

18th Annual Report 2002-2003

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STI India Limited

Manufacturers of quality Cotton Yarn & Cotton Knitted Fabric



STI India Limited

Eighteenth Annual Report 2002-2003

BOARD OF DIRECTORS

(As on 30th July, 2003)

DR. R.B. BAHETI	<i>Chairman and Managing Director</i>
MR. M.R. SHROFF	<i>Director</i>
MR. R.C. JAIN	<i>Director</i>
MR. C.K. MEHROTRA	<i>Director (IDBI Nominee)</i>
MR. N.M. SHARMA	<i>Director</i>
MR. K.N. GARG	<i>Director</i>

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FINANCIAL INSTITUTIONS & BANKERS

Industrial Development Bank of India
State Bank of India
State Bank of Indore
IndusInd Bank Limited

REGD. OFFICE, WORKS & SHARE DEPARTMENT

Plot No.1, Sonvay Industrial Area,
Rau-Pithampur Link Road,
Tehsil-Mhow,
Distt. Indore (M.P.) - 453 331
Tel.: +91-0731-5020000/05
Fax: +91-0731-5020011
e-mail: tax@stitextile.net

AUDITORS

M/s P.N. NAGAR & CO.
Chartered Accountants,
1st floor, Silver Arc Plaza,
20/1, New Palasia,
Indore (M.P.) - 452 001

ADMINISTRATIVE OFFICE

Badgara House,
13/1, New Palasia,
Indore (M.P.) 452 001
Tel.: +91-0731-5065848
Fax: +91-0731- 2430221

EIGHTEENTH ANNUAL GENERAL MEETING

of the Company to be held on
Monday, the 29th Sept. '2003 at
the Regd. Off. of the Company
at 11.00 a.m.

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NOTICE OF THE EIGHTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Eighteenth Annual General Meeting of the members of STI INDIA LIMITED will be held at its Registered office at Plot No.1, Sonvay Industrial Area, Rau-Pithampur Link Road, Tehsil Mhow, Distt. Indore (M.P.) on Monday, the 29th September, 2003, at 11.00 A.M. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2003 and the Profit and Loss Account for the year ended on that date together with Directors' Report and the Auditors' Report thereon.
2. To appoint a Director in place of Dr. R.B. Baheti, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Mr. N.M. Sharma, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS

5. To consider, and if thought, fit, to pass, with or without modification(s) the following resolution as Special Resolution.

"RESOLVED THAT in accordance with SEBI (Delisting of Securities) Guidelines, 2003, provisions of the Listing Agreements and subject to such approvals, permissions and sanctions under other relevant Laws, Rules and Regulations as may be necessary and subject to such conditions and modifications as may be prescribed while granting such approvals, permissions and sanctions, the Equity Shares of the Company be delisted from Delhi Stock Exchange Ltd., New Delhi, The Stock Exchange, Ahmedabad, and Ludhiana Stock Exchange, Ludhiana."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to agree such terms and conditions which they may consider appropriate and to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and to settle any question difficulty, doubt that may arise in regard to the delisting of the Equity Shares from Delhi Stock Exchange Ltd., New Delhi, The Stock Exchange, Ahmedabad, and Ludhiana Stock Exchange, Ludhiana."

6. TO CONSIDER CANCELLING THE RESOLUTION FOR INCREASE IN AUTHORISED SHARE CAPITAL.

"RESOLVED THAT subject to provisions of section 31, 94 and other applicable provisions of the Companies Act, 1956 and Article 28 of the Articles of Association of the Company and further subject to approval of the share holders the resolution passed in the 16th AGM held on 28th September, 2001 to increase the authorised share capital from Rs.45 Crores to Rs.55 Crores be and is hereby annulled and not be acted upon."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to do such acts, deeds and things as are necessary to implement the above resolution."

By Order of the Board of Directors
For STI INDIA LIMITED

Regd. Office :
Plot No.1, Sonvay Industrial. Area,
Rau-Pithampur Link Road,
Tehsil Mhow, Distt. Indore (M.P.)

Place : Indore
Date : 30th July, 2003

(K.N. GARG)
Director

NOTES

1. A member entitled to attend and vote at the meeting is also entitled to appoint a proxy to attend and vote at the meeting instead of himself and the proxy need not be a member of the company. The instrument appointing proxy should, however, be deposited at the Registered office of the Company not less than 48 hours before the commencement of the meeting.
2. The Explanatory Statements as required pursuant to the provisions of Section 173(2) of the Companies Act, 1956, in respect of item No. 5 and 6 included in the notice, are annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 22nd September, 2003 to 27th September, 2003 (both days inclusive).
4. Pursuant to the provision of Section 205A of the Companies Act, 1956 as amended, the dividend which remains unpaid or unclaimed for a period of 7 years from the date of the declaration has to be transferred to the Investor Education and Protection Fund of the Central Government. Shareholders who have not encashed the dividend warrant for the financial year ended the 31st March, 1996 are requested to make their claim to the Company. It may also be noted that once the unclaimed dividend is transferred to the Central Government, as above, no claim shall lie in respect thereof.

5. Dr. R.B. Baheti and Mr. N.M. Sharma, Directors of the Company are to retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. In terms of the Companies (Amendment) Act, 2000 read with Clause 49 of the Listing agreement, it is mandatory for every Company to inform its members a brief resume, nature of experience and other details of the retiring Directors.

Dr. R.B. Baheti is Post graduated in Commerce and having Ph.D (Gold Medalist). Dr. Baheti has rich experience in running business for last three decades. Dr. Baheti is associated with various Institutions and governing Board. Presently he is Chairman and Managing Director of the Company and also acting as Director on the Board of various group Companies.

Mr. N.M.Sharma holds a degree in Commerce; he is a Fellow member of Institute of Chartered Accountants of India. He has wide experience of more than 23 years in the Corporate sector having held senior management positions. Presently, he is the Managing Director in Gujarat State Co-Operative Federation Limited, Ahmedabad and other than this he is also associated with All India Co-Operative Cotton federation Limited as a Hon. Managing Director.

Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956.

For item No.4

M/s P.N.Nagar & Co., the statutory auditors of the Company have declined to be re-appointed as Auditors of the Company at the conclusion of the ensuing Annual General meeting of the Company to be held on 29th September, 2003 at Indore.

Keeping in view the mandatory requirement of the Companies Act, 1956, the Company had approached M/s Rastogi Narain & Co., New Delhi, one of the reputed firms of Chartered Accountants in New Delhi, for appointing them as Statutory Auditors of the Company in place of M/s P.N.Nagar & Co subject to approval of the shareholders in the ensuing Annual General Meeting of the Company.

M/s Rastogi Narain & Co. have given their consent to act as Statutory Auditors of the Company and informed that their appointment, if made, will be in accordance with the provisions of sub-section (1B) of Section 224 of the Companies Act, 1956.

For item No. 5

Presently the Company's Equity shares are listed on the following six stock exchanges:

1. Delhi Stock Exchange Associated Limited, New Delhi
2. Ludhiana Stock Exchange Ltd., Ludhiana,
3. The Stock Exchange, Ahmedabad,
4. M.P. Stock Exchange, Indore
5. National Stock Exchange of India Limited, Mumbai
6. The Stock Exchange, Mumbai

With the computerisation of Mumbai Stock Exchange, the investors can easily access to online dealing in the Company's equity shares across the country. For last few years, there were no trading or negligible trading in the Company's equity shares at the Delhi Stock Exchange Associated Ltd., New Delhi, The Stock Exchange, Ahmedabad, and Ludhiana Stock Exchange, Ludhiana, do not justify, thus the listing fees paid for above stock exchange do not have any cost benefit for the shareholders.

In accordance with the provisions of SEBI (Delisting of Securities) Guidelines, 2003, a Special resolution is proposed at item no. 6 for delisting of its equity shares from Delhi, Ludhiana and Ahmedabad Stock Exchanges.

In view of the above, the Board recommends the resolution for your approval. None of the Director is concerned or interested in the above resolution.

For item No. 6

The Company has in its 16th AGM held on 28th September, 2001, increased its authorised share capital to accommodate fresh equity share capital on the demand of the financial institutions. Accordingly, the authorised share capital was increased from Rs. 45 Crores to Rs. 55 Crores with your approval. As the proposal for fresh equity share capital was delayed, and the proposal for increase in the share capital was not effected.

Therefore the resolution passed in the 16th AGM is not required to be implemented now and hence it is to be annulled. In view of the above, the Board recommends the resolution for your approval. None of the Director is concerned or interested in the above resolution.

By Order of the Board of Directors
For STI India Limited

Place : Indore
Date : 30th July, 2003

(K.N. GARG)
Director

DIRECTORS' REPORT

To,
The Members,

The Directors have pleasure in presenting the Eighteenth Annual Report along with the Audited Accounts of the Company for the financial year ended 31st March, 2003.

PERFORMANCE

The year 2002-03 was another difficult year for the Company. Market conditions were depressed globally as a result of the slowdown in the US economy and the impact of SARS in South East Asian Markets. Despite this, output increased by almost 21% resulting in better utilisation of capacity.

Sales were also higher by 20% at Rs. 128.02 crores from Rs. 107.28 crores of last year, though margins were under severe pressure as a result of decline in demand in the face of abundant supplies worldwide. This also had an adverse impact on liquidity. The management revised its marketing policy to suit the changed market conditions by increasing sales in the domestic market where margins were better, in view of the superior quality of yarn by leading textile manufacturers.

Despite the severe pressure on margin and constraint of working capital, there was improvement in the results with reduction in loss from Rs. 53.31 crores to Rs. 29.57 crores prior to previous year's adjustments. This performance should be considered satisfactory looking to the highly depressed market scenario.

FINANCIAL RESULTS

The salient features of the Company's financial results during the year are as under :

	(Rs.in Lacs)	
	<u>2002-2003</u>	<u>2001-2002</u>
Sales	12802.35	10728.45
Profit/ (Loss) before interest, depreciation and tax	1417.97	(7746.66)
Less : - Depreciation	1114.18	1066.58
- Interest	2592.31	3034.38
Profit/ (Loss) before tax for the year	(2288.52)	(11847.62)
Loss brought forward from previous year	(11850.13)	(2639.15)
Net Profit/ (Loss) carried forward to the Balance Sheet	(14138.65)	(14486.77)

The accumulated losses reported are Rs. 141.39 Crores after adjustments for prior period expenses (Rs.27.84 lacs) and provisions written back (Rs. 695.90 lacs).

RESPONSIBILITY STATEMENT

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956, your directors hereby confirm that :

- i. In the preparation of the Annual Accounts for 2002-03, the applicable accounting standards have been followed with proper explanations relating to material departures;
- ii. They have selected such accounting policies and applied

them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the loss of the Company for the financial year.

- iii. They have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- iv. They have prepared the annual accounts on a going concern basis.

REFERENCE UNDER SECTION 15 OF THE SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT, 1985

As you are already aware that the net worth of your Company has been completely eroded as on 31st March, 2003. Pursuant to Section 3(1) (o) and Section 15 of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA,1985), your Company has made a reference to the Board for Industrial and Financial Reconstruction (BIFR). It is a matter of appreciation that the BIFR has registered the Company and initiated the formalities for revival of the Company.

DIVIDEND

The Directors do not recommend any dividend for the year in view of the loss.

DIRECTORS' COMMENTS ON AUDITORS QUALIFICATION

Yours Directors have taken note of the observations/ qualifications of the Company's Auditors in their report including its annexure and have taken positive measures for removing the deficiencies pointed out by them.

MARKETING REVIEW

During the year under review of 2002-03, the domestic prices were more remunerative than export prices with an export credit of Rs. 121.00 crores as on 31st March, 2002, there was no constraint to promote sales in domestic market like Ludhiana, Delhi, Ahmedabad, Mumbai and Tirupur. The Company had a break through in developing some big corporate clients in India as major end users of our products. The quality has been considered as the best available in the country within the count range of NE 20/1 to 40/1. Your Company is taking advantage of higher price realisation by selling a much larger portion of the output in the domestic market, yet maintaining adequate presence in the export markets.

FUTURE OUTLOOK

Your Directors ascribe the high cost of servicing past borrowings and shortage of working capital funds as largely responsible for the adverse results. Your directors are taking all possible steps for revival of the Company which include, approaching the financial institutions/banks for restructuring the debts under Corporate Debt Restructuring.

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PERFORMANCE OF STI SANOH INDIA LIMITED THE JOINT VENTURE COMPANY.

Your Directors are pleased to inform that economic recovery in Refrigerator and Automobile sectors has helped in an impressive performance by STI Sanoh India Limited, your Joint Venture Company with Sanoh Industrial Co Limited. During the year the Joint Venture Company recorded 41% growth in sales recording a turn over of Rs 54.35 crores in comparison to Rs 38.48 crores in the corresponding previous year. After providing for reduced interest cost (Rs 3.84 crores against Rs 4.37 crores and Depreciation at Rs 2.86 crores against Rs 2.70 crores in the previous year, the Company recorded a net profit of Rs 1.03 crores against a net loss of Rs 2.56 crores in the previous year.

Considering the evenly distributed monsoon all over India a significant revival in rural economy is expected further boosting demand in refrigeration and automobile sectors. Therefore, the Automobile and Refrigerator industries promise an excellent growth in the current year and your Joint Venture Company is fully prepared to cash in the opportunities.

During the year under review, the Joint Venture Company has set up a Wire On Tube Condenser Plant at Noida, mainly to cater needs of L G Electronics and Condenser Plant at Pune mainly to cater to Whirlpool of India Limited. Your Joint Venture Company commands an impressive market share in its all sectors of Refrigerators, Brake and Fuel Line components and is an important supplier to leaders in the industries.

The Joint Venture Company has a paid-up capital of Rs 26.70 crores out of which 44.95% is contributed by STI India Limited and 55.05% is contributed by Sanoh Industrial Co. Ltd., Japan.

BOARD OF DIRECTORS

Dr. R.B. Baheti and Mr. N.M. Sharma, Directors, retire by rotation at the ensuing Annual General meeting and being eligible, offer themselves for reappointment.

Mr. Y.C. Gupta has resigned from the Board. Your Company places on record its appreciation of the valuable services rendered by him.

AUDITORS

M/s P.N.Nagar & Co., the Statutory Auditors of the Company have declined to be re-appointed as Auditors of the Company at the conclusion of the ensuing Annual General meeting of the Company to be held on 29th September, 2003 at Indore in view of their other commitments.

Keeping in view the mandatory requirement of the Companies Act, 1956, the Company had approached M/s Rastogi Narain & Co., New Delhi one of the reputed firms of Chartered Accountants in New Delhi for appointing them as Statutory Auditors of the Company in place of M/s P.N.Nagar & Co subject to approval of the shareholders in the ensuing Annual General Meeting of the Company.

M/s Rastogi Narain & Co. have given their consent to be appointed as Statutory Auditors of the Company and informed that their appointment, if made, will be in accordance with the provisions of sub-section (1B) of Section 224 of the Companies Act, 1956.

COST AUDITORS

Central Government have made it mandatory for the Company to appoint Cost Auditors to conduct cost audit in respect of cotton yarn and cotton knitted fabric every year. Accordingly, M/s R.J.Goel & Co., Cost Accountants have been re-appointed to carry out audit of the cost accounts maintained by the Company for the financial year 2003-2004. Your Directors have recommended their re-appointment as Cost Auditors of the Company under Section 233B of the Companies Act, 1956 subject to the approval of Central Government.

FIXED DEPOSITS

The Company has neither accepted nor invited any deposits from public under the provisions of Section 58A of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975.

CORPORATE GOVERNANCE

Your Directors appreciate the need for good corporate governance as necessary for gaining investor confidence and has complied with all the provisions of clause 49 of the listing Agreement. The Audit Committee and other sub Committee(s) have been constituted as required.

PARTICULARS OF ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

As required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988, particulars of conservation of energy, technology absorption and foreign Exchange earnings and outgo are given in the Annexure-I, which forms part of this Report.

PARTICULARS OF EMPLOYEES

None of the employees of the Company during the year are in receipt of remuneration of more than the maximum permitted ceiling given in Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended up to date.

EMPLOYER - EMPLOYEE RELATIONS

Employer-employee relations have been cordial during the year under review. Your Directors place on record their appreciation of the valuable contribution made by employees at all levels by their unstinted co-operation.

APPRECIATION

Your Directors place on record their sincere appreciation for the assistance and co-operation received from Financial Institutions, Banks, Central and State Governments authorities, Commonwealth Development Corporation, clients and shareholders during the year under review. Your Directors thank all the employees for their dedication.

For and on behalf of the Board of Directors

Place: Mumbai
Date: 30th July, 2003

(DR.R.B.BAHETI)
Chairman & Managing Director

ANNEXURE - I TO THE DIRECTORS' REPORT

Particulars of Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo as per Section 217(1)(E) of the Companies Act, 1956 and the Rules made therein and forming part of the Directors' Report for the year ended 31st March, 2003.

Form A (Rule 2)

CONSERVATION OF ENERGY

1. Implemented automatic switching off system in O.H.T.C. of Ring Frame machine.
2. Switching off the Inverter room, air conditioners by using ventilation method to maintain same temperature levels in factory area.
3. Switching off heaters of air handling unit in SQC to maintain the same ambient conditions.
4. Reduction of blade angles of return air fans in KTTM Ring Frames to save power.

The required data with regard to Conservation of Energy as applicable to our industry are furnished below:

Power & fuel consumption

Electricity :

	For the year 2002-2003	For the year 2001-2002
i. Purchased (Unit in Lacs)	145.14	34.74
ii. own generated (Units in Lacs)	286.13	328.71
Total amount (Rs in Lacs)	1720.25	1562.97
Rate/Unit (in Rs)	3.99	4.30
Consumption of electrical energy per Kg. of production	3.14	3.42

FORM-B (Rule-2)

RESEARCH AND DEVELOPMENT (R&D)

1. Specific areas in which R&D was carried out;

Besides on line monitoring and checking of the process material and finished products from quality point of view, following improvements were done:

- a. A new and improved bale management system is already implemented. Besides this, an intensive layer-by-layer stack mixing procedure prior to Blow-room feeding is developed, to further enhance the mixing homogeneity for better and consistent yarn quality and dye up-take property.
- b. To fulfill the very critical requirement of low hairiness for Mauritius market, a bobbin conditioning process prior to winding has been adopted to reduce cop to cone stage hairiness increment.
- c. Depending upon the analysis of stage-wise AFIS (Advanced Fibre Information System) reports, all the mechanical settings of Blow-room and Card and grinding schedule of Card wire are optimized to achieve the desired yarn quality.

2. Benefits derived as a result of the above R&D:

Besides the strict on-line quality monitoring, the above-mentioned object oriented R&D activities are resulting in achieving consistent and better yarn and fabric quality, no rejections, and very low percentage of second quality product.

3. Future plan of action

As the prime motto of the company is to sustain its prime position in domestic and international market, the company will continue to promote all R&D activities for continuous up-gradation in the product quality, to undertake changing product mix based on market demand, which in turn helps in value addition in a big way.

4. Expenditure on Research & Development;

No capital expenditure has been incurred on Research & Development activities.

(B) TECHNOLOGY ABSORPTION, ADOPTION AND INNOVATION;

1. Efforts, in brief, made towards technology absorption, adoption and innovation:
The entire range of plant and machinery is imported and the company does not have any technical collaboration. The company is managed by highly qualified and experienced skilled staff, equipped with advanced form of information technology at all levels. As it is the demand of the time to reduce the cost of maintenance and at the same time maintaining the same level of quality, alternate substitute components were developed.

- 1) Ring frame spindle belts imported from Siegling Germany were substituted by Habasit, India belts, which gives same result & life.
- 2) Ring frame top roller Arbour grease which was imported from Kluber staburags, <NBU 12/300 KP> is substituted by Molykote INDIA <G-4500> grease, which is purchased at much lower rate.

- 3) Ring frame machines were supplied with KEB inverters. As KEB stopped the production of the inverters, our machines were on the verge of stopping. So KEB inverters were substituted by MITSUBISHI inverters.

Benefits derived as a result of the above efforts, i.e., product development, import substitution, etc. ;

The basic strength of the Company is its quality and that matches in all respects with international standards. By substituting the above mentioned components our quality of maintenance is at the same level, though we have reduced the cost of maintenance and also the lead time of procuring the components.

S.No.	Product used	Cost Per PC (Rs.)	Product Substituted	Cost Per PC (Rs.)	Diff. In Cost (Rs.)	Yearly Consumption (Approx.)	Year Saving (Approx.) (Rs.)
1	Siegling Spindle Belt	1586.64	Habasit Spindle Belt	665.55	921.09	2000 Belts	18,42,180
2	Kpluber Grease Staburagenbu 121/300KP.	1990/kg	Molykote G-4500	882/kg	1108/kg	120kgs	1,32,960
Total							19,75,140

- > Two Ring frame machines were on the verge of stopping due to non-availability of inverter and inverter spare parts. So by installing MITSUBISHI inverter, we were able to keep our machines running.

Future Plan of Action :

1. To reduce the hairiness in final yarn we are introducing the latest state of the art rings CERANIT/TITAN quality from Germany & Switzerland.
2. MODIFIED TOP COMBS : To reduce the comb waste by at least by 1% & maintaining the same quality level on 18 Toyota combers a modified top comb is planned to be introduced in place of conventional ones.
3. BRACKER RING TRAVELLERS: To increase the ring traveller life & reduce the downtime of the machine we shall change over to Bracker make of ring travellers.
4. MODIFICATION IN AUTOCONERS : To reduce the occurrence of snarls & small entangled yarn a small modification is required in the cradles & suction arms of Autoconers. Trials have been taken & found to be successful. The parts will be supplied by Murata Japan.

2. Benefits derived as a result of the above efforts, i.e., product development, import substitution, etc.;

The basic strength of the Company is its quality and that matches in all respects with international standards. The quality parameters satisfy to the Uster norms that are accepted worldwide. Quality of our yarn is rendered possible not only because of the sophisticated imported machinery installed for all crucial operations including auto cone winding, but also due to backward integration through appropriate tie ups for procurement of superior quality cotton.

3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) following information may be furnished;

(a) Technology imported	-	Not Applicable
(b) Year of import	-	Not Applicable
(c) Has technology fully been absorbed ?	-	Not Applicable
(d) If not fully absorbed, areas where this has not taken place, reason thereof and future plan of action	-	Not Applicable

The Company does not have any technical collaboration and hence there is no Technology Absorption and Adoption.

(C) FOREIGN EXCHANGE EARNINGS AND OUTGO

	(Rs. in lacs)
- Foreign Exchange earnings, FOB value and outgo	6897.65
- CIF value of imported Spare parts, components and HSD	848.17
- CIF value of machinery	
- Others	65.53
- Traveling	15.60

By Order of the Board of Directors

Place : Mumbai
Date : 30th July, 2003

(DR. R.B. BAIHETI)
Chairman & Managing Director

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REPORT ON CORPORATE GOVERNANCE

(In terms of clause 49 of the listing agreement)

INTRODUCTION

The Securities and Exchange Board of India has introduced a Code of Corporate Governance (Code) by way of amendment to the listing agreements with the Stock Exchanges. The Company has complied with the mandatory requirements of the Code.

1. PHILOSOPHY ON CODE OF GOVERNANCE

The fundamental objective of Company's Corporate Governance is "enhancement of the long term shareholder value while at the same time protecting the interests of other stakeholders and adopting a methodology which enhance effectiveness, better utilization of resources, transparency and harmonious relations between various interest groups.

IMPLEMENTATION

The applicability of the code to STI India Limited is effective from financial year 2001-2002 and onwards, as per the requirements of the Listing Agreement with Stock Exchanges. STI India Limited had taken gradual steps to comply with the same from financial year 2001-2002 and full code has been implemented.

2. BOARD OF DIRECTORS.

A. The Board of Directors of the Company :

The Board consists of Six (06) Directors out of which Five (05) are non executive Directors. They include eminent persons from civil service and industry and trade. None of the directors has any pecuniary relationship or transaction with the Company other than the remuneration and fees received for the services rendered.

There were changes in the Board during the year. Dr. K.B.Lall and Mr. Y.C. Gupta resigned from the Board. The IDBI has withdrawn their existing nominee Mr. R.K. Gupta in place of Mr. C.K. Mehrotra with effect from 13th September, 2002.

B. Attendance of each Director at the Board of Directors meetings and last AGM and details of memberships of Directors in other Boards and Board Committee.

Details of the Board meetings held during the year 2002-2003 are as follows :

Date of the meeting No.	Board strength	No. Directors present
1 29th June, 2002	08	04
2 20th July, 2002	08	07
3 29th October, 2002	07	05
4 30th January, 2003	07	07

Ø The time gap between any two meetings did not exceed than four months.

S. No.	Director(s)	Board meeting attended during the year	Whether attended last AGM	Memberships as on 31/03/2003 in Other Companies (Excluding STI India Ltd.)
01	Dr. R.B. Baheti, <i>Chairman & Managing Director</i>	4	No	07
02	Dr. K.B. Lall*	1	No	01
03	Mr. M. R. Shroff	3	No	11
04	Mr. R.C. Jain	2	No	03
05	Mr.R.K.Gupta** <i>(Nominee IDBI)</i>	2	No	02
06	Mr. K.N.Garg	4	No	06
07	Mr. Y.C. Gupta*** <i>(Joint Managing Director)</i>	4	Yes	01
08	Mr. N.M. Sharma	3	No	02

* Resigned on 29th October, 2002

** Nomination changed by IDBI with new Director, Mr. C.K. Mehrotra effective from 13th September, 2002.

*** Resigned on 30th January, 2003.

3. COMMITTEES OF THE BOARD

The Board has constituted following committees to oversee operational issues as required under the Listing Agreement. The Committees are

A. AUDIT COMMITTEE

The Committee has been constituted on 22nd January, 2002 to ensure that internal control and audit functions in the Company are carried out satisfactorily. The Committee provides directions and also oversees the operations of the entire audit functions in the Company. The term of reference of the Audit Committee authorise that Committee to exercise all the powers listed in sub-paragraph (C) & (D) of Paragraph II of Clause 49 of the Listing agreement. The broad terms of reference includes as under:

1. To ensure that the disclosure in the financial information stated in financial statements are correct, sufficient and credible.
2. To Recommend regarding appointment & renewal of external auditors, fixation of audit fees and approval for payment of other services.
3. To review with Management the annual financial statement before submission to the Board, focusing primarily on:
 - any change in accounting policies and practices;
 - major accounting entries based on exercise of judgment by management;
 - qualification in draft report;
 - Significant adjustments arising out of audit;
 - Compliances with stock exchanges and legal requirements concerning financial statement
 - Related party transactions.



4. To review the adequacy of internal control system, internal audit functions including discussions with internal auditors on matters like internal investigation where there is suspected fraud or irregularity or failure of internal control systems material nature.
5. Discussions with external auditors before the audit commences, nature and scope of audit as well as have post audit discussion.
6. To review the Company's financial and risk management policies; and
7. To look into the reasons for substantial defaults in the payment to depositors/ shareholders/ creditors.

The Audit Committee Comprises of 3 non-executives Directors with Mr.N.M.Sharma as Chairman and Mr. K.N.Garg and Mr. M.R.Shroff, as members. All of them possess vast experience in Finance, Accounts and Management.

B. REMUNERATION COMMITTEE

The Company has not constituted a remuneration Committee on a regular basis. The Committee will be appointed as and when required in connection with the appointment/reappointment of Managerial personnel.

For Managing and Joint Managing Directors:

The appointment of and the remuneration payable to Dr. R. B. Baheti, Chairman & Managing Director and Mr. Y. C. Gupta, Joint Managing Director of the Company are in accordance with Section 269 read Schedule XIII of the Companies Act, 1956 and have been already approved by members in General meeting which are as follows :

S.No.	Name(s) & Designation	Salary/Perquisites & other Allowance	Terms of contract
1	Dr. Ramesh B. Baheti Chairman & Managing Director	Rs. 19.51 lacs	5 years w.e.f. 1st Nov., 1999
2	Mr. Y.C.Gupta Joint Managing Director	Rs. 13.87 lacs	5 years w.e.f. 2nd April, 2001
Total		Rs. 33.38 lacs	

Both the Executive Directors are not getting any Commission or shares by way of Stock option and also sitting fees for attending any Board meeting. The service contract is terminable at the option of either party by three months notice. The service contract does not carry any provisions for severance.

For Non- Executive Directors:

Sitting fees as permitted according to the provisions of Articles of Association exclusive of actual travel and incidental expenses incurred for attending such meetings. There is at present no other components of remuneration paid to Non-executive directors.

C. SHAREHOLDERS' GRIEVANCES AND SHARE TRANSFER COMMITTEE :

An in-house existing committee called " Share Transfer

Committee" has been re-named and reconstituted as ' Shareholders Grievances and Share Transfer Committee" comprising of Mr. K.N. Garg, as Chairman, Dr. R.B.Baheti and Mr. M.R. Shroff as members. The said Committee will consider and approve the share transfer applications and also take care of the redressal of shareholders and investors complaints.

The Committee meets at fortnightly intervals to consider share transfer requests. Fifty two applications were received during the year, they were approved and documents were dispatched after necessary action within the time stipulated. No applications were pending as at 31st March, 2003. Two complaints were pending as at 31st March, 2003 relating to demat of shares which were attended to and replied within the stipulated time.

4. General Body Meetings

The particulars of the Annual General Meetings held during the last three years are given below:

Annual General Meeting	Location of AGM	Date & time
15th AGM(2000)	Regd. office : Plot No.1, Sonvay Industrial Area, Rau-Pithampur Link Road, Post Rau, District Indore (M.P.) 453 332	29/09/2000 at 3.00 p.m.
16th AGM(2001)	Regd. office : Plot No.1, Sonvay Industrial Area, Rau-Pithampur Link Road, Post Rau, District Indore (M.P.) 453 332	28/09/2001 at 11.00 a.m
17th AGM (2002)	Regd. office : Plot No.1, Sonvay Industrial Area, Rau-Pithampur Link Road, Post Rau, District Indore (M.P.) 453 332	30/11/2002 at 11.00 a.m

No special resolutions were adopted by postal ballot during the year. The Companies (Amendment) Act, 2000 has introduced Section 192A relating to passing of resolutions by postal ballot and the Secretarial Dept. of the Company will take care of it.

5. DISCLOSURES

- a. Disclosed all the material / significant transactions entered during the year with related parties i.e. Key Management personnel or their relatives that may have potential conflict with the interest of the Company, in accordance with Accounting standard 18 of ICAI.
- b. There were no instances of non-compliances in any matter related to the capital market during the last three years.

6. MEANS OF COMMUNICATION

Quarterly Results : The Quarterly Results of the Company are being published in two national Newspapers (one in Hindi and other in English)

Annual Report sent to every shareholders : Yes

Any Website where displayed : The Website www.stitextile.net is under construction.