

22<sup>nd</sup>

Annual Report

2006-07



*Quality & Commitment*



**STI India Limited**

Manufacturers of quality Cotton Yarn & Cotton Knitted Fabrics

## Twenty Second Annual Report 2006-2007

### BOARD OF DIRECTORS

(As on 31st July, 2007)

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. ASHOK SHARMA	<i>Director</i>
DR. INDIRA J. PARIKH	<i>Director</i>
MR. K. N. GARG	<i>Director</i>

MUKESH KUMAR GARG - *Company Secretary*

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### REGD. OFFICE, WORKS & SHARES DEPARTMENT

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Tehsil-Mhow,  
Distt, Indore (M.P.) - 453 332 INDIA  
Tel. :+91-0731-4020000 / 05  
Fax: +91-0731-4020011

### AUDITORS

M/s Rastogi Narain & Co.,  
Chartered Accountants,  
304-305, Lotus Chamber,  
2079/38, Nalwa Street, Karol Bagh,  
New Delhi - 110 005 INDIA  
Tel. : 011-28754688, 28752005

### ADMINISTRATIVE OFFICE

Badgara House,  
13/1, New Palasia,  
Indore (M.P.) 452 001 INDIA  
Tel. :+91-0731-2530950, 2530271  
2538888  
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### TWENTY-SECOND ANNUAL GENERAL MEETING

*of the Company to be held  
on Saturday, the 29th  
September,  
2007 at 12.00 Noon, at  
Regd. Office of the Company*

**NOTICE OF THE TWENTY-SECOND ANNUAL GENERAL MEETING**

NOTICE is hereby given that the Twenty-Second Annual General Meeting of the members of STI INDIA LIMITED will be held at its Registered Office at Rau-Pithampur Link Road, Tehsil: Mhow, Distt. Indore - 453 332 (M.P.) on Saturday the 29th September, 2007, at 12.00 Noon to transact the following business:

**ORDINARY BUSINESS:**

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2007 and the Profit and Loss Account for the year ended on said 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 as recommended by the Audit Committee of the Company at a remuneration of Rs.5,00,000/- with service tax and such 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 ORDINARY RESOLUTION.**

"RESOLVED THAT Mr. Ashok Sharma, who was appointed as an Additional Director of the Company with effect from 23rd April, 2007 and who holds such office until the date of this meeting in terms of Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member under Section 257 of the Act, proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company liable to retirement by rotation."

6. **TO CONSIDER, AND IF THOUGHT FIT, TO PASS, WITH OR WITHOUT MODIFICATION (S) THE FOLLOWING RESOLUTION AS ORDINARY RESOLUTION.**

"RESOLVED THAT Dr. (Mrs.) Indira J. Parikh, who was

appointed as an Additional Director of the Company with effect from 31st July, 2007 and who holds such office until the date of this meeting in terms of Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member under Section 257 of the Act, proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company liable to retirement by rotation."

7. **TO CONSIDER RE-APPOINTMENT OF DR. R. B. BAHETI, AS CHAIRMAN & MANAGING DIRECTOR OF THE COMPANY.**

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, 2007, 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 198 and Section 209 of the Companies Act, 1956) as set out in the draft Agreement 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 authorized 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  
Mukesh Kumar Garg  
Company Secretary

Place : Mumbai  
Date : 31st July, 2007

**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 Register of Members and Share Transfer Books of the Company will remain closed from 24th September, 2007 to 29th September, 2007 (both days inclusive).
3. Pursuant to the provisions of Section 205C of the Companies Act, 1956, the money remained unpaid for more than 7 years from the due date of refund has been transferred to the Investor Education and Protection Fund of the Central Government.
4. Members desirous of getting any information about the accounts and operation of the Company are requested to

address their query to the Shares Department at the Registered Office well in advance so that the same may reach at least seven days before the date of the meeting to enable the management to keep the required information readily available at the meeting.

5. 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 addresses through their depositories.
6. Companies Equity Shares are listed at National Stock Exchange (NSE), Mumbai, and Bombay Stock Exchange (BSE), Mumbai. The Company has already paid listing fee to both the Stock Exchanges upto the Financial Year 2007-08.
7. The shareholders may also note that considering inadequacy of profits the Board of Directors has not recommended any dividend for the year 2006-2007.

**Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 and details required as per Listing Agreement & other compliances.**

**FOR ITEM NO.2 .**

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

Mr. M.R. Shroff, a renowned Economist and Senior Corporate Executive has 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, a graduate in Science from Bombay University, is also a Fellow member of the Institute of Cost & Management Accountants, London, Institute of Directors, London and The Institution 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 & social establishments.

Your Directors recommend his re-appointment, as Director liable to retire by rotation, for the approval of members. None of the Directors of the company other than Mr. M. R. Shroff is concerned or interested in the resolution.

**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 offer himself for re-appointment.

Mr. R. C. Jain was a member of the Indian Administrative Services and retired as Secretary to the Government of India in the Ministry of Coal. He has 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 vast experience of the functioning of corporate bodies and rich administrative capabilities. He has held various important positions in his long outstanding carrier in 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. None of the Directors of the company other than Mr. R. C. Jain is concerned or interested in the resolution.

**FOR ITEM NO. 5**

Mr. Ashok Sharma, was appointed as an Additional Director on the Board of the Company with effect from 23rd April, 2007 and as such he holds his office till the date of the ensuing Annual General Meeting.

Mr. Ashok Sharma, a Mechanical Engineer from BITS, is also an MBA (Finance) from Wharton University, USA. On the Board of Directors of the Company Mr. Ashok Sharma represents Eight Capital & Associates, the overseas private investors of the company. As member of the Board Mr. Sharma is likely to add immense value for the long-term growth of the Company.

The Company has received a Notice from a shareholder proposing his name for appointment as Director of the Company liable to retire by rotation in terms of Section 257 of the Companies Act, 1956. Accordingly, a resolution at item No. 5 is placed before the members for his appointment. The Board of Directors recommends his appointment for approval of the members.

None of the Directors of the company other than Mr. Ashok Sharma is concerned or interested in the resolution.

**FOR ITEM NO. 6**

Dr. (Mrs.) Indira J. Parikh, an eminent management personality from Indian Institute of Management (IIM), Ahmedabad, was appointed on the Board as Additional Director of the Company on 31st July, 2007 and as such she holds her office till the date of the ensuing Annual General Meeting.

Mrs. Parikh, who is currently, President of Foundation for Liberal And Management Education (FLAME) Pune was Dean of Indian

Institute of Management, Ahmedabad. Mrs. Parikh as one of the renowned Management experts of the Country has very vast & rich experience of managerial aspects of global Trade, Business and Industry. Mrs. Parikh, a managerial research expert has studied growth and development behavior of many industries / industrial houses in India & abroad. She is widely traveled around the globe and has attended many seminars, conferences, conventions and convocations.

Dr. (Mrs.) Indira J Parikh has completed her Ph.D. from Gujarat University, Ahmedabad, with M.A. from University of Rochester, Rochester, N.Y. USA and B.A. from Social Studies University of Rochester, Rochester, N.Y. USA. Mrs. Indira J. Parikh has been credited with three Life Time Achievement Awards for her Valuable contributions to IIM. She has been representing on the Board of many prestigious Companies and therefore the appointment of Mrs. India J. Parikh is going to add immense value to the Company.

The Company has received a Notice from a shareholder proposing her name for appointment as Director of the Company liable to retire by rotation in terms of Section 257 of the Companies Act, 1956. Accordingly, a resolution at item No. 6 is placed before the members for her appointment. The Board of Directors recommends his appointment for approval of the members.

None of the Directors of the company other than Mrs. Indira J. Parikh is concerned or interested in the resolution.

#### FOR ITEM NO. 7

The existing term of appointment of Dr. R. B. Baheti, Chairman and Managing Director of the Company is expiring on 31st October, 2007. Therefore, Dr. R. B. Baheti, is seeking re-appointment for a period of three years effective from 1st November, 2007. The Board of Directors have approved his reappointment subject to the approval of the shareholders.

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 Company is furnishing more information as under for consideration of the Members. The Remuneration Committee & the Board of Directors have recommended 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 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 from 1st April, 1997.

##### 3) Financial performance based on given indicators :

The Company has an excellent manufacturing facility of 68018 Ring Spindles to manufacture Cotton /

blended yarn and 16 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 confined to domestic market and exporting majority of its products to developed overseas markets.

#### 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 was converted into a 100% Export Oriented Undertaking with effect from 1st August, 1999. The Company does not have any foreign technical collaboration, though its state of the art machinery has been mainly imported.

#### 5) Foreign Investment and Collaborators:

The Company has been successful in attracting a total foreign investment of Rs.141,12,75,000/- towards the subscription of Optionally Convertible Debentures and Convertible Warrants from the overseas investors.

The company has utilized the subscription as above to repay all existing liabilities of its four secured creditors i.e. Industrial Development Bank of India Limited, State Bank of India, Indusind Bank Ltd and State Bank of Indore as full and final settlement of their dues under the various agreements executed by and between the company, overseas investors as well as secured lenders.

The Company however does not have any foreign Technical Collaboration.

#### 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 Ph.D. in Economics (Gold Medalist). Dr. R. B. Baheti is a new age entrepreneur. Dr. R. B. Baheti has rich experience of running businesses for around four 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.

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 Prestigious Educational Institutions viz. Indian Institute of Management, Indore, Indian Institute of Information Technology & Management, Gwalior etc.

##### ii) Past Remuneration :

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.

Currently, Dr. R. B. Baheti is being paid an Annual Salary of Rs. 18.00 Lacs plus other perquisites as per the rules of the Company. He is not receiving any sitting fee from the Company.

**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 Industrialist in the Industry circle. His industrial acumen has been recognized by the Government of India, which conferred upon him "Udyog Patra" for being a 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. 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:

- Exploring the opportunities in the market for expansion and diversification.
- Maintaining and nurturing existing business contractual arrangement and the customer base with simultaneously exploring alternate opportunities for enhancing the value of stake holders.
- Consider various options for organic and un-organic growth of the Company.
- Management of the day-to-day affairs of the Company with support of other key executives of the Company subject to the superintendence and direction of the Board of Directors of the Company.
- Dr. R. B. Baheti has been the chief mentor behind the sanction of Debt Restructuring by major lender and One Time Settlement by secured lenders and ensuring their continuous support to the Company. This has resulted the net worth of Company being into positive for coming out of the purview of the Board for Industrial and Financial Reconstruction (BIFR).
- General Superintendence over the plant operation of the Company 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 congenial relationship with Financial partners, Financial Institutions, Regulatory Authorities, Board members, Head of Reputed Business groups, Customers and other business partners.
- Look for alternative and better market opportunities in

domestic as well as export area.

**v) Remuneration proposed:**

The re-appointment of Dr. R. B. Baheti and his remuneration and perquisites are subject to 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, 2007 subject to approval of the Shareholders are as under:-

**1) SALARY: -**

Name of Appointee	Period of Appointment	Salary w.e.f.1st November, 2007
Dr. R. B. Baheti - Chairman and Managing Director	Three Years from 1st November, 2007	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 in view of the profitability 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. These contributions 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 be entitled to Stock Option as per the Scheme and rules of the Company.
- Dr. R. B. Baheti shall be entitled to Encashment of Leave as per the Scheme and rules of the Company.
- Dr. R. B. Baheti shall be entitled to reimbursement of entertainment expenses actually 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.

**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. The Board of Directors shall be entitled to make such modifications in the remuneration payable to Dr. R. B. Baheti as it may deem fit in view of the profitability without referring it again to the shareholders of the Company subject however to the mutual consent of Dr. R. B. Baheti.

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, Stake holder & Member of the Company. He has however given personal guarantees for the borrowings 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 cut-throat competition in the Textile Industry, Increase in the raw material prices, appreciation in the rupee, 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.

However with the removal of the trade barriers under the WTO agreements, One time settlement of majority of existing secured debt and consequential reduction in the accumulated losses have brought the net worth of the Company into positive and the company expect an improved profitability in future.

(2) **Steps taken for improvement :**

The Company has identified the reasons for its adverse financial status and tried 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, efforts of modernization and diversification in product range 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.

(3) **Expected increase in productivity and profits :**

The Company is gradually moving towards manufacture 90% combed cotton yarn in place of partial corded yarn status. The production of high value organic cotton yarn & Eli-twist yarn is also going to contribute company better margin on its sales.

**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 finalized 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 up to the date of Annual General Meeting.

This may also be treated as an abstract under section 302 of the Companies Act, 1956 of the terms of the remuneration payable to Dr. R. B. Baheti, Chairman and Managing Director with effect from 1st November, 2007. The particulars given above may also be treated as a statement of information under the Companies Act, 1956, Listing Agreement with the Stock Exchanges and any other compliance required in this regard.

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

Mukesh Kumar Garg  
Company Secretary

Place : Mumbai  
Date : 31st July, 2007

## DIRECTORS' REPORT

To,  
The Members,

The Directors have pleasure in presenting their Twenty-Second Annual Report and the Audited Annual Accounts of the Company for the financial year ended 31st March, 2007.

### FINANCIAL RESULTS

The salient features of the Company's financial results during the year are as under: (Rs. in Lacs)

PARTICULARS	2006 - 07	2005 - 06
<b>Sales &amp; Other Income</b>	<b>15809.94</b>	<b>15934.56</b>
<b>Expenditures</b>	<b>13867.01</b>	<b>13484.04</b>
<b>Earnings before Interest &amp; Depreciation</b>	<b>1942.93</b>	<b>2450.52</b>
Less - Interest	254.26	1235.65
Less: - Depreciation	1092.82	1095.08
<b>Net Profit/(Loss) for the year</b>	<b>595.85</b>	<b>119.79</b>
(Less) Prior year adjustments	-0.25	-
(Less) Provision for Tax (FBT)	-12.63	-15.50
Provisions Written Back	17.08	-
Interest Earlier Years	2625.16	-
Extinguishments of Loan Liabilities	6943.24	-
<b>Adjusted Profit/(Loss) for the year</b>	<b>10168.45</b>	<b>104.29</b>
Balance brought forward from previous year	(14196.57)	(14300.85)
<b>Net Profit/(Loss) carried forward to the Balance Sheet</b>	<b>(4028.12)</b>	<b>(14196.56)</b>
Less: Share Premium	3773.00	3765.00
<b>Profit &amp; Loss Account</b>	<b>(255.12)</b>	<b>(10431.57)</b>
<b>Adjusted Net Worth of the Company</b>	<b>2684.89</b>	<b>(7921.31)</b>

### PERFORMANCE

During the financial year under review, your Company recorded almost the same turnover in value term of Rs.158 Crores (Rs.159 Crores). However due to increase in sales of higher value added products, the Company's realization has increased. Though turnover in quantity term at 13904MT was lower in comparison to 14514 MT in the previous year, the average sales realization was Rs.113.17 per Kg. (Rs.109.27).

In terms of profitability the year under review has seen a good turnaround with Net Profit registering five-fold surge at Rs.596 Lacs (Rs.120 Lacs) mainly on account of reduced interest cost due to one time Settlement of dues reached with major secured lenders.

Due to increase in the yarn combing capacity production of combed yarn was 11% more this year than in the previous year. Similarly the production of Knitted fabrics has also gone up by 16% from 1449MT to 1674MT this year. The profitability of the Company would have been much better if the cotton prices had not firmed up and the sales prices dipped in the last quarter of the year under review, combined with appreciation of the rupee.

Your Company, being a 100% EOU, major thrust was placed on expansion of sales in various export markets specifically Europe, US, Canada and other developed Countries. This has resulted in Exports being higher by 8% at 9836MT (9237 MT). Exports at Rs.10286 lacs were better by 6% (Rs.9689 Lacs). The Sales in domestic market were lower at Rs.4068 Lacs (Rs. 5277 Lacs).

The company continued to face working capital constraints during the year. With the completion of process of One Time Settlement with the secured lenders and entry of overseas private investors and their funding support, the company expects the position to improve, as it is hopeful of obtaining sanction of funds from the Banks.

### ONE TIME SETTLEMENT OF EXISTING DEBTS

The Board of Directors are pleased to inform the members that with the support of majority of secured lenders and successful negotiation with them, the company has utilized a major part of the subscription received from overseas private investors towards settlement of the existing outstanding liabilities of its 4 secured creditors i.e. Industrial Development Bank of India Limited, State Bank of India, IndusInd Bank Ltd and State Bank of Indore as full and final settlement of their dues under the various agreements executed by and between the company, overseas investors as well as secured lenders. The company has utilized an amount of Rs. 112.03 Crores towards the OTS. The Board of Directors conveys its deepest appreciation to the financial institutions and banks for their unstinted support for all these years as well as in reaching to the One Time Settlement.

### OVERSEAS PRIVATE INVESTMENT

The members of the company are aware that after restructuring of its debt the company had initiated negotiations with its major term lenders and banks for One Time Settlement (OTS) of its dues payable to them. The majority of the term lenders and banks welcomed the initiatives of the company for OTS and accorded their consent.

The Board of Directors are pleased to inform that the company has been successful in attracting the funding support from two overseas Private Equity Investors to settle these lenders through OTS. Spinnaker Investment Group, United Kingdom and Eight Capital & Associates, United States have in total invested an amount of Rs.141,12,75,000/- Crores in the company towards the subscription of Optionally Convertible Debentures and Convertible Warrants.

### PREFERENTIAL ALLOTMENT OF OCDs, & CONVERTIBLE WARRANTS TO OVERSEAS INVESTORS & PROMOTERS

The Members of the company are aware that the company had called and held two extra-ordinary General Meeting of the company respectively on 18th January, 2007 and 23rd March, 2007 to obtain their approval for the offer, issue and allotment of securities. In terms of their approval accorded to the company the Board of Directors have considered preferential allotment of securities on private placement basis to the overseas private investors and promoters as under: -

- Up to 45,80,000 Rupee Denominated Optionally Convertible Debentures (OCD Series 1) of Rs. 50/- each for an aggregate amount of Rs. 22.90 Crores for a tenure of 18 months, at a coupon rate of 12% p.a. compounded net of taxes and payable quarterly and each OCD series 1 is optionally convertible into one fully paid-up Equity Share of the face value of Rs.10/- each (at an pre-determined strike price of Rs. 50/- per share).
- Up to 26,00,000, Rupee Denominated Optionally Convertible Debentures (OCD Series 2) of Rs. 50/- each for an aggregate amount of Rs. 13 Crores for a tenure of 6 months, at a coupon rate of 12% p.a. compounded net of taxes and payable quarterly

and each OCD series 2 is optionally convertible into one fully paid-up Equity Share of the face value of Rs.10/- each (at an pre-determined strike price of Rs. 50/- per share).

- c) Up to 50,00,000. Rupee Denominated Optionally Convertible Debentures (OCD Series 3) of Rs. 10/- each for an aggregate amount of Rs. 5 Crores for a tenure of 18 months, at a coupon rate of 12% p.a. compounded net of taxes and payable quarterly and each OCD series 3 is optionally convertible into one fully paid-up Equity Share of the face value of Rs.10/- each (at price of Rs.10.20 per share calculated as per the prescribed guidelines issued by SEBI in this regard and on such other terms and conditions as may be decided by the Board in its absolute discretion.
- d) Up to 2,00,00,000 Rupee Denominated Optionally Convertible Debentures (OCD Series 4) of Rs. 50/- each for an aggregate amount of Rs. 100.00 Crores for a tenure of 18 months, at a coupon rate of 12% p.a. compounded net of taxes and payable quarterly and each OCD series 4 is optionally convertible into one fully paid-up Equity Share of the face value of Rs.10/- each (at an pre-determined strike price of Rs. 50/- per share) and on such other terms and conditions as may be decided by the Board in its absolute discretion.
- e) 18,75,000 fully paid-up Convertible Warrants to the Overseas Private Investors and Promoters of the Company for an aggregate amount up to Rs.191.25 Lacs on preferential basis with an option to the holder of each such warrant to apply for and be allotted one equity share of Rs. 10/- each of the Company at a premium of Rs.0.20 per share calculated as per the prescribed guidelines issued by SEBI in this regard within 18 months from the date of allotment thereof.
- f) 6,25,000 fully paid-up Convertible Warrants to the Promoters of the Company for an aggregate amount up to Rs.106.25 Lacs on preferential basis with an option to the holder of each such warrant to apply for and be allotted one equity share of Rs. 10/- each of the Company at a premium of Rs.7/- per share calculated as per the prescribed guidelines issued by SEBI in this regard within 18 months from the date of allotment thereof.

#### **PREFERENTIAL ALLOTMENT OF EQUITY SHARES TO STATE BANK OF INDIA (SBI)**

The Board of Directors is further pleased to inform to the members that the Company's efforts supported by the Overseas Private Investors for one time settlement of dues have received a good support from State Bank of India (SBI). SBI expressed its intention to take 40,00,000 Equity shares of Rs. 10/- each of the Company at price to be determined as per SEBI guidelines as part of the One Time Settlement (OTS). The Company has obtained the approval of members in Extra- Ordinary General Meeting held on 18th January, 2007 by a special resolution for preferential allotment of 40,00,000 Equity Shares to SBI and completed the legal formalities.

The Company has received all the required approvals for securities issued as above from the National Stock Exchanges and Bombay Stock Exchange, where the shares of the Company are listed and actively traded.

#### **CAPITAL EXPENDITURE**

The Board of Directors are pleased to further inform that the Company has already embarked on a capital expenditure plan for value adding machineries and a part of other balancing equipment mainly to increase Yarn Combining Capacity, upgrade the quality

by eliminating maximum contamination in the cotton and saving in the Manpower and Power Cost.

With the additional funding available, the Company is now planning to install other quality & quantity enhancing machines, expected to fuel growth and improve competitiveness.

#### **FUTURE EXPANSION / DIVERSIFICATION PLANS**

With a view to keep the pace with ever-increasing competition and further strengthen the growth momentum with profitability, the Company wants to explore all avenues of organic and inorganic growth. Where the Company has plans for an expansion of its spindle capacity to reach the target of 1,00,000 Spindles from current capacity of 68,018 spindles, the Company would like to add required modern machineries also to enter in manufacturing of value added yarn qualities such as Slub Yarn, Compact Yarn and Elitwist Yarn.

All the above measures will help placing the Company on a path of sustained growth with improved margins.

#### **DIVIDEND**

In view of the carry forward losses the Board of Directors does not recommend any dividend for the year under review.

#### **MARKETING REVIEW**

India has been successful in carving a niche for itself as a strong player in the middle and high value segments of the textile market. We believe that India is moving on the right track to gain entry into major global retailer/outlets and establish itself as a preferred global supplier of textiles and clothing.

Based on huge demand in export markets and better price realizations, the Company continued with its focus on channeling supplies to European and American Markets, with efforts to develop new customers and new markets in export with higher realizations.

#### **FUTURE OUTLOOK**

India is in a unique position to take advantage of the post WTO situation. After abolition of the quota system, as the textile sector integrates increasingly into the multilateral trading system, the Indian textile industry will undergo a massive resurgence. As a result, the recent globalization efforts of the textile industry will bear fruits resulting in growing requirements for outsourcing in textiles. To respond to the emerging opportunities companies have undertaken massive capacity expansion, which is expected to result in rapid top line growth in coming years and improve the profitability of units responding speedily. Considering the current market trends Indian market share in textile and garments to all the developed countries is expected to double from the current level in next 3 years.

#### **BOARD OF DIRECTORS**

The Board of Directors well-come appointment of Mr. Ashok Sharma & Dr. (Mrs.) Indira J. Parikh on the Board during the year. Their appointments as Directors liable to retire by rotation are submitted to the shareholders for their approval in the ensuing Annual General Meeting.

Mr. Ashok Sharma is a Mechanical Engineer from BITS and MBA (Finance) from Wharton University, USA. On the Board Mr. Ashok Sharma will represent Eight Capital & Associates.

Dr. (Mrs.) Indira J Parikh, who is currently, President of Foundation for Liberal And Management Education (FLAME) Pune, was Dean



of Indian Institute of Management, Ahmedabad. Mrs. Parikh has completed her Ph.D. from Gujarat University, Ahmedabad. She is one of the renowned Management experts of the Country. Mrs. Parikh has very vast & rich experience of managerial aspects of global Trade, Business and Industry. Appointment of these independent directors will further broad base the Board of Directors and going to add immense value for the Company.

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

It is proposed to re-appoint Dr. R. B. Baheti as Chairman & Managing Director of the Company for a further period of three years on expiry of his current term on 31st October, 2007. Necessary resolution in this regard is submitted to the shareholders for their approval in the ensuing Annual General Meeting.

#### **PERFORMANCE OF STI SANOH INDIA LIMITED - THE JOINT VENTURE COMPANY**

Your Directors are pleased to inform that growth in the automobile and refrigeration sector have resulted in a yet another year of improved performance by STI Sanoh India Limited, your Joint Venture Company (JVC) with Sanoh Industrial Co. Limited.

The growth of sales and operating Income for the JVC during the year was 19% more at Rs. 92.13 Crores (Rs.77.30 Crores). The profitability at Rs.595 Lacs is higher by 48% in comparison to Rs. 401 Lacs in the previous 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 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 for the financial year 2007-08.

#### **DIRECTORS' COMMENTS ON AUDITORS QUALIFICATION**

Your Directors have taken note of the observations / suggestions of the Company's Auditors in their report including its annexure and positive measures have been taken to implement the same. All their points have been adequately covered and explained in the notes to the accounts. The Company has further strengthened the internal control systems and procedures by enlarging and upgrading the scope of work of Internal Auditors. The Company has also appointed M/s. PricewaterhouseCoopers Pvt. Ltd. as Management Auditors during the current year as a measure to further enhance and upgrade the operating efficiency & management control systems and procedures by their suggestions.

#### **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 during the year under review.

#### **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 2006-07, 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;

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

#### **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.

#### **CORPORATE GOVERNANCE**

Your Directors are committed to good corporate governance as a policy. The Audit Committee, Investors Grievance cum Share Transfer Committee and Remuneration Committee have been constituted, as required. A detailed report on Corporate Governance is given in the annexure, which form 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**

The company provides a congenial and friendly atmosphere to its employees to maintain cordial relations and motivate them to develop to their full potential. Industrial Relations throughout the year were very peaceful.

#### **APPRECIATION**

Your Directors place on record their sincere appreciation to the Financial Institutions, Banks, Central and State Government authorities, Commonwealth Development Corporation, clients and shareholders for their support and co-operation during the year. The Directors convey their special thanks to the overseas financial partners and look forward for their unstinted support.

For and on behalf of the Board of Directors,

**Dr. R.B. Baheti**

*Chairman and Managing Director*

Place: Mumbai

Date : 31st July, 2007