases.

(h) Human resources management

Employees are your Company's most valuable resource. Your Company continues to create a favourable environment at work place. Your Company has various welfare measures both government sponsored and privately envisaged. The Company also recognises the importance of training and consequently deposes its work force in various work related courses/seminars including important issues like Total Quality Management (TQM). Because of these, your Company is able to attract and retain well trained and dedicated workforce. The fact that the relationship with the employees continued to be cordial is testimony to the Company's ability to retain high quality workforce. In view of the aforesaid relationship no man days were lost during the year under report.



(i) Corporate Social Responsibility

Your Company's main activity may be centered around making quality yarn but its concerns reach out beyond the above stated business, to the welfare of your Company's employees and to the society at large to which your Company owes its growth. With this avowed initiative your Company has been imparting comprehensive training to the new entrants to the Company's fold as well as part of continuing technical education to the existing staff and workforce.

Your Company, along with its associate Company, Sambandam Spinning Mills Limited, is collaborating with two multi speciality hospitals in Salem which, apart from rendering medical service to your Company's employees and their families are also offering medical relief to the public at large at subsidized rates.

(j) Cautionary note

Statements in the Directors' report and the management discussion and analysis describing the Company's objectives, expectations or predictions may be forward looking within the meaning of applicable securities laws and regulations. Actual results might differ materially from those either expressed or implied in the statement. Important factors that could influence the Company's operations include global and domestic demand and supply conditions affecting selling prices of finished goods, input availability and prices, changes in government regulations, tax laws, economic developments within the country and other related factors such as litigation and industrial relations.

Directors

Your Directors note with deep regret the sad demise of Sri S.P. Sambandam, founder director of the Company, on November 6, 2008. Your Directors place on record their deep sense of appreciation for the valuable services rendered by him to the Company during the tenure of his office.

During the year Sarva Sri S.P. Ratnam, S.P. Rajendran, M. Sigamani, S. Dinakaran and S. Sivakumar resigned from the Board on May 29, 2008. The Board records its appreciation for the valuable services rendered by them to the Company during the tenure of their office.

Sri R. Selvarajan, Managing Director has been redesignated as Chairman and Managing Director with effect from May 29, 2008.

Sri P.S. Ananthanarayanan and V. Gopalan retire by rotation and are eligible for reappointment.

The Companies Code of Conduct applicable to the board has been adopted by the board and all directors of the Company have confirmed compliance with the Code of Conduct.

Auditors

The auditors, M.S. Krishnaswami & Rajan, Chartered Accountants, retire at the ensuing annual general meeting and have confirmed their eligibility and willingness to accept office, if appointed.

Annexure

Annexure to this report details Statement on directors' responsibility, conservation of energy, technology absorption, Research and development and foreign exchange earnings and outgo.

Acknowledgements

Your directors thank the Company's customers, vendors and investors for their continued support during the year. Your directors place on record their appreciation of the contribution made by employees at all levels. Your Company's consistent growth was made possible by the hard work, solidarity, cooperation and support of the management team.

Your directors thank the State Bank of India, Karnataka Bank Limited, Axis Bank Limited, the Government of Tamil Nadu and other government agencies for their support, and look forward to their continued support in future.

Salem
June 25, 2009

For and on behalf of the Board
R. Selvarajan
Chairman and Managing Director



Annexure to Directors' Report (Contd.)

(i) Directors' Responsibility Statement as per Section 217(2AA) of the Companies Act, 1956

Responsibility in relation to financial statements

The financial statements have been prepared in conformity, in all material respects, with the applicable Accounting Standards in a consistent manner and supported by reasonable and prudent judgements and estimates. The Directors believe that the financial statements reflect true and fair view of the financial position as on 31.3.2009 and of the results of operations for the year ended 31.3.2009.

The financial statements have been audited by M/s M.S. Krishnaswami & Rajan, Chartered Accountants in accordance with generally accepted auditing standards, which include an assessment of the systems of internal controls and tests of transactions to the extent considered necessary by them to support their opinion.

Going Concern

In the opinion of the Directors, the Company will be in a position to carry on its existing spinning of yarn business and accordingly it is considered appropriate to prepare the financial statements on the basis of going concern.

Maintenance of accounting records and Internal controls

The Company has taken proper and sufficient care for maintenance of adequate accounting records as required by various Statutes.

Directors have overall responsibility for the Company's internal control system, which is designed to provide a reasonable assurance for safeguarding of assets, reliability of financial records and for preventing and detecting fraud and other irregularities.

The system of internal control is monitored by the internal audit function, which encompasses the examination and evaluation of the adequacy and effectiveness of the system of internal control and quality of performance in carrying out assigned responsibilities. Internal Audit Department interacts with all levels of management and the Statutory Auditors, and reports significant issues to the Audit Committee of the Board.

Audit Committee supervises the financial reporting process through review of accounting and reporting practices, financial and accounting controls and financial statements. Audit Committee also periodically interacts with internal and statutory auditors to ensure quality and veracity of Company's accounts.

Internal Auditors, Audit Committee and Statutory Auditors have full and free access to all the information and records as considered necessary to carry out their responsibilities. All the issues raised by them have been suitably acted upon and followed up.

**Annexure to Directors' Report (Contd.)****(ii) Conservation of energy, technology absorption and research and development and foreign exchange earnings and outgo****A. Conservation of energy****(a) Power and fuel consumption****2008-09****2007-08****1. Electricity**

(i) Purchased units*	'000 KWH	9,589	13,449
Total cost	Rs. lakhs	514	665
Cost/unit	Rs.	5.36	4.94

*net of units generated thro' wind energy converters

(ii) Own generation

1) Through diesel generator			
Generated units	'000 KWH	2,969	868
Units per litre of diesel	KWH	3.25	3.30
Cost/unit	Rs.	11.95	9.71
2) Through steam turbine/generator		—	—
3) Through Wind energy converters			
Generated units(fed to TNEB Grid)	'000 KWH	20,141	18,304
Cost/unit*	Rs.	3.06	2.85

*Cost includes maintenance charges, interest and depreciation

2. Coal**3. Furnace oil****4. Others****(b) Consumption per unit of production**

Production (yarn)	Kgs. lakhs	61.03	59.90
Consumption of electricity	'000 KWH	32,699	32,621
Consumption per kg. of Yarn	KWH	5.36	5.45

B. Technology absorption and research and development

—

C. Foreign exchange earnings and outgo.

(a) Activities relating to exports			
Yarn exports (including merchandise exports)	Rs. lakhs	3172.47	2925.67
(b) Total Foreign exchange used and earned			
1) CIF value of Imports			
Capital goods*	Rs. lakhs	—	1236.14
Spares for Capital goods*	Rs. lakhs	0.40	0.83
Raw materials (cotton)*	Rs. lakhs	679.50	—
*exclusive of net exchange difference			
2) Other expenditure in foreign currency			
Interest	Rs. lakhs	13.85	7.35
Other matters	Rs. lakhs	—	1.59
3) Foreign exchange earned			
Yarn export	Rs. lakhs	—	—


Annexure to Directors' Report (Contd.)
(iii) Particulars of employees – information pursuant to section 217(2A) of the Companies Act, 1956

A. Employed throughout the year and in receipt of remuneration aggregating to Rs.24,00,000 or more

Name	Age	Designation	Gross remuneration	Qualification	Experience	Date of appointment	Previous employer
R.Selvarajan	64	Chairman and Managing Director	Rs.24,00,000	Matriculate	33 years	23-10-2002	—
S.Vijay Shankar	32	Joint Managing Director	Rs.16,00,000	M.B.A.	6 years	23-10-2002	—

Note : The above directors, though employed throughout the year, have voluntarily waived their remuneration from December 1, 2008.

B. Employed for part of the year and in receipt of remuneration of Rs.2,00,000 or more per month - NIL

Note :

1. Remuneration includes salary and value of perquisites.
2. Nature of employment is contractual.

Salem,
June 25, 2009

For and on behalf of the Board
R. Selvarajan
Chairman and Managing Director

(iv) Code of Conduct for the Senior Management

As required under Clause 49(1)(D) of the Listing Agreements with the Stock Exchanges, I hereby declare that all the Board members and senior management personnel of the Company have complied with the Code of Conduct of the Company for the year ended March 31, 2009.

Salem,
June 25, 2009

R. Selvarajan
Chairman and Managing Director



Auditors' Report to the Members

1. We have audited the attached Balance Sheet of **Kandagiri Spinning Mills Limited** as at March 31, 2009 and the relative Profit and loss Account and the Cash flow statement for the year ended on that date (the year), signed by us under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We have conducted our audit in accordance with the auditing and assurance standards generally accepted in India. The said Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.
4. In our opinion, proper books of account, as required by law, have been kept by the Company so far as appears from our examination of those books.
5. The financial statements dealt with by this report are in agreement with the books of account.
6. In our opinion, the financial statements comply in all material respects with the applicable Accounting Standards referred to in section 211(3C) of the Companies Act, 1956 (the Act).
7. Based on the written representation received from the directors as on March 31, 2009, and taken on record by the Board of Directors, we report that none of the directors is prima facie disqualified as on March 31, 2009 from being appointed as a director in terms of section 274(1)(g) of the Act.
8. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements read with the Significant accounting policies and Notes to the accounts, give the information required by the Act in the manner so required and also give a true and fair view, in conformity with the accounting principles generally accepted in India:
 - 8.1 in the case of the Balance sheet, of the state of affairs of the Company as at March 31, 2009;
 - 8.2 in the case of the Profit and loss account, of the loss for the year; and
 - 8.3 in the case of the Cash flow statement, of the cash flows for the year.
9. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Government of India in terms of section 227(4A) of the Companies Act, 1956, and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we report that:
 - 9.1 In our opinion, the Company is maintaining proper records to show full particulars including quantitative details and situation of fixed assets. These fixed assets have been physically verified by the management during the year at reasonable intervals and no material discrepancies were noticed on such verification. The Company has not disposed off during the year substantial part of its fixed assets.
 - 9.2 Physical verification of inventory has been conducted at reasonable intervals by the management. In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business. The Company is maintaining proper records of inventory and no material discrepancies were noticed on such verification as compared to the book records.
 - 9.3 The Company has neither granted nor taken any loans, secured or unsecured during the year, to/from companies, firms or other parties covered in the register maintained under section 301 of the Act.
 - 9.4 In our opinion, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services. Further we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.



Kandagiri Spinning Mills Limited

- 9.5 (i) The particulars of contracts or arrangements that need to be entered into a register under section 301 of the Act have been entered.
(ii) In our opinion, each of the transactions exceeding the value of Rs.5,00,000 pursuant to the aforesaid contracts/arrangements have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- 9.6 In our opinion, the Company has complied with the provisions of sections 58A and 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposit) Rules, 1975 with regard to deposits accepted from public.
- 9.7 In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- 9.8 On the basis of the records produced, we are of the opinion that prima facie, the cost records and related accounts prescribed by the Central Government under section 209(1)(d) of the Act have been made and maintained by the Company. However, we are not required to carry out and have not carried out any detailed examination of such records and accounts.
- 9.9 (i) In our opinion, the Company has been regular during the year in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues, as applicable, with the appropriate authorities.
(ii) There are no dues of income tax, wealth tax, excise duty, service tax, customs duty which have not been deposited on account of any dispute, except Sales tax due of Rs.5,854 have not been deposited on account of dispute pending before the Appellate Assistant Commissioner of Commercial taxes.
- 9.10 The Company does not have any accumulated losses at the end of the year and has not incurred any cash losses in the year or in the immediately preceding year.
- 9.11 In our opinion, the Company has not defaulted during the year in repayment of dues to any financial institution, bank or debenture holders.
- 9.12 The Company has not granted during the year loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- 9.13 The provisions of any special statute applicable to a chit fund, nidhi, mutual benefit fund/societies are not applicable to the Company.
- 9.14 The Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.
- 9.15 The Company has not given any guarantees for loans taken by others from banks or financial institutions.
- 9.16 In our opinion, the term loans availed by the Company during the year, were, prima facie, applied for the purpose for which they were obtained.
- 9.17 Based on an overall examination of the financial statements of the Company, we report that no funds raised on short-term basis have been used for long term investment.
- 9.18 The Company has not made during the year any preferential allotment of shares to any party.
- 9.19 The Company has not issued during the year any debentures.
- 9.20 The Company has not raised money during the year by public issue of shares or other securities.
- 9.21 No instances of fraud of material significance perpetrated on or by the Company been noticed or reported during the period covered by our audit.

For M.S. Krishnaswami & Rajan
Chartered Accountants
M.K. Rajan-Partner
Membership No.4059

Salem
June 25, 2009



Balance sheet as at March 31, 2009

	Schedule	Rupees	2009 Rupees	2008 Rupees
1. Source of funds				
1.1 Shareholders' funds				
(i) Capital	1	3,85,74,500		3,85,74,500
(ii) Reserves and surplus	2	40,39,85,909		20,05,88,461
			44,25,60,409	23,91,62,961
1.2 Loan funds				
(i) Secured loans	3	106,46,05,001		105,45,60,355
(ii) Unsecured loans	4	5,68,83,687		4,75,98,182
		112,14,88,688	110,21,58,537	
1.3 Deferred tax liability-net			12,98,25,167	14,21,60,915
			169,38,74,264	148,34,82,413
2. Application of funds				
2.1 Fixed assets	5			
(i) Gross block		208,02,01,731		147,48,10,004
(ii) Less Depreciation		69,14,02,267		61,96,05,308
(iii) Net block		138,87,99,464		85,52,04,696
(iv) Capital work in progress		—		31,18,17,169
			138,87,99,464	116,70,21,865
2.2 Investments	6		2,45,00,000	2,45,00,000
2.3 Current assets, loans and advances				
(i) Inventories	7	10,63,87,143		23,46,63,828
(ii) Sundry debtors	8	15,14,51,402		10,28,89,799
(iii) Cash and bank balances	9	1,76,21,231		54,74,311
(iv) Other current assets	10	2,72,44,400		2,49,91,365
(v) Loans and advances	11	7,47,11,961		6,35,90,015
		37,74,16,137		43,16,09,318
Less				
2.4 Current liabilities and provisions				
(i) Liabilities	12	9,29,33,207		13,04,43,231
(ii) Provisions	13	1,02,27,973		1,86,90,827
		10,31,61,180		14,91,34,058
Net current assets			27,42,54,957	28,24,75,260
2.5 Miscellaneous expenditure	14		63,19,843	94,85,288
			169,38,74,264	148,34,82,413

Notes to the accounts 24

Statement on significant accounting policies, and Schedules 1 to 14 and 24 form an integral part of this Balance sheet

Per our report of even date
For M.S. Krishnaswami & Rajan
Chartered Accountants.
M.K. Rajan-Partner

Salem
June 25, 2009

S. Devarajan
Director

For and on behalf of the Board
R. Selvarajan
Chairman and Managing Director

S. Vijay Shankar
Joint Managing Director



Profit and loss account for the year ended March 31, 2009

	Schedule	2009 Rupees	2008 Rupees
1. Income			
1.1 Sales and conversion charges earned	15	85,84,97,332	82,19,70,263
1.2 Other income	16	2,86,214	6,96,012
		<u>85,87,83,546</u>	<u>82,26,66,275</u>
2. Expenditure			
2.1 Materials	17	50,38,21,152	44,39,55,828
2.2 Conversion charges paid		50,41,442	1,25,54,622
2.3 Stores and spare parts consumed		2,80,78,037	3,12,71,937
2.4 Power and fuel-net		7,44,66,781	4,56,62,586
2.5 Repairs to assets	18	1,46,30,068	1,16,64,248
2.6 Human resources	19	7,78,09,054	7,91,43,863
2.7 Other expenses	20	2,55,67,338	2,49,27,975
2.8 Financial expenses-net	21	9,49,24,937	6,82,58,925
2.9 Depreciation	22	7,29,12,188	5,82,68,867
		<u>89,72,50,997</u>	<u>77,57,08,851</u>
Profit			
3.1 Profit/(loss) before tax and exceptional item		-3,84,67,451	4,69,57,424
3.2 Exceptional item - income		—	<u>2,31,00,000</u>
3.3 Profit/(loss) before tax		-3,84,67,451	7,00,57,424
3.4 Provision for taxation			
(i) Current tax – Income tax (vide note 15 of Schedule 24)		—	—
– Fringe benefit tax		5,00,000	5,00,000
(ii) Deferred tax liability - Recognition/(withdrawal)		-1,23,35,748	<u>2,38,00,000</u>
3.5 Profit/(loss) after tax carried to schedule 23		<u>-2,66,31,703</u>	<u>4,57,57,424</u>
Earnings per share - Basic (Face value Rs.10)		<u>-6.92</u>	<u>11.89</u>
Notes to the accounts	24		

Statement on significant accounting policies and schedules 15 to 24 form integral part of this profit and loss account

our report of even date
M.S. Krishnaswami & Rajan
Chartered Accountants
M. Rajan-Partner

at
March 25, 2009

S. Devarajan
Director

For and on behalf of the Board
R. Selvarajan
Chairman and Managing Director

S. Vijay Shankar
Joint Managing Director

Cash Flow Statement for the Year ended March 31, 2009

	2009 Rupees	2008 Rupees
1. Cash flow from operating activities		
1.1 Profit/Loss (-) before tax and exceptional item	(-) 3,84,67,451	4,69,57,424
1.2 Adjustment for		
(1) Depreciation, amortisation and impairment	7,29,12,188	5,82,68,867
(2) Deferred revenue expenses		
(i) Amortised in revenue	37,90,446	37,24,664
(ii) Incurred	(-) 6,25,000	—
(3) Unrealised foreign exchange gain (-)/loss	38,73,384	—
(4) Amount considered under investing activities		
(i) Profit(-)/Loss on disposal of assets	2,17,732	(-) 35,428
(ii) Income from investments	(-) 2,25,000	(-) 5,40,000
(5) Amounts considered under financing activities		
(i) Interest paid	9,16,09,871	6,67,94,270
(ii) Interest received	(-) 17,95,495	(-) 13,81,149
1.3 Operating profit before working capital changes	<u>13,12,90,675</u>	<u>17,37,88,641</u>
1.4 Adjustments for changes in		
(i) Inventories	12,82,76,685	65,88,661
(ii) Trade and other receivables (excluding amounts pertaining to fixed assets)	(-) 6,15,94,112	(-) 1,71,84,261
(iii) Trade and other payables (excluding amounts pertaining to fixed assets and interest accrued but not due)	(-) 3,44,24,374	1,62,66,181
1.5 Cash generated from operating activities	<u>16,35,48,874</u>	<u>17,94,59,231</u>
1.6 Direct Taxes paid	(-) 67,59,246	(-) 10,04,781
1.7 Cash flow before exceptional item	<u>15,67,89,628</u>	<u>17,84,54,441</u>
1.8 Exceptional item - Compensation received as one time settlement	—	2,31,00,000
1.9 Net cash flow from operating activities (1)	<u>15,67,89,628</u>	<u>20,15,54,441</u>
2. Cash flows from investing activities		
2.1 Payments for acquisition of assets		
(1) Additions as per schedule 5	(-) 38,59,66,982	(-) 8,18,37,511
(2) Adjustment for changes in		
(i) Capital work in progress	31,18,17,169	(-) 28,57,47,211
(ii) Capital creditors-net	(-) 3,21,085	2,32,36,111
	<u>(-) 7,44,70,898</u>	<u>(-) 34,43,48,711</u>
2.2 Adjustment for changes in deposits maturing more than one year	4,91,000	(-) 3,02,511



Cash Flow Statement (Contd.)		2009	2008
		Rupees	Rupees
2.3	Sale proceeds of fixed assets	2,67,000	78,000
2.4	Refund of terminal excise duty relating to acquisition of assets	90,04,444	48,15,318
2.5	Interest received	17,95,495	13,81,149
2.6	Income from Investments	2,25,000	5,40,000
2.7	Net cash utilised in investing activities (2)	<u>(-) 6,26,87,959</u>	<u>(-) 33,78,36,796</u>
3.	Cash flows from financing activities		
3.1	Borrowings - Raised - Long term	17,31,63,838	26,55,57,356
	- Short term	—	—
	- Repaid - Long term	(-) 9,12,54,170	(-) 9,53,93,414
	- Short term	(-) 4,01,06,578	(-) 86,28,291
3.2	Interest paid		
	Amount stated in operating activities	(-) 9,16,09,871	(-) 6,67,94,270
3.3	Dividend paid including tax thereon	(-) 90,06,860	(-) 2,25,17,150
3.4	Net cash from financing activities (3)	<u>(-) 5,88,13,641</u>	<u>7,22,24,231</u>
4.	Net increase/(decrease) in cash flows (1) + (2) + (3)	<u>3,52,88,028</u>	<u>(-) 6,40,58,120</u>
5.	Represented by movement in cash and cash equivalents as under		
5.1	At beginning		
(i)	Cash and bank balances (excluding bank deposits maturing more than one year)	36,94,311	91,28,196
(ii)	Cash credit balances	(-) 24,64,32,619	(-) 18,78,08,384
		<u>(-) 24,27,38,308</u>	<u>(-) 17,86,80,188</u>
5.2	At end		
(i)	Cash and bank balances (excluding bank deposits maturing more than one year)	1,63,32,231	36,94,311
(ii)	Cash credit balances	(-) 22,37,82,511	(-) 24,64,32,619
		<u>(-) 20,74,50,280</u>	<u>(-) 24,27,38,308</u>
5.3	Movement	<u>3,52,88,028</u>	<u>(-) 6,40,58,120</u>

For our report of even date
M.S. Krishnaswami & Rajan
 Chartered Accountants
M.K. Rajan-Partner

Chennai
 June 25, 2009

S. Devarajan
 Director

For and on behalf of the Board
R. Selvarajan
 Chairman and Managing Director

S. Vijay Shankar
 Joint Managing Director



Statement on significant accounting policies

1. Basis of preparation of financial statements - The financial statements are prepared in accordance with the generally accepted accounting principles including accounting standards in India under historical cost convention except in so far as they relate to revaluation of land and buildings.
2. Use of estimates – The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities on the date of the financial statements, disclosure of contingent liabilities and reported amounts of revenues and expenses for the year. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results could vary from these estimates and any such differences are dealt with in the period in which the results are known/materialise.
3. Revenue recognition – Sales are recognized on dispatch to customers and include recovery towards sales tax, textile committee cess and export incentives. Revenue by way of, consideration receivable for the sale of goods, the rendering of services or, from the use by others of enterprise resources, and other benefits are recognised only when they are measurable and it would not be unreasonable to expect ultimate collection.
4. Foreign currency transactions – Foreign currency transactions (including booking/cancellation of forward contracts) are recorded at the rates prevailing on the date of the transaction. Monetary assets and liabilities in foreign currency, other than those covered by forward exchange contracts, are translated at year end foreign exchange rates. Exchange differences arising on settlements are recognized in the Profit and Loss account. In case of forward exchange contracts which are entered into hedge the foreign currency risk of a receivable/payable recognized in these financial statements, premium or discount on such contracts are amortised over the life of the contract and exchange differences arising thereon in the reporting period are recognised in the Profit and loss account. Forward exchange contracts which are arranged to hedge the foreign currency risk of a firm commitment is marked to market at the year end and the resulting losses, if any, are charged to the Profit and loss account.
5. Employee benefits – (i) Short term employee benefit obligations are estimated and provided for; (ii) Post employment benefits and other long term employee benefits – (1) Company's contribution to Provident Fund, Labour Welfare Fund, Employees State Insurance Corporation and other funds are determined under the relevant schemes and /or statute and charged to revenue; (2) Company's liability towards gratuity and compensated absences are actuarially determined at each balance sheet date using the projected unit credit method. Actuarial gains and losses are recognised in revenue.
6. Fixed Assets – All costs relating to acquisition of fixed assets net of value added tax and terminal excise duty refund under Export Promotion Capital Goods Scheme, subject to the economic life and the cost being in excess of certain limits, are capitalised. Expenditure directly related and incidental to construction are capitalized upto the date of attainment of commercial production. Interest and other related costs, including amortised cost of borrowings attributable only to major projects are capitalized as part of the cost of the respective assets. In the case of Wind energy converters, cost of land on which the converters have been erected is capitalised as cost of the said converters.
7. Depreciation/amortisation – (i) Fixed assets are depreciated over their estimated useful lives or lives derived from the rates specified in Schedule XIV to the Companies Act, 1956, whichever is lower; (ii) depreciation/amortization is provided for the period the asset is put to use, (iii) Cost of land pertaining to the Wind energy converters is amortised in the same manner as the cost of the said converters are depreciated. No depreciation is reckoned in the year of disposal.



8. *Impairment of assets* – The carrying amount of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss will be recognised wherever the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. Provision for impairment will be reviewed periodically and amended depending on changes in circumstances.
9. *Investments* – These are carried at cost of acquisition and related expenses less provision for diminution other than temporary, if any.
10. *Inventories* – The governing principle of valuation of inventories (other than process waste) is the lower of cost and net realisable value. The cost for the said purpose (i) in the case of stores and spare parts, is the weighted average cost (net of Cenvat credit/value added tax, if any), (ii) in the case of cotton in process and manufactured yarn, is the cost adopting the absorption costing method, and (iii) is without deduction of the adjustment made for power generated through Wind energy converters and adjusted against the cost of power purchased from state electricity board. Process waste is valued at net realizable value. Provision is made for obsolete, slow moving and damaged items of inventory, if any.
11. *Government grants* – Capital grants from government relating to depreciable assets are treated as deferred income and disclosed as a capital reserve and amortised over the useful life of the asset concerned. Cenvat credit relating to capital assets acquired is treated as capital reserve and amortised over the useful life of the assets concerned by transfer to profit and loss account and considered under depreciation. Grants/incentives other than those mentioned above are reckoned in the profit and loss account in the year of eligibility.
12. *Deferred revenue expenditure* – Major revenue expenditure incurred by way of/in connection with (i) planned replacement of worn out parts of plant and equipments, and (ii) raising of borrowing, is amortised over the estimated period the benefit from such expenditure is expected to enure in the case of (i) and over the period of the borrowings in the case of (ii) above.
13. *Research and development* – Revenue expenditure on research and development is charged to the profit and loss account as incurred. Capital expenditure on research and development is given the same accounting treatment as applicable to other capital expenditure.
14. *Taxation* - Income tax expense comprises of current tax, deferred tax charge or credit and fringe benefit tax. Provision for current tax is made with reference to taxable income for the current accounting year by applying the applicable tax rate. Deferred income tax charge reflects the impact of the current period timing differences between taxable income and accounting income, other than differences capable of getting reversed during the 'tax holiday' period, subject to consideration of prudence. The deferred tax charge or credit is recognised using prevailing tax rates. Where there are unabsorbed depreciation or carry forward losses, deferred tax assets are recognised only to the extent there is virtual certainty of realisation of such assets. Other deferred tax assets are recognised only to the extent there is reasonable certainty of realisation in future. Deferred tax assets/liabilities are reviewed as at each balance sheet date based on developments during the period and available case laws to reassess realisation/liabilities.
15. *Provisions and contingencies* - To recognise a provision when (i) the Company has a present obligation as a result of a past event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. A disclosure of a contingent liability is made when there is a possible obligation that may, but probably will not, require outflow of resources. Where there is a possible obligation or a present obligation where the likelihood of outflow of resources is remote, no provision or disclosure is made.



Kandagiri Spinning Mills Limited

Schedules to the accounts		2009	2008				
		Rupees	Rupees				
1. Capital							
Authorised							
50,00,000 Equity shares of Rs.10 each		5,00,00,000	5,00,00,000				
Issued							
38,65,650 Equity shares of Rs.10 each		3,86,56,500	3,86,56,500				
Subscribed							
38,49,250 Equity shares of Rs.10 each		3,84,92,500	3,84,92,500				
Add Forfeited shares (amount paidup)		82,000	82,000				
		3,85,74,500	3,85,74,500				
2. Reserves and surplus							
Capital reserve							
a) Securities premium account		5,48,61,631	5,48,61,631				
b) Revaluation reserve		23,09,00,807	—				
c) Cenvat credit relating to capital assets		18,91,490	27,63,146				
		28,76,53,928	5,76,24,777				
General reserve							
		11,63,31,981	13,50,00,000				
Surplus - Balance in profit and loss account							
		—	79,63,684				
		40,39,85,909	20,05,88,461				
3. Loan funds							
From bankers - Term loans							
		78,70,24,445	80,81,27,736				
- Cash credit facilities		22,37,82,511	24,64,32,619				
- Buyer's credit facilities		5,37,97,045	—				
		106,46,05,001	105,45,60,355				
4. Unsecured loans							
Fixed deposits							
		5,68,83,687	4,75,98,182				
		5,68,83,687	4,75,98,182				
5. Fixed assets							
Description	Cost 2008	Additions/ (Deductions)	Addition on revaluation	Cost/ valuation 2009	Depreciation/ amortisation to date	Net Block	
						2009	2008
Land	1,71,21,606		14,43,96,394	16,15,18,000		16,15,18,000	1,54,63,777
Buildings	18,09,97,850	8,92,66,908	8,65,04,413	35,67,69,171	4,39,73,951	31,27,95,220	14,09,84,103
Plant and machinery	77,88,26,108	29,62,17,519 (1,13,18,270)		106,37,25,357	45,20,24,451	61,17,00,906	62,57,13,305
Wind energy converters	48,14,81,624			48,14,81,624	18,90,87,973	29,23,93,651	41,51,75,575
Furniture and office equipments	43,97,854	4,82,555 (1,57,792)		47,22,617	19,25,918	27,96,699	35,96,085
Vehicles	1,18,58,721			1,18,58,721	43,89,974	74,68,747	65,09,312
Live stock	126,241			126,241		126,241	52,240
	147,48,10,004	38,59,66,982 (1,14,76,062)	23,09,00,807	208,02,01,731	69,14,02,267	138,87,99,464	120,74,94,397
Previous year	139,86,40,767	8,18,37,569 (56,68,332)		147,48,10,004	61,96,05,308	85,52,04,696	83,75,73,716



Schedules to the accounts (Continued)

	2009	2008	2009	2008
	No. of shares		Rupees	Rupees
6. Investments				
Equity shares of companies of Rs.10 each				
Sambandam Spinning Mills Limited	90,000	90,000	45,00,000	45,00,000
SPMM Healthcare Services Private Limited - unquoted	20,00,000	20,00,000	2,00,00,000	2,00,00,000
			2,45,00,000	2,45,00,000
7. Inventories				
Stores and spares			17,31,652	26,25,967
Cotton			4,18,75,969	16,37,98,877
Cotton-in-process			4,85,28,190	3,84,53,010
Yarn			1,33,54,758	2,84,01,370
Process waste			8,96,574	13,84,604
			10,63,87,143	23,46,63,828
8. Sundry debtors				
(Unsecured, considered good)				
Trade			13,52,27,116	7,36,01,281
Others			1,62,24,286	2,92,88,518
			15,14,51,402	10,28,89,799
Of the above age analysis of debts				
Debts over six months old			66,62,952	6,67,187
Other debts			14,47,88,450	10,22,22,632
9. Cash and bank balances				
Cash on hand			4,33,028	7,42,955
Balance with scheduled banks				
On current account			74,80,873	20,86,594
On deposit account			97,07,330	26,44,762
			1,76,21,231	54,74,311
10. Other current assets				
(Unsecured, considered good)				
Deposit with government, public bodies and others			2,38,05,734	2,28,50,864
Prepaid expenses			19,95,535	19,82,549
Interest accrued on deposits			14,43,131	1,57,952
			2,72,44,400	2,49,91,365
11. Loans and advances				
(Unsecured, considered good)				
Advances			3,06,38,396	3,05,84,274
Other receivables			4,40,73,565	3,30,05,741
			7,47,11,961	6,35,90,015



Schedules to the accounts (Continued)

	2009 Rupees	2008 Rupees
12. Liabilities		
Acceptances	1,94,46,402	—
Trade creditors and accrued charges		
- Micro and small enterprises	2,10,914	22,846
- Others	6,81,01,556	12,76,78,448
Interest accrued but not due on loans	4,17,947	67,068
Unclaimed dividend	12,74,888	1280,117
Other liabilities	34,81,500	13,94,752
	<u>9,29,33,207</u>	<u>13,04,43,231</u>
13. Provisions		
Employee benefits - Compensated absences	1,02,27,973	96,83,967
Proposed dividend	—	76,98,500
Corporate dividend tax on proposed dividend	—	13,08,360
	<u>1,02,27,973</u>	<u>1,86,90,827</u>
14. Miscellaneous expenditure		
Deferred replacement expenses	38,10,442	66,18,537
Loan raising expenses	25,09,401	28,66,751
Expenditure not written off or adjusted	63,19,843	94,85,288
	<u>63,19,843</u>	<u>94,85,288</u>
15. Sales and conversion charges earned		
Yarn	85,82,71,622	82,69,47,491
Process waste	1,43,58,352	53,04,365
	<u>87,26,29,974</u>	<u>83,22,51,856</u>
Sales-tax and textile committee cess paid	1,41,70,854	1,07,54,531
	<u>85,84,59,120</u>	<u>82,14,97,325</u>
Conversion charges earned (Tax deducted at source Rs.5,254, 2008 Rs.13,140)	38,212	4,72,938
	<u>85,84,97,332</u>	<u>82,19,70,263</u>
16. Other income		
Income from long term investments - Dividend	2,25,000	5,40,000
Profit on disposal of fixed assets	—	35,428
Miscellaneous income	61,214	1,20,584
	<u>2,86,214</u>	<u>6,96,012</u>
17. Materials		
Raw materials consumed		
- cotton and waste cotton (Tax collected at source Rs.6,354, 2008 Rs.1,01,093)	49,62,69,345	41,94,99,942
- others	20,92,345	22,27,829
	<u>49,83,61,690</u>	<u>42,17,27,771</u>
Add decrease in value of stock of cotton in process, yarn and process waste	54,59,462	2,22,28,057
	<u>50,38,21,152</u>	<u>44,39,55,828</u>
18. Repairs to assets		
Buildings	17,74,231	21,74,956
Plant and machinery	1,27,56,006	93,79,177
Other assets	99,831	110,115
	<u>1,46,30,068</u>	<u>1,16,64,248</u>



Schedules to the accounts (Continued)

	2009 Rupees	2008 Rupees
19. Human resources		
Salaries, wages and bonus	6,79,90,620	7,00,86,787
Contribution to provident, gratuity and other funds	58,35,388	56,25,634
Workmen and staff welfare expenses	39,83,046	34,31,442
	<u>7,78,09,054</u>	<u>7,91,43,863</u>
20. Other expenses		
Brokerage and commission on sales	82,76,050	87,12,806
Rent	32,069	99,431
Rates and taxes	6,54,969	6,52,275
Insurance	18,02,287	22,43,823
Travel and vehicle upkeep	38,93,004	37,99,815
Communication expenses	8,45,779	7,09,211
Donation and charity	12,67,954	21,15,640
Directors' sitting fees	4,57,500	4,40,000
Forex differences-net-loss	15,86,920	11,16,223
Loss on sale of assets	2,17,732	—
Miscellaneous expenses	65,33,074	50,38,751
	<u>2,55,67,338</u>	<u>2,49,27,975</u>
21. Financial expenses-net		
Interest paid on loans and other accounts	9,16,09,871	6,67,94,270
Less Interest earned on deposit and other accounts (Tax deducted at source Rs. 1,09,815 (2008 Rs. 3,32,412))	17,95,495	13,81,149
	<u>8,98,14,376</u>	<u>6,54,13,121</u>
Bank and other financial charges	51,10,561	28,45,804
	<u>9,49,24,937</u>	<u>6,82,58,925</u>
22. Depreciation/amortisation		
Buildings	82,29,164	57,59,947
Plant and machinery	3,82,77,090	2,64,32,224
Wind energy converters	2,49,14,835	2,49,14,835
Furniture and office equipments	3,35,382	2,19,656
Vehicles	11,55,717	9,42,205
	<u>7,29,12,188</u>	<u>5,82,68,867</u>
23. Profit and loss account		
Balance brought forward from prior year	79,63,684	37,13,120
Profit/(loss) after tax for the year	-2,66,31,703	4,57,57,424
	<u>-1,86,68,019</u>	<u>4,94,70,544</u>
Appropriation		
- Transfer to General reserve	—	3,25,00,000
- Proposed dividend	—	76,98,500
- Corporate tax on proposed dividend	—	13,08,360
Amount shown as a deduction from General reserve	1,86,68,019	—
Balance profit carried to Balance Sheet	<u>—</u>	<u>79,63,684</u>



Schedules to the accounts (Continued)				2009	2008
24. Notes to the accounts				Rupees	Rupees
1. Quantitative information					
(i)	Capacities	- Installed	Spindles	67,388	56,588
			Rotors	552	552
(ii)	Production	- Yarn	Kgs.	61,03,487	59,90,033
		- Process waste	Kgs.	14,69,929	11,30,825
(iii)	Consumption	- Cotton	Kgs.	76,89,985	72,28,834
		- Others	Kgs.	33,596	35,614
(iv)	Sales	- Yarn	Kgs.	62,04,185	60,84,080
		- Waste	Kgs.	14,47,480	11,35,087
(v)	Stocks at end			2009	2008
	Yarn		Kgs.	71,489	1,72,187
			Rs.	1,33,54,758	2,84,01,370
	Process waste		Kgs.	40,720	18,271
			Rs.	8,96,574	13,84,604
	Cotton-in-process		Rs.	4,85,28,190	3,84,53,010
				2009	2008
2. Consumption of materials				Rupees	Rupees
	Raw materials (Cotton)	- Imported		6,85,32,483	3,08,841
				(13.75%)	(0.07%)
		- Indigenous		42,98,29,207	42,14,18,930
				(86.25%)	(99.93%)
There was no consumption of components and spare parts pertaining to finished goods					
3. Foreign exchange earnings/outflow					
(i)	Export of goods (yarn) – FOB basis			5,46,74,325	—
	Others (freight recovery)			1,88,003	—
(ii)	Imports (CIF)	- Machinery		—	12,36,13,871
		- Machinery spares		39,549	83,240
		- Cotton		6,79,50,125	—
(iii)	Expenditure in foreign currency	- Interest		13,85,317	7,35,102
		- Others		—	1,59,040
(iv)	Remittance of dividend to non-resident shareholders			—	—
4. Earnings per share					
(i)	Profit/(Loss) after taxation as per Profit and loss account (A)			(2,66,31,703)	4,57,57,424
(ii)	Number of equity shares outstanding (B)			38,49,250	38,49,250
(iv)	Earnings per share (in Rupees) - Basic (A/B)			(6.92)	11.89



Schedules to the accounts (Continued)

5. Deferred taxation

Deferred tax liability Pertaining to timing differences on account of

– Depreciation	18,98,54,665	15,90,77,918
– Deferred revenue expenses	12,95,169	22,49,641

19,11,49,834	16,13,27,559
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Deferred tax asset

– Pertaining to unabsorbed tax depreciation	5,78,48,179	1,58,75,064
– Pertaining to provision for employee benefits	34,76,488	32,91,580

12,98,25,167	14,21,60,915
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6. Segment information

The Company is principally engaged in a single business segment viz.. cotton yarn and operates in one geographical segment as per Accounting Standard 17 on 'Segment Reporting'.

7. Related party disclosure

(i) Related parties with whom transactions have taken place during the year

- (1) Key management personnel : Sri R. Selvarajan Chairman and Managing Director
- (2) Parties where significant influence exists : S. Palaniandi Mudaliar Charitable Trust
Kandagiri Spinning Mills Gratuity Trust

(ii) Transactions with related parties

(1) Key management personnel		
- Interest payment	23,07,234	18,05,721
- Dividend payment	15,56,660	41,86,000
- Remuneration	24,00,000	36,00,000
- Fixed deposits received	40,00,000	1,20,90,000
- Fixed deposits repaid	—	58,65,000
- Outstanding balances under fixed deposits	2,05,75,000	1,70,76,179
(2) Parties where significant influence exists		
a) S. Palaniandi Mudaliar Charitable trust		
- Advances - outstanding	2,53,272	2,53,272
- Payments for employee welfare services	6,45,713	2,40,010
- Contribution paid	10,00,000	20,00,000
b) Kandagiri Spinning Mills Gratuity trust		
- Contribution paid/payable	28,10,830	27,60,865

8. Issued and subscribed capital include 20,05,650 (2008 – 20,05,650) Equity shares allotted as fully paid up by way of bonus shares by capitalisation of part of General reserve.

9. Movement in reserves – (i) Additions: (1) Amount appropriated from the profit and loss account to General reserve Rs. Nil (2008 Rs.3,25,00,000); and (2) Amount credited to Revaluation reserve on account of revaluation of land and buildings of the Company Rs.23,09,00,807 (2008 Rs. Nil); (ii) Deductions: (1) Amount amortised from Cenvat credit relating to capital assets and adjusted in depreciation in Schedule 22 Rs.8,71,656 (2008 Rs.10,79,832) and (2) Balance loss for the year ended March 31, 2009 shown as a deduction in General reserve Rs.1,86,68,019.



Schedule to the accounts (Continued)

24. Notes to the accounts

10. Particulars of security for secured loans – (i) Term loans from banks to an extent of Rs.61,80,86,980 (2008 Rs.56,21,67,586) are secured by a first charge on the Company's immovable and movable properties (excluding book debts) subject to the charge stated in (iv) infra, (ii) Term loans from banks to an extent of Rs.16,89,38,465 (2008 Rs.20,58,53,572) are secured by hypothecation of certain specific assets, (iii) Term loan from bank to an extent of Rs. Nil (2008 Rs.4,01,06,578) is secured by pari passu first charge on the Company's book debts and stock in trade; and (iv) Cash credit/buyer's credit facilities are secured by a first charge on the Company's current assets and by a second charge on the Company's immovable and movable properties (other than those covered under the first charge mentioned in (i) supra, (v) All the loans are guaranteed by three directors.
11. Unsecured loans include – (i) Fixed deposits from directors Rs.3,45,15,000 (2008 Rs.2,64,75,000), and (ii) amounts repayable within twelve months from the balance sheet date Rs.24,58,000 (2008 Rs.37,08,000).
12. Fixed assets – (i) Cost of additions and capital work-in-progress includes borrowing cost of Rs.91,59,367 (2008 Rs.1,78,36,225) and other expenses in the course of construction Rs.92,61,599 (2008 Rs.4,21,878); and (ii) Deductions under plant and machinery includes terminal excise duty refund under Export Promotion Capital Goods Scheme, of Rs.90,04,444 (2008 Rs.48,15,318).
13. The land and buildings of the Company were revalued as on March 31, 2009 by an external valuer on the basis of estimated market value in the case of land and estimated depreciated replacement cost in the case of buildings. The resulting surplus on such revaluation aggregating to Rs.23,09,00,807 has been credited to Revaluation reserve.
14. All investments are long term, non trade and quoted unless otherwise stated. Market value of quoted investments Rs.26,46,000 (2008 Rs.63,36,000).
15. Loans and advances include Income tax paid in advance/deducted at source, net of provisions therefor. The income tax liability for the year 2008 as minimum alternate tax under section 115JB of the Income tax Act, 1961 amounting to Rs.79,00,000 is eligible to be carried forward and set off against future income tax under section 115JAA of the Income tax Act, 1961 and hence the minimum alternate tax credit entitlement is included in the above head in 2008.
16. Trade creditors and accrued charges include provision for gratuity liability as per actuarial valuation of Rs.48,21,695 (2008 Rs.27,60,865).
17. (i) The information required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006 has been determined to the extent such parties have been identified on the basis of information available with the Company. There are no overdues to parties on account of principal amount and/or interest and accordingly no additional disclosures have been made; and (ii) There are no amounts remaining unpaid or unclaimed for a period of seven years in respect of unpaid dividend, matured fixed deposits and interest thereon from the date they became payable by the Company and hence there are no amounts remaining to be credited to the Investor Education and Protection Fund.
18. Derivatives - The Company uses derivative financial instruments such as forward contracts and option to hedge certain currency rate exposures, present and anticipated, denominated mostly in US dollars, Euro, Japanese Yen and Swiss Franks. Generally such contracts are taken for exposures materializing in the next six months. The Company actively manages its currency rate exposures and uses these derivatives to mitigate the risk from such exposures. The Company has hedged exposure of US \$ 5,34,299 (2008 US \$ Nil) as at March 31, 2009 and has a net unhedged exposure of US\$ 9,08,921 (2008 - US\$ Nil) as at the said date.
19. Estimated capital expenditure commitments (net of advances) Rs.4,42,29,871 (2008 Rs.5,62,93,942).
20. Contingent liabilities – (i) Claims against the Company not acknowledged as debts Rs.6,90,261 (2008 Rs.6,90,261) and (ii) Bills discounted with bankers Rs.2,06,82,400 (2008 Rs.65,32,972).



Schedule to the accounts (Continued)

24. Notes to the accounts

21. Raw materials consumed – others include consumption of yarn for manufacture of double/two-for-one yarn.
22. Power and fuel are net of (i) amount realised towards power generated through Wind energy converters and adjusted against the cost of power purchased from state electricity board Rs.6,45,38,556 (2007 Rs.6,37,59,163) and (ii) income from carbon credits Rs.1,27,86,811 (2008 Rs.2,92,88,518).
23. Human resources – Particulars of managerial remuneration (i) To Managing Director – Salary Rs.14,40,000 (2008 Rs.21,60,000), Perquisites Rs.9,60,000 (2008 Rs.14,40,000), (ii) To Joint Managing Director - Salary Rs.9,60,000 (2008 Rs.14,40,000), Perquisites Rs.6,40,000 (2008 Rs.9,60,000), (iii) To Whole time.Director – Salary Rs. Nil (2008 Rs.2,10,000), Perquisites Rs. Nil (2008 Rs.28,800).
24. Other expenses – (i) Exchange differences-net-include unrealised loss of Rs. 38,73,384 (2008 Rs. Nil); (ii) Donation and charity include contribution to Communist Party of India Rs.10,000 (2008 Rs. Nil; and (iii) Miscellaneous expenses include payments to auditors for Financial audit Rs.2,50,000 (2008 Rs.2,50,000), Cost audit Rs.44,000 (2008 Rs.40,000), Taxation work Rs.95,000 (2008 Rs.95,000), Other work Rs.70,000 (2008 Rs.65,000) and Expenses reimbursed to Statutory auditors Rs.99,035 (2008 Rs.87,263), Cost auditors Rs.32,453 (2008 Rs.23,596).
25. Financial expenses – (i) Interest paid on fixed loans Rs.6,11,32,981 (2008 Rs.4,33,70,483) includes Rs.23,07,234 (2008 Rs.18,05,721) to the Managing Director; and (ii) Bank and other financial charges include amortisation of loan raising expenses Rs.9,82,350 (2008 Rs.9,03,956).
26. Depreciation/amortization - Amortised cenvat credit deducted from capital reserve has been netted against the depreciation charge relating to the concerned plant and machinery.
27. Exceptional item in 2008 represents the compensation received as one time settlement of Rs.2,31,00,000 from a supplier of wind energy converter for the short fall in power generation.
28. **Employee benefits**

i) Defined benefit plans as per Actuarial valuation on March 31, 2009

Rs. lakhs

	Gratuity (Funded)		Compensated Absences (Unfunded)	
	2009	2008	2009	2008
A. Expense recognised in the statement of Profit and Loss Account for the year ended March 31, 2009				
(i) Current service cost	10.90	13.81	0.87	3.71
(ii) Interest cost	6.01	4.91	7.56	1.35
(iii) Expected return on plan assets	(4.64)	(4.52)	—	—
(iv) Net actuarial (gain)/loss recognised during the year	15.84	13.41	(0.67)	0.95
(v) Total expenses	28.11	27.61	7.76	6.01
B. Actual return on plan assets				
(i) Expected return on plan assets	4.64	4.52		
(ii) Actuarial gain/(loss) on plan assets	(0.57)	(3.48)		
(iii) Actual return on plan assets	4.07	1.04		
C. Net Asset/(Liability) recognised in the Balance Sheet				
(i) Present value of the obligation	98.20	84.29	102.28	96.84
(ii) Fair value of plan assets	49.99	56.68	—	—
(iii) Funded status (surplus/ (deficit))	(48.21)	(27.61)	(102.28)	(96.84)
(iv) Unrecognised past service cost	—	—	—	—
(v) Net Asset/(Liability) recognised in the Balance Sheet	(48.21)	(27.61)	(102.28)	(96.84)
D. Change in Present value of the obligation during the year				
(i) Present value of obligation as at beginning of the year	84.29	57.21	94.52	91.17
(ii) Current service cost	6.01	13.81	7.56	3.71
(iii) Interest cost	10.90	4.91	0.87	1.35
(iv) Benefits paid	(18.27)	(1.57)	—	(0.34)
(v) Actuarial (gain)/loss on obligation	15.27	9.93	(0.67)	0.95
(vi) Present value of obligation as at end of the year	98.20	84.29	102.28	96.84



Schedule to the accounts (Continued)

Rs. lakhs

	Gratuity (Funded)		Compensated Absence (Unfunded)	
	2009	2008	2009	2008
E. Change in Assets during the year				
(i) Fair value of plan assets as at beginning of the year	61.68	47.34		
(ii) Expected return on plan assets	4.64	4.52		
(iii) Contributions	11.05	9.87		
(iv) Benefits paid	(26.81)		(1.57)	
(v) Actuarial (gain)/loss on plan assets	(0.57)		(3.48)	
(vi) Fair value of plan assets as at end of the year	49.99	56.68		
F. Experience adjustments in				
(i) Plan liabilities – loss/(gain)	15.27	9.93	(0.67)	0.95
(ii) Plan assets – loss/(gain)	(0.57)	(3.48)	—	—
G. Major categories of plan assets as a percentage of total plan				
(i) Government of India Securities	15 %	20 %	Unfunded	Unfunded
(ii) State Government Securities	12 %	12 %		
(iii) High quality Corporate Bonds	63 %	13 %		
(iv) Special Deposit Scheme	10%	9 %		
(v) Others (Bank deposits)	- %	46 %		
(vi) Total	100 %	100 %		
H. Actuarial Assumptions				
(i) Discount rate	8 %	8 %	8 %	8%
(ii) Salary escalation rate	4 %	4 %	0 %	0 %
(iii) Attrition rate	1 %	1 %	1 %	1 %
(iv) Expected rate of return on plan assets	8 %	8 %	0 %	0 %

- (ii) Gratuity fund is recognised by the Income tax authorities and administered through trustees.
- (iii) During the year, the Company has recognised the following amounts in the Profit and Loss account in Schedule 19:
- Salaries, wages and bonus include compensated absences of Rs.10,14,367 (2008 Rs.6,00,994).
 - Contribution to provident, gratuity and other funds include contribution to Provident fund and family pension fund contribution of Rs.30,24,558 (2008 Rs.28,64,769) and gratuity fund of Rs.28,10,830 (2008 Rs.27,60,865).
 - Workmen and staff welfare expenses include contribution to employee state insurance of Rs.6,98,695 (2008 Rs.6,96,851).

29. Figures for the previous year have been regrouped to make them comparable to the classification adopted in the current year.

Signatures to Statement on significant accounting policies, Schedules and Notes to the Accounts

For and on behalf of the Board

R. Selvarajan
Chairman and Managing Director

Salem
June 25, 2009

S. Devarajan
Director

S. Vijay Shankar
Joint Managing Director



Statement Pursuant to Part IV of Schedule VI to the Companies Act, 1956

Balance Sheet Abstract and Company's General Business Profile

I Registration Details

Registration No : 181-000762 State Code – 18
 Balance Sheet Date : 31-03-2009

II Capital raised during the year (Rs. '000)

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

III Position of Mobilisation and Deployment of Funds (Rs.'000)

Total Liabilities	169,38,74	Total Assets	169,38,74
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Sources of Funds

Paid up capital	3,85,75
Reserves and surplus	40,39,86
Secured loans	106,46,05
Unsecured loans	5,68,83
Deferred tax liability	12,98,25

Application of Funds

Net Fixed Assets	1,38,87,99
Investments	2,45,00
Net Current Assets	27,42,55
Accumulated losses	—
Miscellaneous expenditure	63,20

IV Performance of Company (Rs.'000)

Turnover-net	85,84,97	Total expenditure – net	89,69,64
Profit (+)/Loss (-) before Tax (+)	(-)3,84,67	Profit (+)/Loss (-) after Tax (+)	(-) 2,66,32
Basic earning per share in Rs.	(6.92)	Dividend rate	0 %

V Generic Names of Three Principal Products

Item Code No. 5205 (Only one product)
 (ITC Code)

Product Description - COTTON YARN OTHER THAN SEWING THREAD CONTAINING 85%
 OR MORE BY WEIGHT OF COTTON NOT PUT UP FOR RETAIL SALE

For and on behalf of the Board
R. Selvarajan
 Chairman and Managing Director

Salem
 June 25, 2009

S. Devarajan
 Director

S. Vijay Shankar
 Joint Managing Director