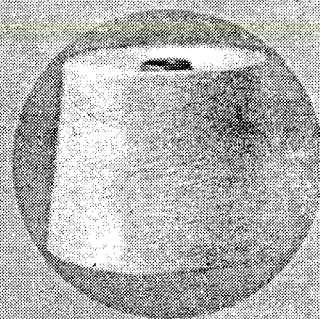


19th

Annual Report
2003-2004



Quality & Commitment



STI India Limited

Manufacturers of quality Cotton Yarn & Cotton Knitted Fabric



Nineteenth Annual Report 2003-2004

BOARD OF DIRECTORS

(As on 30th June, 2004)

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 & SHARES 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

AUDITORS

M/s Rastogi Narain & Co.
Chartered Accountants,
304-305, Lotus Chamber,
2079/38, Nalwa Street, Karol Bagh,
New Delhi - 110 005

ADMINISTRATIVE OFFICE

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

NINETEENTH ANNUAL GENERAL MEETING

*of the Company to be held on
Monday, the 27th Sept.'2004 at
the Regd. Off. of the COMPANY
at 11.30 a.m.*

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NOTICE OF THE NINETEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Nineteenth 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, Dist. Indore (M.P.) on Monday the 27th September, 2004, at 11.30 A.M. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2004 and the Profit and Loss Account for the year ended on that date together with Directors' Report and the Report of Auditors thereon.
2. To appoint a Director in place of Mr. M. R. Shroff, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Mr. R. C. Jain, who retires by rotation and being eligible offers himself for re-appointment.
4. To reappoint M/s. Rastogi Narain & Co. as Statutory Auditors of the Company and to fix their remuneration, and in this regard pass the following resolution as Ordinary Resolution:
"RESOLVED THAT M/s Rastogi Narain & Co, Chartered Accountants, New Delhi, be and are hereby re-appointed as the Auditors of the Company to hold office from conclusion of this Annual General Meeting till conclusion of the next Annual General Meeting at a remuneration of Rs. 3,24,000/- Plus service tax and other out of pocket expenses as may be incurred."

SPECIAL BUSINESS

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

"RESOLVED THAT subject to the provisions of the Companies Act, 1956 (including any statutory modifications or re-enactments thereof for the time being in force and as may be enacted hereinafter), the Securities Contracts (Regulation) Act, 1956 and the rules framed thereunder, SEBI (Delisting of Securities) Guidelines, 2003 and other guidelines issued by SEBI from time to time, Listing agreements and all other applicable laws, rules, regulations and guidelines and subject to such approval(s), permission(s) and sanction(s) as may be applicable and acceptable to the Board, and in continuation to the resolutions already passed earlier, the Board of Directors of the Company (hereinafter referred to as "the Board" which term shall include any Committee thereof) be and are hereby authorized and consent of the Company be and is hereby accorded to the Board to get the Securities of the Company delisted from the Delhi Stock Exchange Association Limited, New Delhi, Ludhiana Stock Exchange Ltd., Ludhiana, The Stock Exchange, Ahmedabad, and M.P. Stock Exchange, Indore."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and are 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 the Delhi Stock Exchange Association Limited, New Delhi, Ludhiana Stock Exchange Ltd., Ludhiana, The Stock Exchange, Ahmedabad, and M.P. Stock Exchange, Indore."

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

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 309, 310, 311 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 (including any amendment thereof time being in force) and subject to the approval of the Central Government and such other approvals as may be necessary, the Company do hereby approves the re-appointment of Dr. R. B. Baheti as Chairman and

Managing Director of the Company for a period of three years with effect from 1st November, 2004, on such terms and conditions (including the remuneration to be paid to him in the event of loss or inadequacy of profits in any financial year during the aforesaid period notwithstanding that the same may be in excess of percentage limit laid down in Section 209(3) and Section 198 (1) of the Companies Act, 1956) as set out in the Agreement executed / proposed to be executed, a copy of which duly initialed by the Chairman for the purpose of identification, is available to the members for inspection, which Agreement is hereby specifically sanctioned with liberty to the Board of Directors (hereinafter referred to as "the Board" which term shall include the Remuneration Committee of the Board) to alter and vary the terms and conditions of Agreement, so as not to exceed the limits specified in the Companies Act, 1956, and as may be applicable and agreed to by and between the Board and Dr. R. B. Baheti."

"RESOLVED FURTHER THAT the Board be and is hereby further authorised to take all such steps as may be necessary, proper or expedient to give effect to this resolution."

By Order of the Board of Directors
For STI INDIA LIMITED

Place : Indore
Date : 30th June, 2004

(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 required as per listing agreement and pursuant to the provisions of Section 173(2) of the Companies Act, 1956, is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 20.09.2004 to 27.09.2004 (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. Accordingly the Company has deposited unpaid and unclaimed dividend for the financial year 1995-96 with the fund. The Shareholders may please note that once the unclaimed dividend is transferred to the Investor Education and Protection Fund of the Central Government, as above, no claim shall lie in respect thereof.
5. Members desirous of getting any information about the accounts and operation of the Company are requested to address their query to the Share Department at the Registered Office well in advance so that the same may reach atleast seven days before the date of the meeting to enable the management to keep the required information readily available at the meeting.
6. The members having physical shares are requested to notify immediately any change in their addresses with the postal identity number (Pin code) and quoting their folio numbers to the Company. The Members holding shares in demat form are required to get updated change in their address through their depository.
7. The shareholders may also note that considering inadequacy of profits the company had not declared any dividend for the financial year commencing from 1996-97. The Board of Directors has not recommended any dividend for the year 2003-2004.



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

For item No.2.

Mr. M. R. Shroff, Director of the Company, is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. M.R. Shroff is a renowned Economist and Senior Corporate Executive having rich experience and exposure of trade, industry and business for over last three decades. Mr. M. R. Shroff is associated with the Company and group for many years. He has held various positions on the Boards of many Institutions in public and private sector.

Mr. M.R. Shroff completed his graduation in Science from Bombay University. He is a Fellow member of the Institute of Cost & Management Accountants, London, Institute of Directors, London and The Institute of Cost & Works Accountants of India. He has also participated in various International Conferences & Seminars conducted by the University of Cambridge, Business International, USA, ILO, and Financial Times, London etc. Mr. M.R. Shroff is a well-known financial consultant and is also associated with many leading and reputed industrial establishments for more than 28 years.

Your Directors recommend his re-appointment, as Director liable to retire by rotation, for the approval of members.

For item No. 3.

Mr. R.C. Jain, Director of the Company, is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. R. C. Jain, was a member of Indian Administrative Services and retired as Secretary to Government of India in the Ministry of Coal. He had held several senior positions both in State and Central Government. He was advisor to the honorable Governors of Jammu & Kashmir and Uttar Pradesh in the rank of a Minister of State. He has been on the Board of several renowned Companies and also associated as advisor to various large business houses.

Mr. R.C. Jain has rich experience in the functioning of various corporate bodies over last three decades and has held various positions on the Boards of many Institutions in public and private sector. Mr. R.C. Jain is associated with the Company and group for many years.

Your Directors recommend his re-appointment, as Director liable to retire by rotation, for the approval of members.

For item No. 5.

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

1. Delhi Stock Exchange Association Limited, New Delhi (DSE)
2. Ludhiana Stock Exchange Ltd., Ludhiana (LSE)
3. The Stock Exchange, Ahmedabad (ASE)
4. M.P. Stock Exchange, Indore (MPSE)
5. National Stock Exchange of India Limited, Mumbai (NSE)
6. The Stock Exchange, Mumbai (BSE)

With the computer based online dealing facility available to the investors of the company through NSE & BSE, Mumbai, 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 Association Ltd., New Delhi, The Stock Exchange, Ahmedabad, Ludhiana Stock Exchange, Ludhiana and M.P. Stock Exchange, Indore. Therefore, these four Stock Exchanges do not justify the listing fees paid for above stock exchanges, as they 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. 5 for delisting of its equity shares from Delhi, Ludhiana, Ahmedabad and Indore Stock Exchanges. The Equity shares of the company shall continue listing with NSE and BSE. The members in their eighteenth Annual General Meeting held on 29th September, 2003 had passed a similar resolution, which could not be implemented for unavoidable reasons. Therefore, the resolution at item no.5 is proposed again to renew the approval of the shareholders.

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

FOR ITEM NO. 6

Dr. R. B. Baheti, Chairman and Managing Director of the Company is seeking re-appointment for a period of three years effective from 1st November, 2004. The existing term of appointment of Dr. R. B. Baheti, Chairman and Managing Director of the Company is expiring on 31st October, 2004 and therefore the Board of Directors have approved his reappointment subject to the approval of the shareholders and the Central Government.

The re-appointment of Dr. R. B. Baheti and his remuneration and perquisites are subject to the limits under Section 198, 269, 309, 310, 311 read with Schedule XIII and all other applicable provisions (including statutory amendment thereof) if any, of the Companies Act, 1956.

The Directors furnish more information as under for consideration of the Members and recommend the resolution for acceptance by the Members. None of the Directors other than Dr. R. B. Baheti is concerned or interested in the resolution.

Information required to be disclosed in terms of Notification No. G.S.R. 36 (E) dated 16th January, 2002 issued by Government of India under the provisions of the Schedule XIII of the Companies Act, 1956 is as under:

I. General Information

1) Nature of Industry

STI India Limited is engaged in manufacturing of Quality Cotton Yarn and Cotton Knitted Fabrics. The Company started its Commercial production from 1st April, 1997. The unit was converted into a 100% Export Oriented Undertaking with effect from 1st August, 1999.

2) Date of Commencement of commercial production

The Company started its commercial production, as a Textile Industry, from 1st April, 1997.

3) Financial performance based on given indicators

The Company has an excellent manufacturing facility of 67440 Ring Spindles to manufacture Cotton / blended yarn and 12 knitting Machines to manufacture cotton knitted fabrics. Its product quality is very well established and accepted by the user segment. The Company enjoys the position of one among the market leader in its range of products. The Company is not only confined to domestic market but also exporting its products to foreign markets. During the year 2003-04 the Company recorded a 25% higher turn over at Rs. 160 Crores, out of which Rs. 62 Crores was from export market.

4) Export performance and net foreign exchange Contributions

The Unit was initially established under EPCG scheme of Government of India and based on the export performance of 1997-98 and 1998-99 respectively, the Company have been granted the status of "Export House" and also "Trading House". All these had been achieved within a short period of two and a half years from the date of operation. The unit has been converted into a 100% Export Oriented Undertaking with effect from 1st August, 1999. The Company has exported goods worth Rs. 62 Crores during the year 2003-04. The Company does not have any foreign collaboration, though its state of the art machinery has been mainly imported. The estimated net foreign exchange

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contribution during the year 2003-04 is Rs. 50.00 Crores.

5) Foreign Investment and Collaborators

The Company does not have, at present, any foreign investment and foreign collaborators involved into the affairs of the Company but it will be willing to explore any opportunity in this regard in future.

II. Information about the appointee

i) Background details

Dr. R. B. Baheti, the Promoter Director of the Company is a top level Corporate Executive. Dr. R. B. Baheti born in 1946, is a Post-graduate in Commerce and has Ph.D. in Economics (Gold Medalist) qualification. Dr. R. B. Baheti is a new age entrepreneur. Dr. R. B. Baheti has rich experience in running business for over three decades and dealings in textile is his family Business. Dr. R. B. Baheti is an industrialist by nature. During his tenure, the Company achieved several milestones and the turnover of the Company crossed leaps and bounds.

Dr. R. B. Baheti is also Chairman in several other associate Companies. Besides being member in various sub Committees of Board, in Associate Companies, he is also associated with other Institutions and their governing Board.

ii) Past remuneration

Dr. R. B. Baheti is being paid the salary of Rs. 18.00 Lacs per annum inclusive of all other perquisites entitled as per the rules of the Company and calculated as per the ceiling of minimum remuneration under schedule XIII of the Companies Act, 1956. He is not receiving any sitting fee from the Company.

However, his future salary shall be as approved by the Central Government and subject to the overall ceiling stipulated in Section 198, 309 and Schedule XIII of the Companies Act, 1956.

iii) Recognition or awards

Dr. R. B. Baheti is a well-known and reputed industrialist of Central India. He has been associated with many educational and social organizations. He is recognized and respected as an experienced businessman in the Industry circle. His industrial acumen has been recognized by the Government of India, which conferred upon him "Udyog Patra" for being self-made industrialist.

iv) Job profile and his suitability

Dr. R. B. Baheti has a very rich experience and exposure of Textile Industry, which is his family business also. He is the most suitable managerial personnel for such position in the Company. Any expert professionals with similar experience shall be commanding a very high remuneration in the Industry, in comparison to the minimum remuneration being paid to him, considering the present financial conditions of the Company. Dr. Baheti is one of the Promoter Directors of the Company and does not have personal relationship with any other employees of the Company. He is expected to look after the following functions as Chairman and Managing Director of the Company:

- Management of the day to day affairs of the Company subject to the superintendence and direction of the Board of Directors of the Company.
- Running of the plant of the Company more effectively so as to increase the productivity and reduce the cost of production.
- Retain and develop the high caliber and performing human resource capital of the Company.
- Maintaining and nurturing existing business contractual arrangement and the customer base with simultaneously exploring alternate business opportunities for enhancing the value of stake holders.

- Efforts to get sanctioned corporate debt restructuring from lenders and ensure their continuous support to exceed the net worth of Company to come out of the purview of the Board for Industrial and Financial Reconstruction (BIFR) and excel the performance for revival of the Company.

- Look for alternative and better market opportunities in domestic as well as export area.

- Deal with financial institutions, customers and suppliers.

v) Remuneration proposed

The re-appointment of Dr. R. B. Baheti and his remuneration and perquisites are subject Section 198, 269, 309, 310, 311 read with Schedule XIII and all other applicable provisions (including statutory amendment thereof) if any, of the Companies Act, 1956. The terms of the appointment and remuneration of Dr. R. B. Baheti effective from 1st November, 2004 subject to the approval of Shareholders and the Central Government are as under :

1) SALARY

Name of Appointee	Period of Appointment	Salary Scale w.e.f. 1st November, 2004
Dr. R. B. Baheti - Chairman and Managing Director	Three Years from 1st November, 2004	All inclusive remuneration of Rs. 1,50,000/- p.m.

2) PERQUISITES

- Subject to the limits on remuneration as prescribed or may be prescribed by the Central Government under Schedule XIII of the Companies Act, 1956 (including any statutory amendment thereto in force from time to time) Dr. R. B. Baheti will be entitled to the above remuneration including all perquisites or a revised remuneration as he may be entitled in future subject to amendments to the Act and approval of the Board of Directors of the Company.
- Dr. R. B. Baheti shall be entitled to Contributions to Provident Fund, Superannuation Fund or Annuity Fund in accordance with the practice, rules and regulations in force in the Company from time to time. The contributions to Provident Fund, Superannuation Fund and Annuity Fund will not be included in the computation of ceiling on remuneration to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
- Dr. R. B. Baheti shall be entitled to Gratuity in accordance with the practice, rules and regulations in force in the Company from time to time.
- Dr. R. B. Baheti shall not be entitled to any Stock Option.
- Dr. R. B. Baheti shall be entitled to Encashment of Leave at the end of the tenure, which will not be included in the computation of ceiling on perquisites.
- Dr. R. B. Baheti shall be entitled to reimbursement of entertainment expenses actually and properly incurred in the course of legitimate business of the Company. However, he will not be entitled to any sitting fee for attending the meetings of Board of Directors or committee thereof.
- Dr. R. B. Baheti shall be entitled to cars for use on Company's business and telephones at residence. These will not be considered as perquisites. However, personal long distance calls and use of the cars for private purpose shall be billed by the Company.

3) MINIMUM REMUNERATION

In the event of loss or inadequacy of profits during any financial year,



subject to the approval of the Central Government, the remuneration proposed as above shall be paid by STI India Limited as minimum remuneration subject to such revision as is permissible within the limit prescribed under the provisions of the Companies Act, 1956.

vi) Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person :

Dr. R. B. Baheti has very rich experience and exposure of trade, business and investment in Textile industry, and expert professionals with similar experience are commanding a very high remuneration in the Industry, in comparison to the minimum remuneration being paid to Dr. R. B. Baheti. Considering the size and location of the works and the position and profile of the person, the remuneration proposed is very low only due to present financial conditions of the Company. However as soon as the financials of the Company improves or the Government further relaxes the policies in this regard, Dr. R. B. Baheti be paid a much higher remuneration in future.

vii) Pecuniary relationship directly with the Company or relationship with the managerial personnel, if any :

Dr. R. B. Baheti does not have any pecuniary relationship directly with the Company apart from his salary as above and his involvement as promoter Director of the Company. He does not have any relationship with any other managerial personnel of the Company.

III. Other Information

(1) Reason of loss and inadequate profit

The high cost of servicing past borrowing for the project, and investments not resulting the expected return, have adversely affected the performance of the Company for past few years. Besides this, recession and cutthroat competition in the Textile Industry, factors like terrorism and SARRS affecting global trade of cotton yarn and textile for export business of the Company, insufficient working capital support have also had an adverse effect on the operation resulting in inadequacy or absence of profits in the Company.

(2) Steps taken for improvement

The Company has identified the reasons for its adverse financial status and trying all the available options to improve its performance. Better utilization of its State of the art manufacturing facility, regular shift in marketing strategy for domestic and export market for higher realization, ensuring easy availability of raw material and improvement in productivity are some of the steps taken by the Company. The economic revival and new experiments in the Fashion and Garment industry is perking up demand for Textile Industry which will improve its performance, productivity and profitability.

The Company is also laying greater thrust on conserving and judiciously utilizing its resources and save operating cost. The easing out of interest rate scenario domestically and becoming comparable with the developed economy of the world will also reduce financial burden on the Company. The Company is also in the process of restructuring its liabilities in the present economic conditions and wishes to come out of the adverse conditions gradually.

(3) Expected increase in productivity and profits in measurable terms

The Company Management had explored alternative option for improving the productivity. In this process Company took strategic decision to stop manufacturing Poly / Cotton yarn during December, 2003 to take the benefit of surging 100% cotton yarn market. The change in the market mix has resulted into higher realization by 10% in case of domestic sales. The Company continues to develop new customer base in the domestic and export market.

IV. Disclosures

In addition to the disclosures as given hereunder, other necessary disclosures required under schedule XIII in the case of re-appointment of Dr. R. B. Baheti has also been given in the report of the corporate governance attached to the Directors' report :

- (A) Dr. R. B. Baheti shall not be entitled to receive any other allowance or reimbursement of any other personal expenses, not specifically mentioned here in this agreement.
- (B) The Salary and other perquisites payable to Dr. R. B. Baheti may be reviewed once at the end of every financial year and any increment finalised mutually shall be payable w.e.f. 1st April of the following year.
- (C) The agreement may be terminated by either party by giving six month's notice.
- (D) Dr. R. B. Baheti shall not be entitled to supplement his earnings under the Agreement / appointment with any buying and selling commission. He shall not also become interested or otherwise concerned directly or through his wife and/or other relative in any supply or selling agency of the Company, without appropriate approval.

The draft agreements between the Company and Dr. R. B. Baheti, Chairman and Managing Director is available for inspection of members of the Company at its registered office between 11.00 AM and 1.00 PM hours on any working day of the Company.

This may also be treated as an abstract under section 302 of the Companies Act, 1956 of the terms of the revised remuneration payable to Dr. R. B. Baheti, Chairman and Managing Director with effect from 1st November, 2004. The particulars given above may also be treated as a statement of information required to be given under the Companies Act, 1956.

The Directors recommend the resolution for acceptance by the Members.

None of the Directors other than Dr. R. B. Baheti, is concerned or interested in the resolution.

By Order of the Board of Directors
For STI INDIA LIMITED

(K.N. GARG)
Director

Place : Indore
Date : 30th June, 2004

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DIRECTORS' REPORT

To,
The Members,

The Directors have pleasure in presenting their Nineteenth Annual Report and the Audited Accounts of the Company for the financial year ended 31st March 2004.

PERFORMANCE

The year 2003-04 is the year in which your company could register significant growth due to the improvement in demand from domestic as well as export markets. The outlook for the entire industry is upbeat.

The upturn in demand from Far East, Asian as well as European markets helped the company to better its performance. However, the present market conditions in the U.S. and the impact of SARS in South East market had an adverse effect with our margins coming under pressure. Demand in the domestic market picked up. The Management revised its marketing strategy to suit the changed market conditions by enhancing sales in the domestic market where margins were higher in view of the demand for superior quality yarn by leading textile manufacturers.

During the period under review, the company recorded a turnover of Rs. 160 Crores 25% over the previous year. Sales in the domestic market was higher by 72.32% at Rs. 98.00 Crores from Rs. 56.87 crores last year. Exports were 14.76% lower at Rs. 62.00 crores from Rs. 71.15 crores in the previous year. Production was higher by 2.11% at 12.60 million kgs of yarn.

As the domestic prices were more remunerative than export prices with Domestic Tariff Area (DTA) entitlements, our marketing efforts were concentrated on important markets like Ludhiana, New Delhi, Ahmedabad, Tirupur and Mumbai.

This changed strategy has resulted in sales realization in domestic market, being 10% more in case of export sales.

The company also faced severe liquidity crunch due to limited support from banks and financial institutions which resulted in higher rate of interest cost.

FINANCIAL RESULTS

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

PARTICULARS	2003-2004	2002-2003
Sales	15999.97	12802.35
Profit/(Loss) before interest, depreciation and tax	425.00	749.90
Less : - Depreciation	1087.12	1114.18
- Interest	3924.33	2592.31
- Prior year adjustments	44.77	(668.07)
Profit/(Loss) before tax for the year	(4631.02)	(2288.53)
Loss brought forward from previous year	(14138.66)	(11850.13)
Net Profit/(Loss) carried forward to the Balance Sheet	(18769.68)	(14138.66)

The accumulated losses reported are Rs. 18769.68 Lakhs after adjustments for prior period expenses (Rs. 42.51 Lakhs) and provisions written back (Rs. NIL).

DIVIDEND

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

DIRECTORS' COMMENTS ON AUDITORS QUALIFICATION

Your 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. The company has strengthened the internal control systems of the company by appointing M/s Muchhal Gupta & Co., Chartered Accountants, Indore as Internal Auditors of the Company.

As regards the arrears in payment to financial institutions/banks and Foreign Currency Bond holders, the Management is actively negotiating restructuring proposals with these parties.

MARKETING REVIEW

The current year has started on an optimistic note. Yarn prices have started looking up and we find prospects in the current year to be promising.

By end of September 2003, cotton fibre price in the international market started increasing because of short supply arising from crop failure in China, Pakistan and Australia. The New York cotton exchange Index started shooting up in September and reached its peak in the month of October touching 28 Cents per Pound. This peak resulted in steep increase of cotton yarn prices in international markets like Far East, Middle East, Mauritius and Europe by 60 - 80 Cents per Kg and about Rs. 25 to 30 per Kg in domestic market. Because of huge demand in export market and better prices, we shifted supplies to exports to a considerable extent.

The company took strategic decision to stop manufacturing Poly / Cotton yarn during December, 2003 to take the benefit of surging 100% cotton yarn market which is being continued till date.

However, this buoyancy did not continue into the new year as prices started dropping. As consequence, we had to switch more to the domestic market with share of exports coming down to 45% by March 2004. By adopting this strategy and market re-orientation, we could manage our stock by less than five days and price realization was also good which contribute to better profitability during this period.

We continuously pursued our efforts to develop new customers both in domestic and export markets and at the same time explore new markets in domestic and export. We expanded our business in Mumbai and Tirupur markets and at the same time we developed new customer base in Ichalkaranchi for Coarse and medium weaving counts.

In export market we have developed many new customers in our existing markets and have also entered Philipppians and Indonesia as new market for Coarse counts. We are aggressively trying to penetrate into Turkey, Colombia, Venezuela, Chilly and Brazil.

With the expected abolition of quota system in January, 2005 we look forward to opening up of large export markets in Europe. STI has been selling Poly/Cotton yarn in European markets till December 2003 and has established a good brand name and reputation among customers. We foresee good demand for yarn in Italy, Belgium, Spain and Portugal.



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. They are taking all possible steps for revival for the company including engaging an active negotiation with the financial institutions/bankers for restructuring the debt under Corporate Debt Restructuring (CDR).

BOARD OF DIRECTORS

Mr. M.R. Shroff and Mr. R.C. Jain, Directors, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Subject to approval of the Central Government, a resolution is proposed for approval of shareholders for re-appointment of Dr. R.B. Baheti, Chairman and Managing Director of the Company, as term of his existing appointment expires on 31st October, 2004.

PERFORMANCE OF THE JOINT VENTURE COMPANY

Your Directors are pleased to inform that economic recovery in Refrigerator and Automobile sectors has helped in an improved performance by STI Sanoh India Limited, your Joint Venture Company with Sanoh Industrial Co. Limited. During the year it recorded 34% growth in sales to Rs. 72.80 Crores from Rs. 54.35 Crores. However, margins were under pressure on account of increased raw material costs. The net profit declined to 38.49 Lakhs from Rs. 103.35 Lakhs in the previous year.

As a result of higher GDP Growth of 8% last year and buoyant demand for automobiles and refrigeration industries, we expect the performance to be better in the current year.

AUDITORS

M/s Rastogi Narain & Co. Chartered Accountants, New Delhi, Statutory Auditors of the Company, hold office until the conclusion of the ensuing Annual General Meeting. The Company has received a letter from them to the effect that their appointment if made would be within the limits prescribed under Section 224(1B) of the Companies Act, 1956. Members may accord their approval for their re-appointment.

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 fabrics, every year. Accordingly, M/s R.J. Goel & Co. New Delhi, Cost Accountants are proposed to be re-appointed to carry out audit of the cost accounts maintained by the Company, for the financial year 2004-05. Your Directors recommend their re-appointment as Cost Auditors of the Company under Section 233B of the Companies Act, 1956 subject to the approval of the 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, 1957.

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, 2002. 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). The BIFR has registered the reference at Sr. No. 743/2002 dt 30th December, 2002 and the formalities for revival of the Company are in progress.

RESPONSIBILITY STATEMENT

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

In the preparation of the Annual Accounts for 2003-04, the applicable accounting standards have been followed with proper explanations relating to material departures;

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;

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 they have prepared the annual accounts on a going concern basis.

CORPORATE GOVERNANCE

Your Directors are wedded to good corporate governance as a policy. The Audit Committee and Investors Grievance cum Share Transfer Committee have been constituted, as required. The Remuneration Committee is being constituted. A detailed report on Corporate Governance is attached with the report.

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 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.

INDUSTRIAL RELATIONS

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 Government authorities, Commonwealth Development Corporation, clients and shareholders during the year under review.

For and on behalf of the Board of Directors,

Place : Indore
Date : 30th June 2004

(Dr. R.B. Baheti)
Chairman and Managing Director

19th Annual Report 2003-2004

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, 2004.

Form A (Rule 2)**CONSERVATION OF ENERGY**

1. Adjust blade angles of supply air and return air fans of almost all sections to save power.
2. Install Automatic moisture trap with zero air loss on compressed air system to save power.
3. Switching off lights in production and Auxiliary areas to save power with maintain same light level.

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

For the year **For the year**
2003-2004 **2002-2003**

Power & fuel consumption**Electricity :**

i. Purchased (Units in Lacs)	97.93	145.14
ii. own generated (Units in Lacs)	330.23	286.13
Total amount (Rs in Lacs)	1749.99	1720.25
Rate/Unit (in Rs)	4.09	3.99
Consumption of electrical energy per Kg. of production	3.41	3.14

FORM-B (Rule-2)**(A) RESEARCH AND DEVELOPMENT (R & D)**

1. **Specific Areas in which R & D was carried out**
 - ✦ In-put, In-process & Final Inspection & Testing
 - ✦ Solving Customer Complaints
 - ✦ Sampling / New Developments
 - ✦ Trials
2. **Benefits derived as a results of the above R & D**
 - ✦ Corrective & Preventive Action of the Products
 - ✦ Minimize the Re-occurrences
 - ✦ Improving Yarn Quality
 - ✦ Reduced Rejections
3. **Future Plan of Action**
 - ✦ Effectiveness in Sampling & Testing
 - ✦ Shop Floor Observations
 - ✦ Maintenance Audit
 - ✦ In-coming Material Inspection & Testing
 - ✦ Quality M.I.S. (Data Base)
 - ✦ Quality & Cost

4. Expenditure on Research & Development

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

(B) TECHNOLOGY ABSORPTION, ADAPTION & INNOVATION**1. Efforts, in brief, made towards technology Absorption, Adaption 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.

- I. Ring Traveller : New Hi-tech traveler of LRT successfully introduced to replace imported ones, which is giving same life & quality.
- II. Introduction of an M.B.O. machine for pre-opening of the cotton bales which increased the efficiency of the sorters more than three times, thus reducing manpower.
- III. Introduction of a specially designed Ball Bearing from S.K.F., which has halved the erratic breakdown in unit gear of Ring Frame. This is a twin bearing 7204 BECBP series.

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. By substituting the above mentioned components out quality of the maintenance is at the same level, though we have reduced the cost of maintenance and also the lead time procuring the components.

No. Product used	Cost Per PC (Rs.)	Product Sub-stitute	Cost Per PC (Rs.)	Diff. In Cost (Rs.)	Yearly Con-sumption (Approx.) (Rs.)	Year Saving (Approx.) (Rs.)
1. Bracker Ring Traveller	3200/-	LRT Hi-Tech	1000/-	2200/-	20.80 Lacs	12.80 Lacs
2. Ball Bearing 7204	425 *	7204 BECBP	600 *	(+)175/-	2,31,600 (Previous)	69,600/-
B. TUP. UO Nos.		Nos.				
3. Sorting Manually	5.34 Lacs / Month	Sorting through M.B.O.	3.58 Lacs / Month	1.75 Lacs/ Month	64.08 (Previous)	1.06 Lacs / Month

3. Future Plan of Action

- I. To reduce the hairiness in final yarn we are introducing the latest state of art rings CERANIT / TITAN quality from Germany & Switzerland.
- II. Modified Top Combs: To reduce the comber waste by at least by 1% & maintaining the same quality level on 18 Toyoda combers a modified top comb is planned to be introduced in place of conventional ones.
- III. Modification in Autoconers: To reduce the occurrence of snarls & small-entangled yarn a small modification is required in the cradle & suction arms of Autoconers. Trials have been taken & found to be successful. The parts supplied by Murata Japan, have been developed successfully locally by our maintenance & store department.

4. 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 up for procurement of superior quality cotton.

5. 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	5997.37
- CIF value of imported Spare parts, components and HSD	985.30
- CIF value of machinery	--
- Others	- 32.74
- Traveling	3.62

By Order of the Board of Directors

(Dr. R.B. Baheti)

Chairman and Managing Director

Place : Indore

Date : 30th June, 2004