

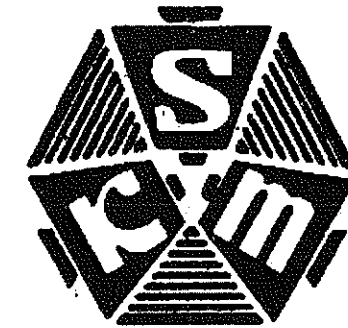
Book - Post



**37 th  
Annual Report**

To

**If Undelivered Return to :-  
Kandagiri Spinning Mills Limited  
Post Bag No 3, Udayapatti,  
Salem - 636 140**



**KANDAGIRI SPINNING MILLS LIMITED**

**37th Annual Report**

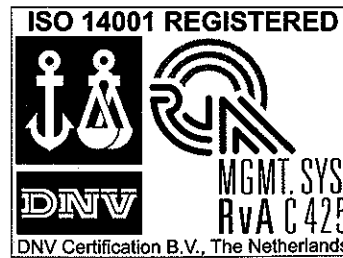
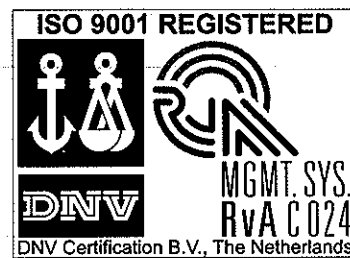
**2012 - 2013**



## CONTENTS

|                                  | Page No. |
|----------------------------------|----------|
| Corporate Information            | 1        |
| Notice of Annual General Meeting | 2        |
| Directors' Report                | 5        |
| Compliance Certificate           | 11       |
| Corporate Governance Report      | 15       |
| Independent Auditor's Report     | 21       |
| Balance Sheet                    | 24       |
| Profit and Loss Account          | 25       |
| Cash Flow Statement              | 26       |
| Statement on Accounting Policies | 28       |
| Notes to Balance Sheet           | 30       |
| Notes to Profit and Loss Account | 35       |
| Notes on Financial Statements    | 37       |

## Certification



Thirty Seventh Annual Report



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

Thirty Seventh Annual Report

**NOTICE TO THE SHAREHOLDERS**

Notice is hereby given that the Thirty Seventh 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 14th August, 2013 at 11.30 a.m to transact the following business :

**Ordinary Business**

- 1 To receive, consider and adopt the Audited Balance Sheet as at March 31, 2013 and the Profit and Loss account and the Cash Flow Statement for the year ended on that date together with the notes annexed thereto and the reports of the Directors and the Auditors thereon.
- 2 To appoint a director in the place of Sri V. Mahadevan who retires by rotation and being eligible, offers himself for re-appointment.
- 3 To appoint a director in the place of Sri N. Asoka 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 they 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 sub-clause (i) of clause (b) of sub-section (2A) of section 149 of the Companies Act 1956, approval of the Company be and is hereby accorded for commencement of new business stated in Clause III C (26) of the Memorandum of Association of the Company reproduced here below :

**III C (26) "TO GENERATE POWER BY ESTABLISHING WIND TURBINES, GAS TURBINES, SOLAR POWER STATIONS AND ALSO GENERATE POWER FROM TIDAL WAVES OR BY ANY OTHER METHOD AND TO SELL SUCH POWER TO TAMIL NADU ELECTRICITY BOARD OR TO ANY OTHER PERSON, ORGANISATION OR GOVERNMENT BODY".**

**RESOLVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorised to file pursuant to sub-clause(ii) of clause (b) of sub-section(2A) of section 149 of the Companies Act 1956, a duly verified declaration in E-Form 20A prescribed in the Companies (Central Government's) General Rules and Forms (Amendment) Rules 2006, within the prescribed period of time and to do all such acts, deeds and things as may be required to give effect to this resolution."

Place : Salem  
Date : 27<sup>th</sup> May 2013

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

**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 him/her and that the proxy need not be a member of the Company. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting.
- 2 The Register of Members and the Share Transfer Books of the Company will remain closed from TUESDAY, 6<sup>th</sup> August 2013 to WEDNESDAY 14<sup>th</sup> August 2013 (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 Company Secretary at the Registered Office of the Company. Members can also submit their grievances direct to the Company at the following e mail ID:  
sales@kandagirimills.com ksmcs@kandagirimills.com
- 4 Those members who have not so far encashed their dividend warrants for the year 2006 may send the unencashed dividend warrants immediately to the Company or approach the Company for payment thereof, as the same will be invalid after transfer of the unpaid amounts in July 2013 to the Investor Education and Protection Fund of the Central Government, pursuant to Section 205 A (5) of the Companies Act, 1956. After transfer of the unpaid dividend to the above fund, shareholders will cease to have any claim over that amount. Members who have not encashed any other year's dividend warrants after 2006 also may return the warrant(s) to the Company or contact the Company furnishing their full address and their shareholding details for issue of fresh cheque in lieu of the unencashed dividend warrant(s). Unencashed/Unpaid dividend up to 2005 has already been transferred to the Investor Education and Protection Fund A/c of Government of India. As such no claim shall be made for dividend declared/paid prior to 2006.
- 5 As per the provisions of Sections 109A and 109B of the Companies Act, 1956 facility for making nomination is available to shareholders in respect of the shares held by them. This will facilitate smooth transmission of 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 Limited, at Subramaniam Building, No.1, Club House Road, Chennai - 600 002.
- 6 Securities and Exchange Board of India (SEBI) 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 shareholders to furnish 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 or acquire further shares.
- 7 Members are requested to inform the Company their e-mail ID to facilitate quick response from the Company. Ministry of Corporate Affairs has recognised e-mail communication to share holders as effective and efficient means of communication from the Company and also member's communication to the Company. Members may register their e-mail id with the Company and also keep the Company informed of any changes in their e-mail ID.
- 8 As per SEBI Regulation (Regulation No 13) a person holding the Company's shares/acquiring the Company's shares (voting rights) exceeding 5% of the paid up share capital (one lakh ninety thousand equity shares of the Company together with their existing holdings) shall inform the Company within 4 working days of acquisition of the Company's shares before sending the share transfer documents to Cameo Corporate Services Ltd., for registering the shares in their name. Similarly persons already holding 5% or more (more than one lakh ninety thousand) equity shares of the Company shall inform the Company if they sell or transfer any of their shares within 4 working days of sale of their shares.



9 Members who have not so far dematerialized their shares are advised to demat the shares held in physical form which will ensure safety and security for their shares.

10 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 V. Mahadevan, is a Master of Commerce and a rank holder from Madras University. He has been an independent director of the Company from 28.7.2005. He has held the position as Chairman/Managing Director of State Bank of India and State Bank of Indore. He has also worked as financial expert at United Nations. He has more than four decades of experience in the field of banking and finance. He is also a member of the Audit Committee of this Company and an independent director and member of the Audit Committee of Sambandam Spinning Mills Limited. He does not hold any share in the Company. No other director is personally interested in his reappointment.

(b) Sri N. ASOKA, a Chemical Engineer, is an industrialist. He is the Managing Director of Spark Engineers Private Limited, as ISO-9001-2008 Certified Company and Managing Partner of Spark Enterprises. He is an Independent Director and member of the Audit Committee and the Remuneration Committee of this Company and also Sambandam Spinning Mills Limited, Salem. He has more than two decades of experience in the field of management. He is the recipient of 'Best Industrialist Award in 1991-92 from the Department of Industries and Commerce, Government of Tamil Nadu. He shows keen interest in providing social welfare services to the needy. In recognition of his services as a Rotarian since 1988, he was elected 'District Governor' of Rotary International for 2011-12. He is the Governing council member of the Salem Productivity Council. He does not hold any share in the Company. No other director is personally interested in his reappointment.

Explanatory statement pursuant to Sec.173(2) of Companies Act, 1956 for item No.5 :

The Company is planning to install SOLAR POWER GENERATION SYSTEM in line with the Tamil Nadu Government's directions for all industries to install such facilities to meet the industry's needs and for augmenting the power supply in the state. Section 149 (2A) of the Companies Act requires that the members of the Company should approve, by a Special Resolution before commencement of any new business by the company which is not germane to the business which it has been carrying on at present. Accordingly, a special resolution at item No.5 is placed before the members. Board of directors commend the resolution for adoption. None of the directors is interested in the resolution.

Memorandum of association of the Company containing the clause stated in the resolution is available for inspection by members during business hours.

Registered Office :  
Mill Premises,  
Post Box No.3,  
Udayapatti, Salem - 636 014

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



## DIRECTORS' REPORT

Your directors have pleasure in presenting their 37th Annual Report together with the audited accounts for the year ended March 31, 2013 (the year).

| Performance Highlights  | 2012-13        | 2011-12 |
|---|----------------|---------|
| Turnover  | (Rupees lakhs) |         |
| Export - Direct   | —              | 137     |
| - Merchandise   | 6584           | 4641    |
| Domestic Sales  | 9453           | 7856    |
| Other operating income  | 17             | 4       |
| Total Turnover  | 16054          | 12638   |
| Profit  |                |         |
| Gross profit (ie. profit before Interest, depreciation and tax) | 2886           | 194     |
| Cash profit/(loss)  | 1649           | (1205)  |
| (i.e. profit/(loss) before depreciation and tax)                |                |         |
| Profit/(loss) before tax (PBT)                                  | 828            | (2008)  |
| Profit/(loss) after tax (PAT)                                   | 585            | (1298)  |
| Earnings per share - basic and diluted (Rupees)                 | 15.20          | (33.72) |

## Dividend

In view of the carried over losses as at March 31, 2013, no dividend is recommended by your board of directors for the financial year 2012-13.

## Financial Performance with respect to Operational Performance:

During the year under review, your company was able to effect a turnaround in performance through dedicated efforts aimed at improving operational efficiency, timely purchase of cotton in the market, remunerative prices and good demand for yarn, focus on optimal product mix and effective cost reduction practices, all of which resulted in improved sales and return to profitability. Your Company achieved a sales turnover of Rs.16054 lakhs as against Rs.12638 lakhs recorded in the previous year, registering an increase of about 27% over the previous year. Your Company has earned profit before tax of Rs.828 lakhs during the year as against loss of Rs.2008 lakhs in the previous year, despite the severe power cut which lead to abnormal increase in the power cost and high interest cost during the year.

Your Company's Wind Electric Generators (WEGs) recorded very good generation of electricity of the value of Rs.1094 lakhs during the year (as against Rs.671 lakhs during 2011-12) - 63% increase over the previous year, resulting in considerable savings in power cost.

## 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:**

Indian economy in general has shown more resilience than some of the other developed economies around the world. However the worsening current account deficit and weakening rupee presented liquidity problem compelling Reserve Bank of India to take monetary tightening measures to tame the inflation.

The Spinning Industries faced unprecedented problems in many ways. Though demand for yarn in domestic and export markets were steady, spinning mills performance was affected due to severe shortage of power in Tamil Nadu which compelled the spinning mills to go in for third party power and own generation of power using diesel generators, which resulted in high power cost. Increasing interest rates further aggravated the problem and exerted severe pressure on profit margin.

In 2012-13 Cotton Prices remained stable mainly because of the lukewarm response from Cotton importers in China and Bangladesh and the cash crunch faced by domestic buyers. Yarn prices in domestic markets as well as overseas markets were quite satisfactory. Main reason for improvement in yarn export market was lifting of ban and anti dumping duty and reduction of import duty on Cotton Yarn by Turkey and Peru at the intervention of WTO. China also started buying more yarn instead of cotton from India due to price advantage.

**(b) Outlook**

The industry expects to improve its margin during the year. Demand for yarn has also been good both in domestic market and merchant export market. Your directors are very cautious about the cotton price and yarn price movements. Barring unforeseen circumstances, Company's performance will be good in the coming year.

**(c) Strategies and Future plans**

Your Company is also actively examining the possibility of reducing costs at all levels and evaluating new value added products, which will have fresh demand in domestic as well as international markets. To overcome the power shortage problem, your company is planning to install dedicated power feeder line from Tamilnadu Electricity Board, so that the Wind Turbine generated power and the third party purchased power can be used even during the power shut down period. By this process your company will be able to reduce the power cost substantially.

**(d) Internal control and systems**

Your 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. Necessary checks and balances have been instituted for timely correction.

**(e) Human resources management**

Employees are your Company's most valuable resource. Your Company continues to create a favourable environment at work place. Your Company provides necessary accommodation and food facility to the Employees. Your Company has various welfare measures both government sponsored and privately envisaged. The Company also recognizes the importance of training and consequently deputed its work force to various work related courses/seminars including important issues like Total Quality Management (TQM). The fact that the relationship with the employees continues to be cordial is testimony to the Company's ability to retain high quality workforce.

**(f) Environmental Protection, Health and Safety (EHS)**

EHS continues to receive highest priority in all operational and functional areas at all locations of your Company. Systematic process safety analysis, audits and periodic safety inspections are carried out by external agencies and suitable control measures adopted for ensuring safe operations at the site. All the process, wherever required, are backed up by efficient scrubbing systems to take care of any fugitive emission into the environment.

**(g) Corporate Social Responsibility and Community Development Initiatives**

Your company's main activity is 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. Your Company, along with your group's associate Company Sambandam Spinning Mills Limited, is collaborating with a Multi Specialty Hospital 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. Besides your Company has been taking care of the food requirements of nearly 150 inmates of The Tamilnadu Association for the Blind School in Ayothiyapattinam, Salem District.

**(h) 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.

**COST AUDIT REPORT**

As per the directions of the Cost Audit Branch of the Ministry of Corporate Affairs, M/s. S. MAHADEVAN & CO., Cost Accountants, Coimbatore, has been appointed Cost Auditor for audit of Cost Accounts of the Company and their report for the year ended 31st March 2012 has been submitted on 25.01.2013 to the Ministry of Corporate Affairs (VIDE SRN No.S20009809, dated 25-01-2013). Due date for submission of that Cost Audit Report was 31.01.2013.

M/s. S. Mahadevan & Co. have been reappointed for Audit of Cost Accounts of the Company for the year ended 31.3.2013. Their reports for the year ended 31.3.2013 will be filed well before the due date.

**Directors**

Sri N.Asoka and Sri V.Mahadevan retire by rotation and they are eligible for reappointment. Your Company's Code of Conduct applicable to the board has been adopted by the board and all the directors of the company have confirmed due compliance with the Code of Conduct.

**Auditors**

The auditors, M/s. M.S. Krishnaswami & Rajan, Chartered Accountants, retire at the end of the ensuing annual general meeting and they 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.

**Compliance Certificate u/s 383A**

Compliance Certificate pursuant to Section 383A of the Companies Act, 1956 obtained from M/s. B.K. Sundaram Associates, Practicing Company Secretaries, is also annexed to this report.

**Appreciation**

Directors of your Company record their sincere appreciation of the dedication and commitment of all employees in achieving and sustaining excellence in all areas of the business. Your directors thank the Shareholders, Customers, Suppliers, Bankers and other stakeholders for their continued support during the year. Your Company's consistent growth has been made possible by the hard work, solidarity, cooperation and support of the management team.

Directors of your Company thank State Bank of India, Karnataka Bank Limited and 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  
May 27, 2013

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

**Annexure to Directors' Report**

(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 judgments and estimates. The Directors believe that the financial statements reflect true and fair view of the financial position as on 31.3.2013 and of the results of operations for the year ended 31.3.2013.

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 internal audit function, 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.

(ii) Conservation of energy, technology absorption and research and development and foreign exchange earnings and outgo

|  |           |         |         |
|--|-----------|---------|---------|
|  |           | 2012-13 | 2011-12 |
| A Conservation of energy                               |           |         |         |
| (a) Power and fuel consumption                         |           |         |         |
| 1. Electricity   |           |         |         |
| (i) Purchased units*                                   | '000 KWH  | 7860    | 11077   |
| Total cost   | Rs. Lakhs | 723     | 648     |
| Cost/unit  | Rupees    | 9.20    | 5.85    |
| *net of units generated through wind energy converters |           |         |         |



|  |            |         |         |  |
|--|------------|---------|---------|--|
| (ii) Own generation  |            |         |         |  |
| 1) Through diesel generator  |            |         |         |  |
| Generated units  | '000 KWH   | 8548    | 3840    |  |
| Units per litre of diesel  | KWH        | 3.38    | 3.33    |  |
| Cost/unit *  | Rupees     | 13.01   | 10.98   |  |
| 2) Through Steam Turbine / generators  |            |         |         |  |
| 3) Through Wind energy converters  |            |         |         |  |
| Generated units (fed to TNEB Grid)   | '000 KWH   | 19602   | 16087   |  |
| Cost per unit*   | Rs.        | 2.50    | 3.23    |  |
| *Cost includes maintenance charges, interest & depreciation  |            |         |         |  |
| 2. Coal  |            | —       | —       |  |
| 3. Furnance Oil  |            | —       | —       |  |
| 4. Others  |            | —       | —       |  |
| (b) Consumption per unit of production   |            |         |         |  |
| Production (Yarn)  | Kgs. Lakhs | 68.08   | 58.47   |  |
| Consumption of electricity   | '000 KWH   | 36010   | 31004   |  |
| Consumption Per kg. of Yarn  | KWH        | 5.29    | 5.30    |  |
| 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   | 6584.01 | 4778.16 |  |
| (b) Total Foreign exchange used and earned   |            |         |         |  |
| 1) CIF value of Imports  |            |         |         |  |
| Spares for Capital goods*  | Rs. Lakhs  | 20.87   | 51.56   |  |
| Raw materials (cotton)*  |            |         |         |  |
| *exclusive of net exchange difference  | Rs. Lakhs  | 900.24  | —       |  |
| 2) Other expenditure in foreign Currency   |            |         |         |  |
| Interest   | Rs. Lakhs  | 9.81    | 56.02   |  |
| Other Matters  | Rs. Lakhs  | 3.10    | 0.69    |  |
| 3) Foreign exchange earned   |            |         |         |  |
| Yarn export  | Rs. Lakhs  | —       | 136.99  |  |
| (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 Rs.60,00,000 or more   |            |         |         |  |
|  |            | -       | Nil     |  |
| (b) Employed for part of the year and in receipt of remuneration of Rs.5,00,000 or more per month  |            |         |         |  |
|  |            | -       | Nil     |  |
| Note: Remuneration includes salary and value of perquisites and nature of employment is contractual.   |            |         |         |  |
| For and on behalf of the Board   |            |         |         |  |
| R. Selvarajan  |            |         |         |  |
| Chairman and Managing Director   |            |         |         |  |
| Salem  |            |         |         |  |
| May 27, 2013   |            |         |         |  |
| (iv) Code of Conduct for the Senior Management   |            |         |         |  |
| As required under Clause 49(1)(D) of the Listing Agreement 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, 2012. |            |         |         |  |
| R. Selvarajan  |            |         |         |  |
| Chairman and Managing Director   |            |         |         |  |
| Salem  |            |         |         |  |
| May 27, 2013   |            |         |         |  |

## Annexure to Directors' Report (Contd.)

B.K.SUNDARAM & ASSOCIATES  
COMPANY SECRETARIES.  
B.KALYANASUNDARAM,  
B.Com.,AICWA.,ACS.,

OFFICE:  
29,PANDAMANGALAM, AGRAHARAM,  
WORUUR,TRICHY-620003.  
PHONE:- 0431- 2761590.

To

The Members

M/s. KANDAGIRI SPINNING MILLS LIMITED

Sub : Compliance Certificate.

Ref : M/s. KANDAGIRI SPINNING MILLS LIMITED CIN:  
L17111TZ1976PLC000762

\*\*\*\*\*

We have examined the registers, records, books and papers of the above said Company as required to be maintained under the Companies Act, 1956, (the Act) and the Rules made there under and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31st March, 2013. In our opinion and to the best of our information and according to the examinations carried out by us and explanations furnished to us by the company, its officers and agents, we certify that in respect of the aforesaid financial year:

- 1 The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made there under and all entries therein have been duly recorded.
- 2 The Company has duly filed the forms and returns as stated in Annexure 'B' to this certificate, with the Registrar of Companies, Regional Director, Central Government, Company Law Board or other authorities under the Act and the Rules made there under.
- 3 The Company being a Public Limited company has the minimum prescribed paid-up capital.
- 4 The Board of Directors duly met 4 (FOUR) times on 30-05-2012, 13-08-2012, 05-11-2012 and 13-02-2013 in respect of which meetings proper notices were given and the proceedings were duly recorded and signed including the circular resolutions passed in the Minutes Book maintained for the purpose.
- 5 The Company has closed its Register of Members from 07<sup>th</sup> August 2012 to 13<sup>th</sup> August, 2012 (both days inclusive) during the year under scrutiny.
- 6 The Annual General Meeting for the financial year ended on 31st March 2012 was held on 13/08/2012 after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in the Minutes Book maintained for the purpose.



- 7 No Extra-Ordinary General Meeting was held during the financial year under scrutiny.
- 8 The Company has not advanced loans to its directors and/or persons or firms or Companies referred in the section 295 of the Act during the year under scrutiny.
- 9 The Company has duly complied with the provisions of section 297 of the Act in respect of the contracts specified in that section.
- 10 The Company has made necessary entries in the register maintained under Section 301 of the Act.
- 11 The Company did not attract the provisions of Section 314 of the Act during the year under scrutiny.
- 12 The duly constituted committee of Directors has approved the issue of duplicate share certificates during the year under scrutiny.
- 13 (i) There was no allotment of shares / securities. The Company has delivered all the certificates on lodgment thereof for transfer/ transmission or any other purpose in accordance with the provisions of the Act.
- (ii) The Company has not deposited any amount in a separate Bank Account as no dividend was declared during the financial year under scrutiny.
- (iii) The Company has not posted dividend warrant to any member of the Company as no dividend was declared during the financial year under scrutiny.
- (iv) The Company has transferred Rs. Rs.1,87,691/- in unpaid dividend account which have remained unclaimed or unpaid for a period of seven years to Investor Education and Protection Fund by filing Form No.1-INV under SRN B57345266 Dated 11-09-2012.
- (v) The Company has complied with the requirements of section 217 of the Act.
- 14 The Board of Directors of the Company is duly constituted and the appointments of Directors, Additional Directors, Alternate Directors and Directors to fill casual vacancies during the year under scrutiny have been duly made.
- 15 The appointments of Chairman and Managing Director and Joint Managing Director have been duly made in compliance with the provisions of Section 269 read with Schedule XIII to the Companies Act, 1956 during the year under scrutiny.
- 16 The Company has no sole-selling agents.
- 17 The Company had no need to obtain approvals of the Central Government, Company Law Board, Regional Director, Registrar or such other authorities during the year under scrutiny.
- 18 The Directors have disclosed their interest in other firms/companies to the Board of Directors pursuant to the provisions of the Act and the rules made there under.
- 19 The Company has issued NIL shares during the financial year under Scrutiny.
- 20 The Company has bought back NIL shares during the financial year under Scrutiny.



- 21 The Company has redeemed NIL preference shares/debentures during the year under scrutiny.
- 22 The Company had no occasion to keep in abeyance rights to dividend, rights shares and bonus shares pending registration of transfer of shares in compliance with the provisions of the Act.
- 23 The Company has complied with the provisions of Sections 58 A and 58AA read with Companies (Acceptance of Deposit) Rules, 1975 / the applicable directions issued by the Reserve Bank of India/ any other authority in respect of deposits accepted including unsecured Loans during the year under scrutiny attracting the provisions of sections 58A and 58AA read with Companies (Acceptance of Deposit) Rules, 1975 / the applicable directions issued by the Reserve Bank of India / any other authority.
- 24 The amount borrowed by the Company from directors, members, Public, Financial Institutions, Banks and others during the financial year ended 31-3-2013 was within the borrowing limit of Rs.300 Crores, approved by the Shareholders pursuant to Sec.293(1)(d) of the Act at the duly convened AGM held on 06-07-2007.
- 25 The Company has not made Loans and Investments or given guarantees or provided securities to other Bodies Corporate during the year under scrutiny.
- 26 The Company has not altered the provisions of the Memorandum with respect to situation of the Company's registered office from one State to another during the year under scrutiny.
- 27 The Company has not altered the provisions of the Memorandum with respect to the objects of the Company during the year under scrutiny.
- 28 The Company has not altered the provisions of the Memorandum with respect to name of the Company during the year under scrutiny.
- 29 The Company has not altered the provisions of the Memorandum with respect to share capital of the company during the year under scrutiny.
- 30 The Company has not altered its Articles of Association of the Company during the year under scrutiny.
- 31 No prosecution was initiated against or show cause notices received by the Company for alleged offences under the Act and No fines and penalties or any other punishment were imposed on the Company during the year under scrutiny.
- 32 The Company has received Rs. NIL as security from its employees during the year under scrutiny.
- 33 The Company does not attract the provisions of Section 418 of the Companies Act, 1956.

Place: TRICHY - 3.  
Date : 27/05/2013

Name of Company Secretary : B.KALYANASUNDARAM  
C. P. No. : 2209.



## Annexure to Directors' Report (Contd.)

## Annexure A

**REGISTERS AS MAINTAINED BY THE COMPANY**

1. REGISTER OF MEMBERS U/S 150.
2. BOARD MEETING MINUTES BOOK U/S 193 AND ATTENDANCE.
3. SHAREHOLDERS' MEETING MINUTES BOOK U/S 193 AND ATTENDANCE.
4. REGISTER OF DIRECTORS, MANAGING DIRECTOR & SECRETARY U/S 303.
5. REGISTER OF CHARGES U/S 143
6. REGISTER OF DIRECTORS' DISCLOSURE U/S 301.
7. REGISTER OF DIRECTORS' SHARE HOLDINGS U/S 307.
8. REGISTER OF LOANS AND INVESTMENTS [U/S 372A]
9. BOOKS OF ACCOUNTS.

## Annexure B

**Forms and Returns as filed by the Company with the Ministry of Corporate Affairs:**

| FORM NO           | CHALLAN NO | DATE       | AMOUNT REMITTED<br>Rupees |
|-------------------|------------|------------|---------------------------|
| Form-23C          | S08858524  | 25/06/2012 | 2000                      |
| Form - 62         | B42315291  | 30/06/2012 | 500                       |
| Form 5 INV        | S11712684  | 31/07/2012 | 0                         |
| Form - 62         | B45330354  | 13/08/2012 | 500                       |
| Form - 66         | P88582077  | 23/08/2012 | 500                       |
| Form - 23         | B56104706  | 24/08/2012 | 500                       |
| Form 1 INV        | B57345266  | 11/09/2012 | 500                       |
| Form 5 INV        | S14074009  | 13/09/2012 | 0                         |
| Form 20B          | P89233530  | 02/10/2012 | 500                       |
| Form 25-C         | B59400796  | 11/10/2012 | 500                       |
| Form 25-C         | B59403733  | 11/10/2012 | 500                       |
| Form I- XBRL      | S20009809  | 25/01/2013 | 0                         |
| Form 8            | B66521865  | 26/01/2013 | 1500                      |
| Form 8            | B68115120  | 17/02/2013 | 500                       |
| FORM 23AC & 23ACA | Q07030380  | 26/02/2013 | 500                       |

Place: TRICHY - 3.  
Date : 27-05-2013

Name of Company Secretary : B.KALYANASUNDARAM  
C. P. No. : 2209.

**CORPORATE GOVERNANCE REPORT - Annexure to Directors' Report****1. Our Company's philosophy on corporate governance**

Our 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 ethical standards in financial policies, internal controls, constant attention towards high quality of its products and continuous upgrading of skill.
- Responsibility and responsiveness to stakeholders including shareholders, customers, vendors, 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 independent Directors, one executive Director and two non executive 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.

None of the Directors on the Board are members of more than ten Committees and Chairman of more than five 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 Directors have certified that the disqualifications mentioned under Section 274(1)(g) of the Companies Act, 1956 do not apply to them.

Non-executive Directors are entitled to sitting fees for every meeting of the Board or Committee thereof attended by them. 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.

**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 behavior. All the Directors and 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, 2013 are given below:

| Name of Director                                    | Number of other Companies' Directorship | Number of other Companies' Committees of which Member * | Number of shares of the company held as on 31-03-2013 |
|---|---|---|---|
| Sri R. Selvarajan<br>Chairman and Managing Director | 5                                       | -   | 7,78,330  |
| Sri S. Vijay Shankar<br>Joint Managing Director     | 1                                       | -   | 4,09,582  |
| Sri S. Devarajan                                    | 6                                       | 1   | 92,227  |
| Sri S. Sivakumar                                    | 2                                       | -   | 3,61,233 **   |
| Sri P.S. Ananthanarayanan                           | 1                                       | 1   | Nil   |
| Sri V. Mahadevan                                    | 2                                       | 2   | Nil   |
| Dr. V. Gopalan                                      | 2                                       | 1   | Nil   |
| Sri N. Asoka  | 2                                       | 2   | Nil   |

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

\*\* Jointly with relatives.

#### Audit Committee

The Audit Committee presently consists of four non executive independent Directors and one non-executive director. Dr. V. Gopalan, an independent Director, is the Chairman of the Audit Committee. Sri V. Mahadevan, Sri P.S. Ananthanarayanan and Sri N. Asoka, independent directors and Sri S. Devarajan, non-executive director, are members of the Audit Committee. The Chairman and Managing Director, Internal Auditor, Statutory Auditors and 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 to 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. The Committee also discusses the same with the internal auditors, meet the statutory auditors and discuss their findings, scope of audit, qualifications by auditors, if any, in the Annual Report, 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. Sri G. Chennakesavan, Chartered Accountant, is the internal auditor of the company. He conducts internal audit and reports directly to the Audit Committee of the Board.

#### Share Transfer Committee

The Share Transfer Committee has been 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 authorization 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 has been constituted to specifically look into the redressal of investors' complaints. This Committee looks into investor relations / grievances on a periodical basis. As on March 31, 2013, Sri N. Asoka, non-executive Independent Director is the chairman of the Committee. Sri S. Vijay Shankar, executive Director and Sri S. Sivakumar, 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. During the year 55 request letters were received from shareholders on routine matters and all these were dealt with satisfactorily.

#### Finance committee

The Finance Committee has been 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. The said Committee meets periodically and discusses financial matters relating to borrowings and deployment of funds. Minutes of the Committee meetings are circulated to all Directors and discussed at the Board meetings.

#### Remuneration Committee

The Remuneration committee has been 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, Dr. 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, 2013 are as under:

| Name of Director                                    | Board Meetings | Audit Committee Meetings | Share Transfer Committee Meetings | Investor Grievance Committee Meetings | Remuneration Committee Meeting | AGM held on 13th Aug 2012 | Directors Sitting Fees Rupees | Directors Remuneration Rupees |
|---|----------------|--------------------------|-----------------------------------|---------------------------------------|--------------------------------|---------------------------|-------------------------------|-------------------------------|
| Sri R. Selvarajan<br>Chairman and Managing Director | 4              | -                        | 9                                 | -                                     | -                              | 1                         | -                             | 36,00,000                     |
| Sri S. Vijay Shankar<br>Joint Managing Director     | 4              | -                        | 9                                 | 4                                     | -                              | 1                         | -                             | 24,00,000                     |
| Sri S. Devarajan                                    | 4              | 5                        | 9                                 | -                                     | -                              | 1                         | 1,40,000                      | -                             |
| Sri S. Sivakumar                                    | 2              | -                        | -                                 | 3                                     | -                              | 1                         | 20,000                        | -                             |
| Sri P.S. Ananthanarayanan                           | 3              | 4                        | -                                 | -                                     | 1                              | 1                         | 1,15,000                      | -                             |
| Sri V. Mahadevan                                    | 3              | 4                        | -                                 | -                                     | -                              | 1                         | 1,10,000                      | -                             |
| Dr. V. Gopalan                                      | 4              | 5                        | -                                 | -                                     | 1                              | 1                         | 1,45,000                      | -                             |
| Sri N. Asoka  | 4              | 5                        | -                                 | 4                                     | 1                              | 1                         | 1,45,000                      | -                             |

**Note :** Four Board meetings were held during the year on May 30, 2012, August 13, 2012, November 5, 2012 and on February 13, 2013. Five Audit Committee meetings were held during the year on April 15, 2012, May 29, 2012, August 12, 2012, November 4, 2012, and on February 12, 2013. Share Transfer Committee Meetings were held on May 30, 2012, August 13, 2012, November 5, 2012, December 10, 2012, December 13, 2012, February 5, 2013, February 19, 2013, March 5, 2013, and March 13, 2013 and Investors Grievance Committee meetings were held May 30, 2012, August 13, 2012, November 5, 2012 and February 13, 2013. Remuneration Committee Meeting was held on May 30, 2012.

#### 4 General Shareholder Information

- A** The 37<sup>th</sup> Annual General Meeting of the Company will be held August 14, 2013 at 11.30 a.m. at Sambandam Spinning Mills Limited mill Premises, Kamaraj Nagar Colony, Salem 636 014. The previous three Annual General meetings were held on the following dates:

| Year  | Date       | Time       | Venue  |
|-------|------------|------------|--|
| 20 10 | 12-08-2010 | 11.45 a.m. | Sambandam Spinning Mill's Premises, Kamaraj Nagar Colony, Salem 636 014. |
| 20 11 | 12-08-2011 | 11.45 a.m. | Sambandam Spinning Mill's Premises, Kamaraj Nagar Colony, Salem 636 014. |
| 20 12 | 13-08-2012 | 11.45 a.m. | Sambandam Spinning Mill's Premises, Kamaraj Nagar Colony, Salem 636 014. |

Two Special Resolutions were passed at the Annual General Meeting held on August 13, 2012 to approve the re-appointment and payment of remuneration to the Chairman and Managing Director and the Joint Managing Director of the Company.

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 August 6, 2013 to August 14, 2013 (both days inclusive).

#### **C** Financial Calendar for year 2013-14

Board meetings to be : August 2013, October/November 2013, held in 2013-14 January / February 2014 and May 2014

Annual General Meeting : AGM will be held in August/September, 2014

#### **D** Listing on Stock Exchanges

Annual Listing Fee has been paid and all requirements, including submission of quarterly reports and certificates of the stock exchanges, where the shares of the Company are listed were duly complied with. Shares of the Company are listed with the Bombay Stock Exchange Limited (Stock Code : 521242) and the Madras Stock Exchange Limited (Stock Code: KANDAGIRI). The Company's shares are also traded in the National Stock Exchange of India.

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 93.33% shares 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 are given below:

Cameo Corporate Services Limited Phone : 044-28460390 ( 5 Lines)  
Subramanian Building Fax no.:044-28460129  
No.1 Club house Road, Chennai 600 002. e-mail : investor@cameoindia.com

#### **F** Market Price (BSE) during the Period April 1, 2012 to March 31, 2013

| Month          | High (Rs.) | Low (Rs.) | Month         | High (Rs.) | Low (Rs.) |
|----------------|------------|-----------|---------------|------------|-----------|
| April 2012     | 84.85      | 64.00     | October 2012  | 74.70      | 61.90     |
| May 2012       | 78.25      | 58.10     | November 2012 | 82.00      | 65.05     |
| June 2012      | 75.00      | 63.25     | December 2012 | 76.85      | 64.10     |
| July 2012      | 62.40      | 53.55     | January 2013  | 82.80      | 67.70     |
| August 2012    | 64.50      | 49.00     | February 2013 | 89.30      | 67.00     |
| September 2012 | 76.80      | 59.55     | March 2013    | 84.95      | 66.55     |

#### **G** Means of Communication

The annual, half-yearly and quarterly results are regularly published in the English and vernacular national newspapers and are also posted on the Company's website at [www.kandagirimills.com](http://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 of the Company or to the Company at the following address:

Kandagiri Spinning Mills Limited Phone : 0427-2244400  
Post bag no.3, Udayapatti P.O. Fax no.:0427-224442  
Salem 636 140. e-mail: sales@kandagirimills.com  
ksmcs@kandagirimills.com

#### **H** Distribution of shareholding as on March 31, 2013

| Shares held     | Shareholders | %      | No. of shares | %      |
|-----------------|--------------|--------|---------------|--------|
| 1 - 5000        | 3131         | 98.06  | 5,50,778      | 14.31  |
| 5001 - 10000    | 21           | 0.66   | 1,57,080      | 4.08   |
| 10001 and above | 41           | 1.28   | 31,41,392     | 81.61  |
| Total           | 3193         | 100.00 | 38,49,250     | 100.00 |

#### **I** Shareholding pattern as on March 31, 2013

| Category               | No. of shares held | %      |
|------------------------|--------------------|--------|
| Indian Promoters       | 26,88,452          | 69.84  |
| Financial Institutions | —                  | —      |
| Bodies Corporate       | 1,52,631           | 3.97   |
| Non Resident Indians   | 1,430              | 0.04   |
| Indian Public          | 10,06,382          | 26.14  |
| Clearing Members       | 355                | 0.01   |
| Total                  | 38,49,250          | 100.00 |

#### **J** Pledge of shares

No pledge has been created over the equity shares held by the Promoters as on March 31, 2013.

**K Disclosures**

- (i) Details of transactions with 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 is 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. Tamil Nadu.  
 Unit - II Seshanchavadi P.O., Salem 636 111. Tamil Nadu.  
 Unit - III M. Perumapalayam Cross Road, Mettupatti P.O., Salem 636 111, Tamil Nadu.  
 Wind energy converters  
 Panangudi, Pazhavor, Udhayathoor and Parameshwarapuram villages, Radhapuram Taluk, Tirunelveli District, Tamil Nadu.  
 Melamaruthappapuram Village, Veerakeralam Pudur Taluk, Tirunelveli District, Tamil Nadu.  
 Gudimangalam Village, Udumalpet Taluk, Coimbatore District, Tamil Nadu.

**Auditors' certificate on compliance with the conditions of Corporate Governance under Clause 49 of the Listing Agreement****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, 2013 as stipulated in clause 49 of the listing agreement 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  
Registration No.01554S

R.Krishnen - Partner  
Membership No.201133

Salem  
May 27, 2013

**Independent Auditors' Report****To the members of Kandagiri Spinning Mills Limited****Report on the Financial Statements**

We have audited the accompanying financial statements of *Kandagiri Spinning Mills Limited* ("the Company"), which comprise the Balance Sheet as at March 31, 2013, the Statement of Profit and loss and the Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956 ("the Act") and in accordance with the accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatements, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Balance sheet, of the state of affairs of the Company as at March 31, 2013;
- (b) in the case of the Statement of Profit and loss, of the profit of the Company for the year ended on that date; and
- (c) in the case of the Cash flow statement, of the cash flows of the Company for the year ended on that date.

**Report on Other Legal and Regulatory Requirements**

- 1 As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of section 227(4A) of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

**2 As required by Section 227(3) of the Act, we report that:**

- (a) 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;
- (b) 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;
- (c) the Balance Sheet, Statement of Profit and Loss, and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
- (d) in our opinion, the Balance sheet, Statement of Profit and Loss, and the Cash Flow Statement comply with the Accounting Standards referred to in section 211(3C) of the Act;
- (e) on the basis of written representation received from the directors as on March 31, 2013 and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2013 from being appointed as a director in terms of section 274(1)(g) of the Act.

Salem  
May 27, 2013

For M.S. Krishnaswami & Rajan  
Chartered Accountants  
Registration No.01554S  
R. Krishnen-Partner  
Membership No.201133

**Annexure to the Independent Auditors' Report**

Referred to in paragraph 1 under 'Report on Other Legal and Regulatory Requirements' section of our report of even date

On the basis of such checks as we considered appropriate and according to the information and explanations given to us during the course of our audit, we report that:

- 1 (i) the company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.  
(ii) the fixed assets are being physically verified under a phased programme of verification, which, in our opinion, is reasonable having regard to the nature and value of its fixed assets. However, no material discrepancies have been noticed during the year on such verification.  
(iii) The company has not disposed off substantial part of its fixed assets during the year.
- 2 (i) inventories have been physically verified during the year by the management at reasonable intervals.  
(ii) 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.  
(iii) in our opinion, the company is generally maintaining proper records of its inventories and no material discrepancies were noticed on physical verification.
- 3 on the basis of our examination of the books of account, the Company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties covered in the register maintained under section 301 of the Act.
- 4 In our opinion, there is generally an adequate internal control system commensurate with the size of the company and the nature of its business, for the purchase of inventories and fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the company, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
- 5 (i) based on the audit procedures applied by us, the particulars of contracts or arrangements referred to in Section 301 of the Act that needed to be entered into the register, maintained under the said section have been so entered.  
(ii) where each of such transactions is in excess of Rs.5 lakhs in respect of any party, the transactions have been made at prices which are prima facie reasonable having regard to the prevailing market prices at the relevant time.

- 6 The company has complied with the directives issued by the Reserve Bank of India and 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.
- 7 In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
- 8 We have broadly reviewed the cost records maintained by the Company pursuant to the Companies (Cost Accounting Records) Rules, 2011 prescribed by the Central Government of India under section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and cost records have been made and maintained. We have, however, not made a detailed examination of the cost records with a view to determine whether they are accurate or complete.
- 9 (i) the Company is generally regular in depositing 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 during the year.  
(ii) no undisputed amounts payable in respect of statutory dues were outstanding as at March 31, 2013 for a period of more than six months from the date they became payable.  
(iii) 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. Details of dues towards sales tax that have not been deposited on account of any dispute, for which stay has been obtained, are (Nature of dues, dues, period to which the amount relates, forum where dispute is pending) - Sales tax, Rs.35,909, Financial year 2000-01, Sales tax Appellate Tribunal.
- 10 The Company have an accumulated losses of Rs.6,43,82,548 as at March 31, 2013 and Rs.12,29,09,661 as at March 31, 2012 and has not incurred any cash loss during the financial year ended March 31, 2013 and has incurred a cash loss of Rs.12,05,17,177 in the immediately preceding financial year.
- 11 In our opinion, the company has not defaulted in repayment of dues to any financial institution, bank or debenture holders during the year.
- 12 The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities during the year.
- 13 The company is not a chit fund or a Nidhi/mutual benefit fund/society. Accordingly the provisions of clause 4 (xiii) of the CARO are not applicable to the company.
- 14 The company is not dealing or trading in shares, securities, debentures and other investments. Accordingly the provisions of clause 4(xiv) of the CARO are not applicable to the company.
- 15 The company has not given any guarantees for loans taken by others from banks or financial institutions.
- 16 The term loans availed by the company were, prima facie, applied for the purpose for which they were obtained.
- 17 On an overall examination of the financial statements of the company, funds raised on short-term basis have, prima facie, not been used for long term investment.
- 18 The company has not made any preferential allotment of shares during the year.
- 19 The company has not issued any debentures during the year.
- 20 The company has not raised any money by public issues during the year.
- 21 Based on the audit procedures performed and considering the size and nature of the company's operations, no fraud of material significance on or by the company has been noticed or reported during the year.

Salem  
May 27, 2013

For M.S. Krishnaswami & Rajan  
Chartered Accountants  
Registration No.01554S  
R. Krishnen-Partner  
Membership No.201133

## KANDAGIRI SPINNING MILLS LIMITED

| Balance Sheet as at March 31, 2013 |          |                                |                                |                                |
|------------------------------------|----------|--------------------------------|--------------------------------|--------------------------------|
| Particulars                        | Note No. | As at March 31, 2013<br>Rupees | As at March 31, 2012<br>Rupees | As at March 31, 2012<br>Rupees |
| <b>EQUITY AND LIABILITIES</b>      |          |                                |                                |                                |
| <b>Shareholders' funds</b>         |          |                                |                                |                                |
| Share capital                      | 1.1      | 3,85,74,500                    |                                | 3,85,74,500                    |
| Reserves and surplus               | 1.2      | 42,73,22,911                   |                                | 37,16,85,045                   |
| <b>Non-current liabilities</b>     |          |                                | 46,58,97,411                   | 41,02,59,545                   |
| Long-term borrowings               | 1.3      | 50,04,10,648                   |                                | 49,84,01,687                   |
| Deferred tax liabilities (net)     | 1.4      | 14,24,25,167                   |                                | 11,81,25,167                   |
| Long-term provisions               | 1.5      | 1,26,55,568                    |                                | 1,20,35,842                    |
| <b>Current liabilities</b>         |          |                                | 65,54,91,383                   | 62,85,62,696                   |
| Short-term borrowings              | 1.6      | 34,27,25,037                   |                                | 49,85,56,503                   |
| Trade payables                     | 1.7      | 4,37,53,617                    |                                | 2,03,26,541                    |
| Other current liabilities          | 1.8      | 17,88,57,103                   |                                | 15,43,51,638                   |
| Short-term provisions              | 1.9      | 4,52,656                       |                                | 3,61,654                       |
|                                    |          |                                | 56,57,88,413                   | 67,35,96,336                   |
| <b>TOTAL</b>                       |          |                                | <b>168,71,77,207</b>           | <b>171,24,18,577</b>           |
| <b>ASSETS</b>                      |          |                                |                                |                                |
| <b>Non-current assets</b>          |          |                                |                                |                                |
| <b>Fixed assets</b>                |          |                                |                                |                                |
| Tangible assets                    | 1.10     | 111,58,91,029                  |                                | 119,13,20,667                  |
| Capital work-in-progress           | 1.10     | -                              |                                | -                              |
|                                    |          | 111,58,91,029                  |                                | 119,13,20,667                  |
| Non-current investments            | 1.11     | 2,45,00,000                    |                                | 2,45,00,000                    |
| Long-term loans and advances       | 1.12     | 8,94,09,282                    |                                | 9,79,04,667                    |
| Other non-current assets           | 1.13     | 10,41,383                      |                                | 82,722                         |
| <b>Current assets</b>              |          |                                | 123,08,41,694                  | 131,38,08,056                  |
| Inventories                        | 1.14     | 28,29,08,007                   |                                | 20,15,33,110                   |
| Trade receivables                  | 1.15     | 13,55,82,180                   |                                | 10,61,58,191                   |
| Cash and cash equivalents          | 1.16     | 98,08,074                      |                                | 6,52,53,219                    |
| Short-term loans and advances      | 1.17     | 1,95,13,781                    |                                | 97,69,797                      |
| Other current assets               | 1.18     | 85,23,471                      |                                | 1,58,96,204                    |
|                                    |          |                                | 45,63,35,513                   | 39,86,10,521                   |
| <b>TOTAL</b>                       |          |                                | <b>168,71,77,207</b>           | <b>171,24,18,577</b>           |

Statement on Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Balance Sheet

Per our report of even date  
For M.S. Krishnaswami & Rajan  
Chartered Accountants  
R. Krishnen - Partner  
Salem  
May 27, 2013

For and on behalf of the board  
R. Selvarajan  
Chairman and Managing Director  
S. Devarajan  
Director  
S. Vijay Shankar  
Joint Managing Director

Thirty Seventh Annual Report

24

## KANDAGIRI SPINNING MILLS LIMITED

| Statement of Profit and Loss for the year ended March 31, 2013 |          |   |   |   |
|--|----------|---|---|---|
| Particulars  | Note No. | For the year ended March 31, 2013<br>Rupees | For the year ended March 31, 2012<br>Rupees | For the year ended March 31, 2012<br>Rupees |
| <b>Income</b>  |          |   |   |   |
| Revenue from operations  | 2.1      | 160,53,74,916                               |   | 126,37,97,492                               |
| Other income   | 2.2      | 24,51,182                                   |   | 27,90,898                                   |
| <b>Total Revenue</b>   |          |   | 160,78,26,098                               | 126,65,88,390                               |
| <b>Expenses</b>  |          |   |   |   |
| Cost of materials consumed                                     | 2.3      | 85,69,68,930                                |   | 86,46,60,553                                |
| Changes in inventories of finished goods and stock-in-trade    | 2.4      | 45,50,065                                   |   | 6,11,51,960                                 |
|  |          | 86,15,18,995                                |   | 92,58,12,513                                |
| Employee benefits expense                                      | 2.5      | 15,72,34,812                                |   | 12,26,95,106                                |
| Finance costs  | 2.6      | 12,37,20,355                                |   | 13,98,86,029                                |
| Depreciation and amortization expense                          | 2.7      | 8,20,95,218                                 |   | 8,02,71,839                                 |
| Other expenses   | 2.8      | 30,04,29,605                                |   | 19,87,11,919                                |
| <b>Total Expenses</b>  |          |   | 152,49,98,985                               | 146,73,77,406                               |
| <b>Profit/(Loss) before tax</b>                                |          |   | 8,28,27,113                                 | (20,07,89,016)                              |
| <b>Tax expense:</b>  |          |   |   |   |
| Current tax  |          | -   |   | -   |
| Deferred tax   |          | 2,43,00,000                                 |   | (7,10,00,000)                               |
|  |          | 2,43,00,000                                 |   | (7,10,00,000)                               |
| <b>Profit/(Loss) for the year after tax</b>                    |          |   | 5,85,27,113                                 | (12,97,89,016)                              |
| <b>Earnings per Equity share (Face value Rs.10)</b>            |          |   |   |   |
| Basic and Diluted (in Rs.)                                     |          |   | 15.20                                       | (33.72)                                     |

Statement on Significant Accounting Policies and Notes to the Financial Statements are an integral part of Profit & Loss

Per our report of even date  
For M.S. Krishnaswami & Rajan  
Chartered Accountants  
R. Krishnen - Partner  
Salem  
May 27, 2013

For and on behalf of the board  
R. Selvarajan  
Chairman and Managing Director  
S. Devarajan  
Director  
S. Vijay Shankar  
Joint Managing Director

Thirty Seventh Annual Report

25



## KANDAGIRI SPINNING MILLS LIMITED

## Cash Flow Statement for the year ended March 31, 2013

|   | As at March 31, 2013<br>Rupees | As at March 31, 2012<br>Rupees |
|---|--------------------------------|--------------------------------|
| <b>1. Cash flows from operating activities</b>                          |                                |                                |
| 1.1 Profit/(loss) before tax and exceptional item                       | 8,28,27,113                    | (20,07,89,016)                 |
| 1.2 Adjustment for  |                                |                                |
| Depreciation and amortisation   | 8,20,95,218                    | 8,02,71,839                    |
| Deferred revenue expenditure - amortised                                | (9,58,661)                     | 2,69,566                       |
| - incurred  |                                |                                |
| Unrealised foreign exchange losses/(gains)                              | 5,36,365                       | -                              |
| Amount considered under investing activities                            |                                |                                |
| (Profit)/Loss on disposal of assets                                     | (2,31,259)                     | (59,737)                       |
| Income from investments   | -                              | (1,80,000)                     |
| Amount considered under financing activities                            |                                |                                |
| Interest paid   | 12,14,20,707                   | 13,05,03,311                   |
| Interest received   | (21,44,873)                    | (13,70,235)                    |
| 1.3 Operating profit before working capital changes                     | 28,35,44,610                   | 86,45,728                      |
| 1.4 Adjustment for changes in   |                                |                                |
| Increase / (Decrease) in trade payables                                 | 2,34,27,076                    | (15,35,65,395)                 |
| Increase / (Decrease) in long term provisions                           | 6,19,726                       | 2,88,741                       |
| Increase / (Decrease) in short term provisions                          | 91,002                         | (25,049)                       |
| Increase / (Decrease) in other current liabilities                      | (1,51,89,961)                  | 93,36,979                      |
| Decrease / (Increase) in trade receivables                              | (2,94,23,989)                  | 8,02,27,135                    |
| Decrease / (Increase) in inventories                                    | (8,13,74,897)                  | 42,07,02,673                   |
| Decrease / (Increase) in long term advances                             | 88,29,318                      | (1,51,65,718)                  |
| Decrease / (Increase) in short term advances                            | (97,43,984)                    | 47,44,298                      |
| Decrease / (Increase) in other current assets                           | 75,66,217                      | 81,77,759                      |
| 1.5 Cash generated from operating activities                            | 18,83,45,118                   | 36,33,67,151                   |
| 1.6 Income tax paid/(refund)  | (3,13,933)                     | (7,23,011)                     |
| <b>Net cash flow from operating activities before exceptional items</b> | <b>18,80,31,185</b>            | <b>36,26,44,140</b>            |
| Exceptional items   | -                              | -                              |
| <b>Net cash flow from operating activities [A]</b>                      | <b>18,80,31,185</b>            | <b>36,26,44,140</b>            |

Thirty Seventh Annual Report

26

## KANDAGIRI SPINNING MILLS LIMITED

## Cash Flow Statement for the year ended March 31, 2013 (Contd.)

|  | As at March 31, 2013<br>Rupees | As at March 31, 2012<br>Rupees |
|--|--------------------------------|--------------------------------|
| <b>2. Cash flows from investing activities</b>                                     |                                |                                |
| 2.1 Purchase of tangible assets, intangible assets, CWIP and capital advances      | (1,07,35,757)                  | (1,18,05,117)                  |
| 2.2 Proceeds from sale of tangible assets  | 13,92,190                      | 3,47,981                       |
| 2.3 Refund of terminal excise duty   | -                              | -                              |
| 2.4 Investment in equity shares  | -                              | -                              |
| 2.5 Interest received  | 21,44,873                      | 13,70,235                      |
| 2.6 Dividend received  | -                              | 1,80,000                       |
| 2.7 Changes in Advances (Net)  |                                |                                |
| <b>Net cash flow used in investing activities [B]</b>                              | <b>(71,98,694)</b>             | <b>(99,06,901)</b>             |
| <b>3. Cash flow from financing activities</b>                                      |                                |                                |
| 3.1 Proceeds from long term borrowings   | 15,88,00,000                   | 21,30,000                      |
| 3.2 Repayments of long term borrowings   | (11,70,95,613)                 | (11,03,68,439)                 |
| 3.3 Proceeds from short term borrowings  | 4,91,19,871                    | 5,00,00,000                    |
| 3.4 Repayments of short term borrowings  | (5,00,00,000)                  | (24,72,56,838)                 |
| 3.5 Interest paid - Net  | (12,14,20,707)                 | (13,05,03,311)                 |
| 3.6 Dividend paid on equity shares   | -                              | (76,98,500)                    |
| 3.7 Dividend Tax paid on equity dividend paid                                      | -                              | (12,48,889)                    |
| <b>Net cash flow from financing activities [C]</b>                                 | <b>(8,05,96,449)</b>           | <b>(44,49,45,977)</b>          |
| <b>Net cash inflow / (outflow) [A+B+C]</b>   | <b>10,02,36,042</b>            | <b>(9,22,08,738)</b>           |
| <b>Opening cash and cash equivalents</b>   | <b>(38,43,75,902)</b>          | <b>(29,21,67,164)</b>          |
| <b>Closing cash and cash equivalents</b>   | <b>(28,41,39,860)</b>          | <b>(38,43,75,902)</b>          |
| <b>Net increase / (decrease) in cash and cash equivalents</b>                      | <b>10,02,36,042</b>            | <b>(9,22,08,738)</b>           |
| <b>Notes to the cash flow statement</b>  |                                |                                |
| Components of cash and cash equivalents:   |                                |                                |
| Cash and bank balances, cash credit excluding those relating to unclaimed dividend | (28,46,76,225)                 | (38,43,75,902)                 |
| Unrealised foreign exchange loss - net   | 5,36,365                       | -                              |
|  | <b>(28,41,39,860)</b>          | <b>(38,43,75,902)</b>          |

Per our report of even date  
For M.S. Krishnaswami & Rajan  
Chartered Accountants  
R. Krishnen - Partner  
Salem  
May 27, 2013

For and on behalf of the board  
R. Selvarajan  
Chairman and Managing Director  
S. Devarajan  
Director  
S. Vijay Shankar  
Joint Managing Director

Thirty Seventh Annual Report

27

**Statement on Significant Accounting Policies forming part of the Financial Statements for the year ended March 31, 2013**

1. **Basis of preparation of financial statements** - The financial statements are prepared in accordance with the generally accepted accounting standards referred to in Section 211(3C) of the Companies Act, 1956, under historical cost convention except in so far as they relate to revaluation of net assets.  
  
All assets and liabilities have been classified as current or non-current as per the company's normal operating cycle and other criteria set out in the revised schedule VI to the Companies Act, 1956. Based on the nature of products and the time between the acquisition of assets for processing and their realization in cash and cash equivalents, the company has determined its operating cycle as twelve months for the purpose of current and non-current classification of assets and liabilities.
2. **Use of estimates** - The preparation of the 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** - Revenue from sale of products is recognized on despatch of goods to customers in accordance with the terms of sales. Revenue from services is recognized in accordance with the specific terms of contract on performance. Other operating revenues comprise of income from ancillary activities incidental to the operations of the company and is recognized when the right to receive the income is established as per the terms of the contract.
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.

**Statement on Significant Accounting Policies forming part of the Financial Statements for the year ended March 31, 2013 (contd.)**

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. Cost of structures on leasehold land, where the estimated useful life is more than ten years, is capitalized.
7. **Depreciation/amortization** - Fixed assets are depreciated/amortised (i) 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** - Non-current investments are stated at cost. However, provision for diminution is made to recognize a decline, other than temporary, in the value of the investment, if any. Current investments are valued at lower of cost and fair value.
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 concerned asset. Cenvat credit relating to capital assets acquired is treated as capital reserve and amortised over the useful life of the concerned assets by transfer 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. **Amortisation of loan raising expenditure** - Major revenue expenditure incurred by way of/in connection with raising of borrowing is amortised over the period of the borrowings.
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, where the same represents cost of plant, machinery, equipment and other tangible assets, if any, is given the same accounting treatment as applicable to other capital expenditure.
14. **Deferred tax** - 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. 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 possible obligation or a present obligation where the likelihood of outflow of resources is remote, no provision or disclosure is made.

## Notes annexed to and forming part of the Financial Statements

|   | As at March 31, 2013<br>Rupees  | As at March 31, 2012<br>Rupees |
|---|---|--------------------------------|
| <b>1.1 Share Capital</b>  |   |                                |
| <b>Authorised</b>   |   |                                |
| 50,00,000 (2012 : 50,00,000) Equity shares of Rs.10 each                                  | 5,00,00,000   | 5,00,00,000                    |
| <b>Issued</b>   |   |                                |
| 38,65,650 (2012 : 38,65,650) Equity shares of Rs.10 each                                  | 3,86,56,500   | 3,86,56,500                    |
| <b>Subscribed</b>   |   |                                |
| 38,49,250 (2012 : 38,49,250) Equity shares of Rs.10 each fully paid                       | 3,84,92,500   | 3,84,92,500                    |
| Add Forfeited shares (amount originally paid up in respect of 16,400 equity shares)       | 82,000  | 82,000                         |
|   | <u>3,85,74,500</u>  | <u>3,85,74,500</u>             |
| <b>Notes :</b>  |   |                                |
| 1. Shareholders holding more than 5% of the total share capital:                          |   |                                |
| Name of the shareholder   | No. of shares   |                                |
|   | 2013 % 2012 %   |                                |
| R. Selvarajan   | 7,78,330 20.22 7,78,330 20.22   |                                |
| S. Vijay Shankar  | 4,09,582 10.64 4,09,582 10.64   |                                |
| S. Sivakumar  | 2,78,033 7.22 2,78,033 7.22   |                                |
| 2. Rights and restrictions in respect of equity shares                                    | The rights, preferences and restrictions of holders of Equity shares are governed by / in terms of their issue under the provisions of the Companies Act, 1956. |                                |
| <b>1.2 Reserves and Surplus</b>   |   |                                |
| a) Securities Premium as at the beginning and end of the year                             | 5,48,61,631   | 5,48,61,631                    |
| b) Revaluation Reserve  |   |                                |
| As at the beginning of the year   | 22,22,33,075  | 22,51,22,322                   |
| Transfer to Statement of Profit and Loss (refer note no.3.15 to the Financial Statements) | 28,89,247   | 28,89,247                      |
| As at the end of the year   | 21,93,43,828  | 22,22,33,075                   |
| c) General Reserve  |   |                                |
| As at the beginning of the year   | 21,75,00,000  | 21,75,00,000                   |
| Transfer from Statement of Profit and Loss  | -   | -                              |
| As at the end of the year   | 21,75,00,000  | 21,75,00,000                   |
| d) Surplus/(Deficit) - balance in Statement of Profit and Loss                            |   |                                |
| As at the beginning of the year   | (12,29,09,661)  | 68,79,355                      |
| Current year profit/(loss)  | 5,85,27,113   | (12,97,89,016)                 |
| As at the end of the year   | (6,43,82,548)   | (12,29,09,661)                 |
|   | <u>42,73,22,911</u>   | <u>37,16,85,045</u>            |

## Notes annexed to and forming part of the Financial Statements

|  | As at<br>March 31, 2013<br>Rupees | As at<br>March 31, 2012<br>Rupees |
|--|-----------------------------------|-----------------------------------|
| <b>1.3 Long term borrowings</b>  |                                   |                                   |
| Secured - Term loans from banks  | 47,15,86,148                      | 44,60,65,687                      |
| Unsecured - Fixed deposits   | 2,88,24,500                       | 5,23,36,000                       |
| <b>Notes :</b>   | <u>50,04,10,648</u>               | <u>49,84,01,687</u>               |
| i) Refer note no.3.16 to the Financial Statements for the terms the loans                            |                                   |                                   |
| ii) Fixed deposits includes deposits from directors Rs.2,67,15,000 (2012 : Rs.3,12,65,000)           |                                   |                                   |
| <b>1.4 Deferred tax liabilities (net)</b>  |                                   |                                   |
| Deferred tax liabilities   |                                   |                                   |
| - Timing differences on account of depreciation  | 17,04,24,957                      | 18,13,14,765                      |
| Deferred tax assets  |                                   |                                   |
| - Unabsorbed tax depreciation and loss   | 2,37,95,927                       | 5,91,91,592                       |
| - Provision for employees benefit  | 42,03,863                         | 39,98,006                         |
|  | <u>14,24,25,167</u>               | <u>11,81,25,167</u>               |
| <b>1.5 Long term provisions</b>  |                                   |                                   |
| Provision for employee benefit   |                                   |                                   |
| Compensated absences   | 1,26,55,568                       | 1,20,35,842                       |
|  | <u>1,26,55,568</u>                | <u>1,20,35,842</u>                |
| <b>1.6 Short term borrowings</b>   |                                   |                                   |
| <b>Secured from banks</b>  |                                   |                                   |
| Cash credit facilities   | 29,36,05,166                      | 44,85,56,503                      |
| Goods loan facilities  | -                                 | 5,00,00,000                       |
| Buyer's credit facilities  | 4,91,19,871                       | -                                 |
|  | <u>34,27,25,037</u>               | <u>49,85,56,503</u>               |
| <b>Notes :</b>   |                                   |                                   |
| Refer note no.3.16 to the Financial Statements for the terms the loans                               |                                   |                                   |
| <b>1.7 Current Liabilities - Trade payables</b>  |                                   |                                   |
| Trade payables - including acceptances   |                                   |                                   |
| Micro, Small and Medium enterprises  | 6,05,728                          | 62,602                            |
| Other trade payables   | 4,31,47,889                       | 2,02,63,939                       |
|  | <u>4,37,53,617</u>                | <u>2,03,26,541</u>                |
| <b>1.8 Other current liabilities</b>   |                                   |                                   |
| Current maturities of Long term debts  | 16,23,62,900                      | 12,26,67,474                      |
| Interest accrued but not due on borrowings   | 2,38,865                          | -                                 |
| Interest accrued and due on borrowings   | 72,48,767                         | 86,38,733                         |
| Unclaimed dividends  | 8,78,977                          | 10,72,618                         |
| Other payables   | 81,27,594                         | 2,19,72,813                       |
|  | <u>17,88,57,103</u>               | <u>15,43,51,638</u>               |
| <b>Notes :</b>   |                                   |                                   |
| i) Refer note no.3.16 to the Financial Statements for terms of current maturities of long term debts |                                   |                                   |
| ii) Other payables include :   |                                   |                                   |
| - contribution payable to Gratuity Fund  | 14,38,982                         | 41,17,236                         |
| - capital creditors  | 9,16,000                          | 11,12,541                         |
| - advance from customers   | 29,30,354                         | 1,16,86,228                       |
| - sales tax payable  | 15,17,924                         | 34,50,880                         |
| <b>1.9 Short term provisions</b>   |                                   |                                   |
| Provision for employee benefit   |                                   |                                   |
| Compensated absences   | 4,52,656                          | 3,61,654                          |
|  | <u>4,52,656</u>                   | <u>3,61,654</u>                   |

| Notes annexed to and forming part of the Financial Statements (Contd.) |                              |                    |                  |                                      |                     |                              |                            |                      |                      |
|--|------------------------------|--------------------|------------------|--------------------------------------|---------------------|------------------------------|----------------------------|----------------------|----------------------|
| Rupees   |                              |                    |                  |                                      |                     |                              |                            |                      |                      |
| Description  | Gross block (Cost/valuation) |                    |                  | Depreciation/amortisation/impairment |                     |                              | NET BLOCK                  |                      |                      |
|  | As on<br>01.04.2012          | Additions          | Deductions       | As on<br>31.03.2013                  | Upto<br>31.03.2012  | Charge<br>during the<br>year | Deductions/<br>Adjustments | Upto<br>31.03.2013   | As on<br>31.03.2012  |
| Land - freehold  | 16,14,57,056                 |                    |                  | 16,14,57,056                         |                     |                              |                            |                      | 16,14,57,056         |
| Buildings  | 38,02,10,458                 | 38,92,315          |                  | 38,41,02,773                         | 7,94,68,270         | 1,55,99,112                  |                            | 9,50,67,382          | 28,90,35,391         |
| Plant and machinery  | 107,72,12,196                | 33,36,516          |                  | 108,05,48,712                        | 57,87,40,552        | 4,21,52,697                  |                            | 62,08,93,249         | 49,84,71,644         |
| Wind energy converters   | 48,14,81,624                 |                    |                  | 48,14,81,624                         | 26,38,17,136        | 2,49,09,720                  |                            | 28,87,26,856         | 21,76,64,488         |
| Furniture and fittings   | 23,92,579                    |                    |                  | 23,92,579                            | 15,19,851           | 1,50,260                     |                            | 16,70,111            | 8,72,728             |
| Vehicles   | 1,88,72,354                  | 31,80,319          | 34,10,560        | 1,86,42,113                          | 82,32,991           | 19,03,808                    | 22,49,630                  | 78,87,169            | 1,06,39,363          |
| Office Equipment   | 27,87,177                    | 3,06,607           |                  | 30,93,784                            | 15,40,918           | 2,68,868                     |                            | 18,09,786            | 12,46,259            |
| Live stock   | 2,26,941                     |                    |                  | 2,26,941                             |                     |                              |                            |                      | 2,26,941             |
| <b>SUB TOTAL</b>   | <b>212,46,40,385</b>         | <b>1,07,15,757</b> | <b>34,10,560</b> | <b>213,19,45,582</b>                 | <b>93,33,19,718</b> | <b>8,49,84,465</b>           | <b>22,49,630</b>           | <b>101,60,54,553</b> | <b>111,58,91,029</b> |
| Less:  |                              |                    |                  |                                      |                     |                              |                            |                      |                      |
| Transfer from Revaluation Reserve pertaining to Building               |                              |                    |                  |                                      |                     | 28,89,247                    |                            |                      |                      |
| <b>TOTAL</b>   | <b>212,46,40,385</b>         | <b>1,07,15,757</b> | <b>34,10,560</b> | <b>213,19,45,582</b>                 | <b>93,33,19,718</b> | <b>8,20,95,218</b>           | <b>22,49,630</b>           | <b>101,60,54,553</b> | <b>111,58,91,029</b> |
| Previous year  | 209,94,01,746                | 2,60,91,319        | 8,52,880         | 212,46,40,385                        | 85,07,23,068        | 8,02,71,839                  | 5,64,436                   | 93,33,19,718         | 119,13,20,667        |
| Capital work in progress   |                              |                    |                  |                                      |                     |                              |                            |                      |                      |
| Previous year  |                              |                    |                  |                                      |                     |                              |                            |                      | 8304599              |

Notes :

i) Gross block includes Rs.23,09,00,807 added on revaluation of land and buildings as at March 31, 2009 based on report by an external valuer.

ii) Deductions under plant and machinery includes refund of terminal excise duty under Export Promotion Capital Goods Scheme, of Rs.Nil (2012 : Rs. Nil)

iii) Borrowing cost capitalised - 2013 Rs. Nil (2012 Rs. Nil)

## Notes annexed to and forming part of the Financial Statements (Contd.)

|  | As at<br>March 31, 2013<br>Rupees | As at<br>March 31, 2012<br>Rupees |
|--|-----------------------------------|-----------------------------------|
| <b>1.11 Non-Current Investments</b>  |                                   |                                   |
| <b>Non-Trade Investments</b>   |                                   |                                   |
| Investments in Equity instruments  |                                   |                                   |
| i) Associates  |                                   |                                   |
| 20,00,000 (2012 : 20,00,000) Equity shares of Rs.10 each in<br>SPMM Health Care Services Private Limited | 2,00,00,000                       | 2,00,00,000                       |
| ii) Others   |                                   |                                   |
| 90,000 (2012 : 90,000) Equity shares of Rs.10 each in<br>Sambandam Spinning Mills Limited #              | 45,00,000                         | 45,00,000                         |
|  | <b>2,45,00,000</b>                | <b>2,45,00,000</b>                |
| Notes :  |                                   |                                   |
| i) All investments are fully paid-up   |                                   |                                   |
| ii) Quoted investments (#) - Cost  | 45,00,000                         | 45,00,000                         |
| - Market value   | 64,26,000                         | 60,03,000                         |
| iii) Unquoted investments - Cost   | 2,00,00,000                       | 2,00,00,000                       |
| <b>1.12 Long term Loans and advances</b>   |                                   |                                   |
| Unsecured, considered good   |                                   |                                   |
| Capital advances   | 61,16,756                         | 60,96,756                         |
| Security deposits  | 1,59,14,072                       | 2,47,60,040                       |
| Other loans and advances   |                                   |                                   |
| - employee advances  | 23,000                            | 6,350                             |
| - Sales tax, ESI and others paid under protest   | 1,11,22,616                       | 1,11,22,616                       |
| - Advance income tax (net of provisions)   | 25,54,604                         | 22,40,671                         |
| - MAT credit entitlement   | 5,36,78,234                       | 5,36,78,234                       |
|  | <b>8,94,09,282</b>                | <b>9,79,04,667</b>                |
| <b>1.13 Other Non-current assets</b>   |                                   |                                   |
| Unamortised loan raising expenses  | 10,41,383                         | 82,722                            |
|  | <b>10,41,383</b>                  | <b>82,722</b>                     |
| <b>1.14 Inventories</b>  |                                   |                                   |
| Raw materials - Cotton   | 11,97,08,939                      | 3,58,09,594                       |
| Work-in-progress - Cotton in process   | 10,07,63,879                      | 9,75,14,510                       |
| Finished goods - Yarn  | 4,79,95,576                       | 5,38,34,895                       |
| - Process waste  | 76,63,889                         | 96,24,004                         |
| Stores and spares  | 67,75,724                         | 47,50,107                         |
|  | <b>28,29,08,007</b>               | <b>20,15,33,110</b>               |

## KANDAGIRI SPINNING MILLS LIMITED

## Notes annexed to and forming part of the Financial Statements (Contd.)

|  | As at<br>March 31, 2013<br>Rupees | As at<br>March 31, 2012<br>Rupees |
|--|-----------------------------------|-----------------------------------|
| <b>1.15 Trade receivables</b>  |                                   |                                   |
| Unsecured, considered good   |                                   |                                   |
| Trade receivables  |                                   |                                   |
| Outstanding for more than six months from the date they are due for payment        | 31,78,727                         | 16,18,468                         |
| Others   | 13,24,03,453                      | 10,45,39,723                      |
|  | <u>13,55,82,180</u>               | <u>10,61,58,191</u>               |
| <b>1.16 Cash and cash equivalents</b>  |                                   |                                   |
| Balances with banks in Current account   | 12,42,823                         | 5,94,51,265                       |
| Cash on hand   | 6,96,082                          | 8,96,014                          |
| Earmarked balances with Banks - Unclaimed dividend accounts                        | 8,79,133                          | 10,72,618                         |
| - Liquid assets deposits *   | 6,93,665                          | 18,03,051                         |
| Deposits with Banks held as margin money   | 62,96,371                         | 20,30,271                         |
| * under Companies (Acceptance of Deposits) Rules, 1975                             | <u>98,08,074</u>                  | <u>6,52,53,219</u>                |
| Of the above   |                                   |                                   |
| Bank deposits with more than 12 months maturities Rs.59,51,949 (2012 Rs.29,85,018) |                                   |                                   |
| <b>1.17 Short-term loans and advances</b>  |                                   |                                   |
| Unsecured, considered good   |                                   |                                   |
| Material advances  | 64,69,198                         | 33,70,440                         |
| Employee advances  | 2,19,450                          | 2,12,848                          |
| Other receivables  | 1,28,25,133                       | 61,86,509                         |
| Of the above,  | <u>1,95,13,781</u>                | <u>97,69,797</u>                  |
| Other receivables include :  |                                   |                                   |
| - VAT credit   | 6,99,280                          | 3,57,441                          |
| - Prepaid expenses   | 54,82,847                         | 42,60,699                         |
| <b>1.18 Other current assets</b>   |                                   |                                   |
| Interest accrued on deposits   | 2,51,144                          | 10,78,679                         |
| Interest subsidy receivable  | 67,99,763                         | 1,42,35,352                       |
| Export incentive receivable  | 10,42,718                         | 3,12,607                          |
| Unamortised loan raising expenses  | 4,29,846                          | 2,69,566                          |
|  | <u>85,23,471</u>                  | <u>1,58,96,204</u>                |

## KANDAGIRI SPINNING MILLS LIMITED

## Notes annexed to and forming part of the Financial Statements (Contd.)

|  | For the year ended<br>March 31, 2013<br>Rupees | For the year ended<br>March 31, 2012<br>Rupees |
|--|--|--|
| <b>2.1 Revenue from operations</b>                                       |  |  |
| Sale of products   |  |  |
| Yarn   | 153,77,43,194                                  | 120,33,97,343                                  |
| Process waste  | 6,64,13,313                                    | 6,01,49,881                                    |
|  | <u>160,41,56,507</u>                           | <u>126,35,47,224</u>                           |
| Revenue from services  | 2,21,640                                       | -  |
| Yarn conversion charges  |  |  |
| Other operating revenues   |  |  |
| Scrap sales  | 5,18,150                                       | 3,95,555                                       |
| Export incentives  | 9,59,207                                       | -  |
|  | <u>160,58,55,504</u>                           | <u>126,39,42,779</u>                           |
| Less Trade rebate and discounts  | 4,80,588                                       | 1,45,287                                       |
|  | <u>160,53,74,916</u>                           | <u>126,37,97,492</u>                           |
| <b>2.2 Other income</b>  |  |  |
| Interest income from   |  |  |
| Security deposits and bank deposits                                      | 21,44,873                                      | 13,70,235                                      |
| Others   | 3,136  | -  |
| Dividend income from Non-current investments                             | -  | 1,80,000                                       |
| Other non-operating income   |  |  |
| Profit on sale of assets   | 2,31,259                                       | 59,737   |
| Net gain on foreign currency transactions and translations               | 71,914   | 11,80,926                                      |
|  | <u>24,51,182</u>                               | <u>27,90,898</u>                               |
| <b>2.3 Cost of materials consumed</b>                                    |  |  |
| Cotton   | 84,25,42,236                                   | 86,42,08,899                                   |
| Others   | 1,44,26,694                                    | 4,51,654                                       |
|  | <u>85,69,68,930</u>                            | <u>86,46,60,553</u>                            |
| <b>Of the above</b>  |  |  |
| Imported items - Amount  | 9,00,23,989                                    | -  |
| - Percentage   | 10.50  | -  |
| Indigenous items - Amount  | 76,69,44,941                                   | 86,46,60,553                                   |
| - Percentage   | 89.50  | 100.00   |
| <b>2.4 Changes in inventories of finished goods and work-in-progress</b> |  |  |
| Work-in-progress   | (32,49,369)                                    | (2,48,60,585)                                  |
| Finished goods   | 77,99,434                                      | 8,60,12,545                                    |
|  | <u>45,50,065</u>                               | <u>6,11,51,960</u>                             |
| Net change in inventories  |  |  |
| <b>2.5 Employee benefits expense</b>                                     |  |  |
| Salaries, wages and bonus  | 14,44,41,512                                   | 11,05,23,632                                   |
| Contribution to provident, gratuity and other funds                      | 69,30,165                                      | 77,41,128                                      |
| Welfare expenses   | 58,63,135                                      | 44,30,346                                      |
|  | <u>15,72,34,812</u>                            | <u>12,26,95,106</u>                            |

## KANDAGIRI SPINNING MILLS LIMITED

| Notes annexed to and forming part of the Financial Statements (Contd.) |  |  |
|--|--|--|
|  | For the year ended<br>March 31, 2013<br>Rupees | For the year ended<br>March 31, 2012<br>Rupees |
| <b>2.6 Finance costs</b>   |  |  |
| Interest   | 12,14,20,707                                   | 13,05,03,311                                   |
| Other borrowing costs  | 22,99,648                                      | 93,82,718                                      |
|  | <u>12,37,20,355</u>                            | <u>13,98,86,029</u>                            |
| Other borrowing costs include amortisation on :                        |  |  |
| Loan raising expenses  | 2,10,404                                       | 4,46,972                                       |
| Premium on forward contracts   | 20,81,312                                      | 79,41,371                                      |
| <b>2.7 Depreciation and amortisation expense</b>                       |  |  |
| <b>Tangible assets</b>   |  |  |
| Buildings  | 1,55,99,112                                    | 1,26,99,041                                    |
| Plant and machinery  | 4,21,52,697                                    | 4,33,12,298                                    |
| Wind energy converters   | 2,49,09,720                                    | 2,49,09,721                                    |
| Furniture and fittings   | 150,260  | 1,41,252                                       |
| Office equipments  | 2,68,868                                       | 2,52,048                                       |
| Vehicles   | 19,03,808                                      | 18,46,726                                      |
|  | <u>8,49,84,465</u>                             | <u>8,31,61,086</u>                             |
| Less Transfer from revaluation reserve                                 | 28,89,247                                      | 28,89,247                                      |
| Total depreciation on tangible assets                                  | <u>8,20,95,218</u>                             | <u>8,02,71,839</u>                             |
| <b>2.8 Other expenses</b>  |  |  |
| Conversion charges   | 54,30,206                                      | 37,44,173                                      |
| Consumption of stores and spares                                       | 2,78,88,367                                    | 2,23,63,497                                    |
| Power and fuel-net   | 18,35,53,857                                   | 11,18,84,468                                   |
| Rent   | 2,100  | 4,200  |
| Repairs and maintenance - Buildings                                    | 7,99,595                                       | 3,20,704                                       |
| - Plant and machinery  | 1,90,93,673                                    | 1,48,45,051                                    |
| Insurance  | 15,03,263                                      | 8,21,113                                       |
| Rates and taxes  | 12,47,065                                      | 8,22,111                                       |
| Packing and forwarding charges   | 1,85,46,599                                    | 1,37,93,761                                    |
| Brokerage and commission on sales                                      | 1,55,44,231                                    | 1,20,92,020                                    |
| Travel and vehicle upkeep expenses                                     | 1,01,46,317                                    | 97,23,190                                      |
| Donation and charity   | 2,84,780                                       | 2,99,081                                       |
| Premium on hank yarn obligation charges                                | 15,20,609                                      | 2,41,048                                       |
| Printing and stationery  | 7,59,200                                       | 7,26,211                                       |
| Directors' sitting fees  | 6,75,000                                       | 7,40,000                                       |
| Bad debts written off  | 25,293   | --   |
| Bank and other financial charges                                       | 58,93,905                                      | 8,85,704                                       |
| Miscellaneous expenses   | 75,15,545                                      | 54,05,587                                      |
|  | <u>30,04,29,605</u>                            | <u>19,87,11,919</u>                            |

Thirty Seventh Annual Report

36

## KANDAGIRI SPINNING MILLS LIMITED

| 3. Notes annexed to and forming part of the Financial Statements  |                   |                   |
|---|-------------------|-------------------|
|   | March 31,<br>2013 | March 31,<br>2012 |
| <b>3.1 Information regarding Imports (c.i.f)</b>  |                   |                   |
| Raw materials   | 9,00,23,989       | --                |
| Machinery spares  | 20,86,974         | 51,56,324         |
| <b>3.2 Foreign currency transactions and other financial information</b>  |                   |                   |
| <b>(i) Expenditure in foreign currency</b>  |                   |                   |
| Interest  | 9,81,057          | 56,01,554         |
| Travel  | 3,10,466          | 69,044            |
| <b>(ii) Earnings in foreign currency</b>  |                   |                   |
| Export of goods (FOB value)   | --                | 1,36,59,086       |
| Others (freight re coveries)  | --                | 39,950            |
| <b>(iii) Remittance of dividend to Non - Resident Shareholders</b>  | --                | --                |
| <b>3.3 Auditors's remuneration</b><br>(included under Miscellaneous expenses (refer Note 2.8 to the Financial statements))  |                   |                   |
| (i) For financial audit   | 3,70,000          | 3,00,000          |
| (ii) For cost audit   | 75,000            | 75,000            |
| (iii) For taxation matters  | 1,50,000          | 1,50,000          |
| (iv) For other services   | 1,67,000          | 1,36,000          |
| (v) For reimbursement of expenses   | 1,23,678          | 69,832            |
| <b>3.4 Contingent liabilities</b>   |                   |                   |
| (i) Claims against the company not acknowledged as debts  | 3,65,08,688       | 1,55,39,608       |
| (ii) Bills discounted with banks  | --                | 33,99,369         |
| Outflow relating to above not practicable to indicate in view of the uncertainties involved   |                   |                   |
| <b>3.5 Capital commitments not provided for (net of advances)</b>   | 4,43,33,683       | 4,43,33,683       |
| <b>3.6 Earnings per share</b>   |                   |                   |
| Profit/(Loss) after taxation as per Statement of Profit and Loss (A)  | 5,85,27,113       | (12,97,89,016)    |
| Number of equity shares outstanding (B)   | 38,49,250         | 38,49,250         |
| Basic and Diluted earnings per share (in Rupees) - Basic (A/B)  | 15.20             | (33.72)           |
| <b>3.7 Segment information</b>  |                   |                   |
| The company's primary segment is identified as business segment based on nature of products, risks, return and the internal business reporting system (i.e. cotton yarn) and operates in a single geographical segment as per Accounting Standard 17. |                   |                   |

Thirty Seventh Annual Report

37



## 3. Notes annexed to and forming part of the Financial Statements

|   | March 31,<br>2013 | March 31,<br>2012 |
|---|-------------------|-------------------|
| <b>3.8 Related party disclosure</b>   |                   |                   |
| (i) Related parties with whom transactions have taken place during the year   |                   |                   |
| (1) Key management personnel : Sri R. Selvarajan – Chairman and Managing Director   |                   |                   |
| (2) Associate : SPMH Healthcare Services Private Limited  |                   |                   |
| (3) Parties where significant influence exists : S. Palaniandi Mudaliar Charitable Trust<br>Kandagiri Spinning Mills Gratuity Trust |                   |                   |
| (ii) Transactions with related parties  |                   |                   |
| (1) Key management personnel  |                   |                   |
| - Interest payment  | 28,35,246         | 30,82,063         |
| - Dividend payment  | -                 | 15,56,660         |
| - Remuneration  | 36,00,000         | 36,00,000         |
| - Fixed deposits received   | 8,00,000          | 30,00,000         |
| - Fixed deposits repaid   | 39,00,000         | 20,00,000         |
| - Outstanding balances under Fixed Deposits   | 2,19,75,000       | 2,57,62,619       |
| (2) Parties where significant influence exists  |                   |                   |
| S. Palaniandi Mudaliar Charitable trust   |                   |                   |
| - Payments for employee welfare services  | 4,61,864          | 3,09,960          |
| Kandagiri Spinning Mills Gratuity trust   |                   |                   |
| - Contribution paid/payable   | 14,38,982         | 31,59,144         |

3.9 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 net surplus on such revaluation aggregating Rs.23,09,00,807 has been credited to revaluation reserve.

3.10 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.

3.11 Derivatives - The company uses derivative financial instruments such as forward contracts and option to hedge certain currency exposures, present and anticipated, denominated mostly in US dollars, Euro 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 \$ Nil (March 31, 2012 US \$ Nil) as at March 31, 2013 and has a net unhedged exposure of US \$ 9,04,602 (March 31, 2012 US \$ Nil).

3.12 Raw material consumed – others include consumption of yarn for manufacture of double yarn.

3.13 Power and fuel are (i) net of value of power generated by Wind energy converters Rs.10,94,14,250 (2011-12 Rs.6,71,09,012) and (ii) after reckoning the reversal of carbon credit accrued in prior years of Rs. Nil (2011-12 Rs.48,99,288), as a measure of abundant caution, due to (a) rejection of claim for the credit by concerned sanctioning authorities and (b) inordinate delay in issue of validation report even after completion of inspection and documentation.

3.14 Human resources – Particulars of managerial remuneration (i) To Managing Director – Salary Rs.21,60,000 (2011-12 Rs.21,60,000), Perquisites Rs.14,40,000 (2011-12 Rs.14,40,000); and (ii) To Joint Managing Director – Salary Rs.14,40,000 (2011-12 Rs.14,40,000), Perquisites Rs.9,60,000 (2011-12 Rs.9,60,000).

3.15 Depreciation/amortisation – Depreciation for the year computed on revalued assets includes a charge of Rs.28,89,247 (2011-12 Rs.28,89,247) being the excess depreciation computed by the method followed by the company prior to revaluation and the same has been transferred from Revaluation reserve to the Profit and Loss account.

| 3.16 Details of Long Term Borrowings:       |                    |                |              |                    |  |                    |                |              |                    | Notes annexed to and forming part of the Financial Statements (Contd.) |  |  |  |  |
|---|--------------------|----------------|--------------|--------------------|--|--------------------|----------------|--------------|--------------------|--|--|--|--|--|
| Bank Name                                   | March 31, 2013     |                |              | Rate of Interest % | Particulars of Repayment   | March 31, 2012     |                |              | Rate of Interest % |  |  |  |  |  |
|   | Non Current Rupees | Current Rupees | Total Rupees |                    |  | Non Current Rupees | Current Rupees | Total Rupees |                    |  |  |  |  |  |
| a. Secured Loans: (i) Term loans from Banks |                    |                |              |                    |  |                    |                |              |                    |  |  |  |  |  |
|   |                    |                |              |                    |  |                    |                |              |                    |  |  |  |  |  |
| State Bank of India TL 1                    | 2,62,49,990        | 3,00,00,000    | 5,62,49,990  | 13.65              | 33 monthly instalments of Rs.25 lakhs each and one monthly instalment of Rs.37.50 lakhs (2012-13 Rs.300 lakhs, 2013-14 Rs.300 lakhs, 2014-15 Rs.262.50 lakhs)  | 5,62,49,990        | 3,00,00,000    | 8,62,49,990  | 14.50              |  |  |  |  |  |
| State Bank of India TL 2                    | -                  | -              | -            | -                  | 3 quarterly instalments of Rs.12 lakhs each and one quarterly instalment of Rs.12.56 lakhs (2012-13 Rs.48.56 lakhs)  | -                  | 48,56,000      | 48,56,000    | 14.50              |  |  |  |  |  |
| State Bank of India TL 3                    | 2,24,68,582        | 1,25,00,000    | 3,49,68,582  | 13.65              | 12 monthly instalment of Rs.20 lakhs each, 11 monthly instalments of Rs.10 lakhs each, one monthly instalment of Rs.15 lakhs, 11 monthly instalment of Rs.9 lakhs each, one monthly instalment of Rs.16 lakhs, 5 monthly instalment of Rs.18 lakhs each and one monthly instalment of Rs.20 lakhs (2012-13 Rs.240 lakhs, 2013-14 Rs.125 lakhs, 2013-14 Rs.115 lakhs, 2014-15 Rs.110 lakhs) | 3,49,68,582        | 2,40,00,000    | 5,89,68,582  | 14.50              |  |  |  |  |  |
| State Bank of India TL 4                    | 7,54,20,000        | 25,80,000      | 7,80,00,000  | 13.65              | 18 monthly instalment of Rs.4.30 lakhs each, 12 monthly instalment of Rs.8.60 lakhs each, 12 monthly instalment of Rs.29 lakhs each and 6 monthly instalment of Rs.41.90 lakhs each (2013-14 Rs.25.80 lakh, 2014-15 Rs.51.60 lakhs, 2015-16 Rs.103.20 lakhs, 2016-17 Rs.348 lakhs and 2017-18 Rs.251.40 lakhs)   | -                  | -              | -            | -                  |  |  |  |  |  |
| Karnataka Bank TL 1                         | 5,58,99,812        | 1,20,00,000    | 6,78,99,812  | 14.00              | One monthly instalment of Rs.5 lakhs, 24 monthly instalments of Rs.10 lakhs each, 12 monthly instalments of Rs.20 lakhs each, 8 monthly instalments of Rs.36 lakhs each and one monthly instalment of Rs.21 lakhs (2012-13 Rs.115 lakhs, 2013-14 Rs.120 lakhs, 2014-15 Rs.230 lakhs, 2015-16 Rs.329 lakhs)   | 6,78,99,889        | 1,15,00,000    | 7,93,99,889  | 14.00              |  |  |  |  |  |

|                                     |              |             |              |       |  |              |             |              |       |
|-------------------------------------|--------------|-------------|--------------|-------|--|--------------|-------------|--------------|-------|
| Karnataka Bank TL 2                 | 20,38,82,974 | 5,75,00,000 | 26,13,82,974 | 14.00 | one monthly instalment of Rs.20 lakhs, 12 monthly instalments of Rs.25 lakhs each, 12 monthly instalments of Rs.50 lakhs each, 10 monthly instalments of Rs.170 lakhs each and one monthly instalment of Rs.289 lakhs (2012-13 Rs.295 lakhs, 2013-14 Rs.575 lakhs, 2014-15 Rs.2039 lakhs)                      | 26,13,82,974 | 2,95,00,000 | 29,08,82,974 | 14.00 |
| Karnataka Bank TL 3                 | 1,04,85,419  | 1,38,00,000 | 2,42,85,419  | 14.00 | one quarterly instalments of Rs.20 lakhs, 4 quarterly instalments of Rs.30 lakhs each, 4 quarterly instalments of Rs.36 lakhs each and one quarterly instalment of Rs.69 lakhs (2012-13 Rs.110 lakhs, 2013-14 Rs.138 lakhs, 2014-15 Rs.105 lakhs)  | 2,42,85,419  | 1,10,00,000 | 3,52,85,419  | 14.00 |
| Karnataka Bank TL 4                 | 7,54,20,000  | 25,80,000   | 7,80,00,000  | 13.75 | 18 monthly instalment of Rs.4.30 lakhs each, 12 monthly instalment of Rs.8.60 lakhs each, 12 monthly instalment of Rs.29 lakhs each and 6 monthly instalment of Rs.41.90 lakhs each (2013-14 Rs.25.80 lakh, 2014-15 Rs.51.60 lakhs, 2015-16 Rs.103.20 lakhs, 2016-17 Rs.348 lakhs and 2017-18 Rs.251.40 lakhs) | -            | -           | -            | -     |
| HDFC Bank bus loan                  | -            | -           | -            | -     | 36 monthly instalments   | -            | 4,39,992    | 4,39,992     | 10.25 |
| HDFC Bank bus loan                  | 582852       | 4,11,432    | 9,94,284     | 11.00 | 36 monthly instalments   | -            | -           | -            | -     |
| HDFC Bank bus loan                  | 765712       | 2,05,716    | 9,71,428     | 10.51 | 36 monthly instalments   | -            | -           | -            | -     |
| HDFC Bank bus loan                  | 240005       | 3,42,852    | 5,82,857     | 10.51 | 36 monthly instalments   | -            | -           | -            | -     |
| HDFC Bank bus loan                  | 43,040       | 5,16,672    | 5,59,712     | 10.25 | 36 monthly instalments   | 5,60,384     | 5,16,000    | 10,76,384    | 10.25 |
| ICICI Bank bus loan                 | -            | 3,88,876    | 3,88,876     | 9.75  | 31 monthly instalments   | 3,88,548     | 6,66,000    | 10,55,548    | 9.75  |
| Federal Bank car loan               | 1,27,761     | 2,01,352    | 3,29,113     | 10.71 | 36 monthly instalments   | 3,29,101     | 1,81,000    | 5,10,101     | 10.71 |
| ii) Term loans from others          | -            | -           | -            | -     | -  | -            | -           | -            | -     |
| Reliance Capital Limited - LCV loan | -            | -           | -            | -     | 24 monthly instalments   | -            | 1,40,482    | 1,40,482     | 10.01 |

| iii) Cash Credit from Banks    |              |              |       |   |              |               |       |  |  |
|--------------------------------|--------------|--------------|-------|---|--------------|---------------|-------|--|--|
| State Bank of India            | 13,04,24,937 | 13,04,24,937 | 13,45 | On demand   | 20,72,34,206 | 20,72,34,206  | 15.00 |  |  |
| Karnataka Bank                 | 11,78,25,237 | 11,78,25,237 | 13.75 | On demand   | 20,06,10,841 | 20,06,10,841  | 13.25 |  |  |
| Axis Bank                      | 4,53,54,992  | 4,53,54,992  | 13.00 | On demand   | 4,07,11,456  | 4,07,11,456   | 13.00 |  |  |
| iv) Short term loan from banks |              |              |       |   |              |               |       |  |  |
| Goods loan from Karnataka Bank |              |              |       |   | 5,00,00,000  | 5,00,00,000   | 14.25 |  |  |
| Buyers credit loan (FC)        | 4,91,19,871  | 4,91,19,871  | 1.82  | Repayable on April 17, 2013, July 22, 2013, July 26, 2013, July 29, 2013 and August 2, 2013 |              |               |       |  |  |
|                                | 47,15,86,148 | 47,57,51,937 |       |   | 61,13,55,977 | 105,74,21,864 |       |  |  |

(i) Term loans from banks aggregating Rs.54,15,32,776 (March 31, 2012 Rs.46,13,88,653) are secured by a first charge on the Company's fixed assets subject to the charge stated in (ii) to (v) infra and secured by a second charge on the Company's current assets; (ii) Term loans from banks to an extent of Rs.5,92,54,001 (March 31, 2012 Rs.9,42,54,001) are secured by a first charge on the Company's wind mills; (iii) Term loans from banks to an extent of Rs.38,26,270 (March 31, 2012 Rs.30,82,025) are secured by hypothecation of certain buses and cars; (iv) Term loans from Reliance Capital Limited of Rs. Nil (March 31, 2012 Rs.1,40,482) is secured by hypothecation of certain LCVs; (v) Cash credit/short term loan/Foreign currency loan/buyers credit facilities are secured by a first charge on the Company's current assets except the stock of cotton pledged for goods loan facility and by a second charge on the Company's fixed assets excluding the charges mentioned in (ii) to (iv) supra; (vi) Goods loan facilities are secured by pledge of stock of cotton; (vii) All the above loans are guaranteed by three directors.

| b) Unsecured Loans: |             |             |             |               |  |             |           |             |               |
|---------------------|-------------|-------------|-------------|---------------|--|-------------|-----------|-------------|---------------|
| Fixed deposits      | 2,88,24,500 | 2,83,36,000 | 5,81,60,500 | 9,00 to 12.50 | Repayable : before 31.3.2014 Rs.293.36 lakhs, before 31.3.2015 Rs.191.65 lakhs and before 31.3.2016 Rs.96.60 lakhs | 5,23,36,000 | 98,68,000 | 6,22,04,000 | 9.00 to 12.50 |
|                     | 2,88,24,500 | 2,83,36,000 | 5,81,60,500 |               |  | 5,23,36,000 | 98,68,000 | 6,22,04,000 |               |

## 3.17 Employee benefits -

(i) Defined Employee benefit plans - As per Actuarial valuation as on March 31, 2013

| Rs. lakhs   | Gratuity (funded) |         |         |         | Compensated absences (unfunded) |         |         |         |
|---|-------------------|---------|---------|---------|---------------------------------|---------|---------|---------|
|   | 2012-13           | 2011-12 | 2010-11 | 2009-10 | 2012-13                         | 2011-12 | 2010-11 | 2009-10 |
| A. Expenses recognised in the statement of profit and Loss Accounting for the year ended Mar 31, 2012 |                   |         |         |         |                                 |         |         |         |
| (i) Current service cost  | 16.38             | 14.40   | 11.05   | 12.32   | 10.90                           | 1.02    | 1.00    | 0.97    |
| (ii) Interest cost  | 12.06             | 9.90    | 8.47    | 7.24    | 6.01                            | 9.40    | 9.12    | 8.18    |
| (iii) Expected return on plan assets  | -7.63             | -6.81   | -4.98   | -3.69   | -4.64                           | -       | -       | -       |
| (iv) Net actuarial(gain)/loss recognised during the year  | -6.42             | 14.10   | -4.97   | -7.80   | 15.84                           | -7.53   | -6.61   | 2.53    |
| Total expenses  | 14.39             | 31.59   | 9.58    | 8.07    | 28.11                           | 2.89    | 3.51    | 11.68   |
| B. Actual return on plan assets   |                   |         |         |         |                                 |         |         |         |
| (i) Expected return on plan assets  | 7.63              | 6.81    | 4.98    | 3.69    | 4.64                            | -       | -       | -       |
| (ii) Actuarial(gain)/loss on plan assets  | 13.18             | 3.78    | 15.78   | 18.35   | -0.57                           | -       | -       | -       |
| (iii) Actual return on plan assets  | 20.81             | 10.59   | 20.76   | 22.04   | 4.07                            | -       | -       | -       |
| C. Net asset/(liability) recognised in the balance sheet  |                   |         |         |         |                                 |         |         |         |
| (i) Present value of the obligation   | 176.55            | 160.31  | 129.28  | 112.90  | 98.20                           | 126.56  | 117.47  | 113.96  |
| (ii) Fair value of plan assets  | 127.34            | 84.31   | 84.88   | 60.46   | 49.99                           | -       | -       | -       |
| (iii) Funded status (surplus/deficit)   | -49.21            | -75.99  | -44.40  | -52.44  | -48.21                          | -126.56 | -117.47 | -102.28 |
| (iv) Unrecognised past service cost   | -                 | -       | -       | -       | -                               | -       | -       | -       |
| (v) Net Asset/(liability) recognised in the balance sheet   | -49.21            | -75.99  | -44.40  | -52.44  | -48.21                          | -126.56 | -117.47 | -102.28 |
| D. Change in Present value of the obligation during the year  |                   |         |         |         |                                 |         |         |         |
| (i) Present value of the obligation as at beginning of the year                                       | 160.31            | 129.28  | 112.90  | 98.20   | 84.29                           | 120.36  | 113.96  | 102.28  |
| (ii) Current service cost   | 16.38             | 14.40   | 11.05   | 12.32   | 10.90                           | 1.02    | 1.00    | 0.97    |
| (iii) Interest cost   | 12.06             | 9.90    | 8.47    | 7.24    | 6.01                            | 9.40    | 9.12    | 8.18    |
| (iv) Benefits paid  | -18.97            | -11.16  | -13.96  | -15.42  | -18.27                          | -       | -       | -       |
| (v) Actuarial(gain)/loss on obligation  | 6.76              | 17.89   | 10.82   | 10.54   | 15.27                           | -5.35   | -6.61   | 2.53    |
| (vi) Present value of obligation as at end of the year  | 176.55            | 160.31  | 129.28  | 112.90  | 98.20                           | 126.56  | 117.47  | 113.96  |
| E. Change in assets during the year   |                   |         |         |         |                                 |         |         |         |
| (i) Fair value of plan assets as at beginning of the year   | 84.31             | 84.88   | 60.46   | 53.84   | 61.68                           | -       | -       | -       |
| (ii) Expected return on plan assets   | 7.63              | 6.81    | 4.98    | 3.69    | 4.64                            | -       | -       | -       |
| (iii) Contributions   | 41.19             | -       | 17.62   | -       | 11.05                           | -       | -       | -       |
| (iv) Benefits paid  | -18.97            | -11.16  | -13.96  | -15.42  | -22.96                          | -       | -       | -       |
| (v) Actuarial(gain)/loss on plan assets   | 13.18             | 3.78    | 15.78   | 18.35   | -0.57                           | -       | -       | -       |
| (vi) Fair value of plan assets as at end of the year  | 127.34            | 84.31   | 84.88   | 60.46   | 53.84                           | -       | -       | -       |

KANDAGIRI SPINNING MILLS LIMITED

| (i) Defined Employee benefit plans - As per Actuarial valuation as on March 31, 2013 |  | Rs. lakhs         |         |         |                                 |         |          |
|--|--|-------------------|---------|---------|---------------------------------|---------|----------|
|  |  | Gratuity (funded) |         |         | Compensated absences (unfunded) |         |          |
|  |  | 2012-13           | 2011-12 | 2010-11 | 2009-10                         | 2008-09 |          |
| F. Experience adjustments in   |  |                   |         |         |                                 |         |          |
| (i) Plan liabilities - loss(gain)  |  | 6.76              | 17.89   | 10.82   | 10.54                           | 15.27   | -0.67    |
| (ii) Plan assets - loss(gain)  |  | 13.18             | 3.78    | 15.78   | 18.35                           | -0.57   | -        |
| G. Major categories of plan assets as a percentage of total plan                     |  |                   |         |         |                                 |         |          |
| (i) Government of India securities   |  | -                 | 6%      | 6%      | 6%                              | 15%     | Unfunded |
| (ii) State Government Securities   |  | 5%                | 8%      | 8%      | 8%                              | 12%     | Unfunded |
| (iii) High Quality Corporate bonds   |  | -                 | -       | -       | -                               | 63%     | Unfunded |
| (iv) Special Deposit Scheme  |  | -                 | -       | -       | -                               | 10%     | Unfunded |
| (v) Other (Bank deposits)  |  | 34%               | 46%     | 37%     | 41%                             | 0%      | Unfunded |
| (vi) SBI Life Insurance company  |  | 61%               | 40%     | 49%     | 45%                             | 0%      | Unfunded |
| (vii) Total  |  | 100%              | 100%    | 100%    | 100%                            | 100%    | Unfunded |
| H. Actuarial Assumptions   |  |                   |         |         |                                 |         |          |
| (i) Discount rate  |  | 8%                | 8%      | 8%      | 8%                              | 8%      | 8%       |
| (ii) Salary escalation rate  |  | 4%                | 4%      | 4%      | 4%                              | 4%      | 4%       |
| (iii) Attrition rate   |  | 1%                | 1%      | 1%      | 1%                              | 1%      | 1%       |
| (iv) Expected return on plan assets  |  | 8%                | 8%      | 8%      | 8%                              | 8%      | 0%       |

In the above actuarial valuation the estimated of future salary increases have reckoned the effect of inflation, seniority, promotion and other relevant factors

- ii) Gratuity fund is administered through group gratuity scheme with SBI Life Insurance and by the Gratuity Trust through trustees.
- iii) During the year, the company has recognised the following amounts in the Statement of Profit and Loss:

Salaries, wages and bonus include compensated absences of Rs.4,52,656 (2011-12 Rs.2,88,741) Contribution to provident, gratuity and other funds include contribution to provident fund and family pension fund contribution of Rs.54,91,183 (2011-12 Rs.45,81,984) and gratuity fund of Rs.14,38,982 (2011-12 Rs.31,59,144) Workmen and staff welfare expenses include contribution to employees state insurance of Rs.12,99,764 (2011-12 Rs.10,16,459)

3.18 The figures for the previous periods have been reclassified/regrouped/amended, wherever necessary.

Signatures to Statement of Accounting Policies and Notes to Financial Statements

For and on behalf of the Board  
**R. Selvarajan**  
Chairman and Managing Director  
**S. Devarajan**  
Director  
**S. Vijay Shankar**  
Joint Managing Director

Salem,  
May 27, 2013



KANDAGIRI SPINNING MILLS LIMITED

Registered Office: Mill Premises, 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 thirty seventh Annual General Meeting of the Company held at the Mill Premises of Sambandam Spinning Mills Limited in Kamaraj Nagar Colony, Salem-636 014 on Wednesday the 14th August 2013 at 11.30 a.m.

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

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

PROXY FORM

I/We ..... of .....

being a Member(s) of Kandagiri Spinning Mills Limited, hereby appoint Sri/Smt.....

..... of ..... or failing him / her, Sri/Smt.....

of ..... as my/our proxy to vote for me/us on my/our behalf at the thirty seventh Annual General Meeting of the Company to be held on Wednesday the 14th August 2013 at 11.30 a.m. at the Mill Premises of Sambandam Spinning Mills Limited in Kamaraj Nagar Colony, Salem-636 014 and at any adjournment thereof.

Signed this ..... day of August 2013.

Address :

Folio No. :

DP ID No. :

Client ID No. :

No. of Shares

Signature.....

Member's Name :

Affix  
Revenue  
Stamp

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 11.30 am on 12.08.2013. 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 the proxy form duly affixing 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].