



**DIRECTORS' REPORT
&
ANNUAL ACCOUNTS
2001-2002**

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THE STATE TRADING CORPORATION OF INDIA LTD.
Jawahar Vyapar Bhawan, Tolstoy Marg, New Delhi-110001



THE STATE TRADING CORPORATION OF INDIA LIMITED

BOARD OF DIRECTORS

CHAIRMAN & MANAGING DIRECTOR

Dr. S.M. Dewan

DIRECTORS

Dr. Arvind Pandalai

Dr. T.S. Sagar

Shri Vijay Krishan (From 1.8.2002)

Shri P.K. Gupta (Upto 31.7.2002)

EX-OFFICIO DIRECTORS

Shri S.D. Kapoor

Shri Vinay Bansal (From 20.3.2002)

Shri A.N. Tiwari (From 19.8.2002)

Shri S.N. Menon (Upto 20.3.2002)

Shri Atul Sinha (Upto 16.7.2002)

Shri L. Mansingh (From 16.7.2002 to 19.8.2002)

COMPANY SECRETARY

Shri A.K. Gupta



THE STATE TRADING CORPORATION OF INDIA LTD.

JAWAHAR VYAPAR BHAWAN, TOLSTOY MARG, NEW DELHI-110001

NOTICE

Notice is hereby given that the 46th Annual General Meeting of the State Trading Corporation of India Ltd., will be held at 4.00 p.m. on Friday, the 27th September, 2002 at the registered office of the Corporation at "Jawahar Vyapar Bhawan", Tolstoy Marg, New Delhi- 110001 to transact the following business:

1. To receive and adopt Directors' Report and audited Balance Sheet and Profit and Loss Account of the Corporation for the year ended 31st March, 2002.
2. To declare that the Special Interim Dividend of 146.5% already paid to the shareholders be treated as the final dividend for the year.
3. To ratify the appointment of Shri Vinay Bansal & Shri A.N. Tiwari as part-time Directors of the Company.
4. To ratify the appointment of Shri Vijay Krishan as whole-time Director (Finance) of the Company.
5. To re-appoint Shri Arvind Pandalai, Director, who retires by rotation at the AGM, as a whole-time Director of the Company on the terms & conditions approved by the President of India from time to time. Being eligible, he has offered himself for re-appointment.
6. To re-appoint Shri S.D. Kapoor, who retires by rotation at the AGM, as a part-time Director of the Company on the terms & conditions approved by the President of India from time to time. Being eligible, he has offered himself for re-appointment.
7. To approve remuneration of Auditors to be appointed by CAG of India under Section 610 of the Companies Act, 1956 for the financial year 2002-2003.

NOTES

- a. A member entitled to attend and vote, is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.
- b. The Register of Members and Share Transfer Books of the Company shall remain closed from 25th September to 28th September, 2002 (both days inclusive).
- c. Members are requested to bring with them copy of Annual Report and Attendance Slip at the Annual General Meeting.
- d. Proxy form and Attendance Slip are attached at the end of Annual Report.

By Order of the Board of Directors

Sd/-
(A.K.GUPTA)
COMPANY SECRETARY

DATED : 2nd September, 2002
NEW DELHI

To - Members
- Auditors

DIRECTORS' REPORT

The Board of Directors has pleasure in presenting the 46th Annual Report on the working of the Corporation together with the audited statements of accounts for the year ended 31st March, 2002.

ECONOMIC ENVIRONMENT - General

Already affected severely by the recessionary trends, the world economy suffered another setback as a result of September 11, 2001 attacks on World Trade Centre. The global developments cast their shadow on Indian economy also. The growth in the industrial sector during 2001-02 declined to 2.8% as against 6.7% achieved in the previous year, mainly due to lower consumer demand. Fortunately for India, the agricultural production went up by 5.7% during the year as against the decline of 0.2% in the previous year. As a result of this, the overall GDP registered a growth of 5.4% in the year 2001-02 as against a rise of 4% in 2000-01.

The exports from India fell marginally during 2001-02 after achieving a growth of 20% during 2000-01 because of various domestic and international reasons. Imports grew by a nominal 1.1% despite a steep hike in the prices of petroleum products. However, country's foreign exchange reserves recorded a robust growth from US\$ 42 billion at the end of 2000-01 to US\$ 54 billion at the end of 2001-02.

With a view to improving the overall business environment and growth, major reform initiatives have been taken in the agriculture sector and consolidation of tax reforms has been continued in the policy announcements made by the Government of India in the Union Budget for 2002-03 and the EXIM Policy : 2002-07.

ECONOMIC ENVIRONMENT - With Particular Reference to STC

As a result of liberalised foreign trade policy adopted by the Government, all export/import items earlier canalised through STC have already been decanalised. Import of other items earlier handled by the Corporation on Govt. Account, namely, edible oils, sugar, wheat, etc. have also since stopped either due to better domestic availability or due to the changed Govt. policy.

Presently, there is no item export or import of which is canalised through STC. During 2001-02, the entire turnover of the Corporation was by way of non-canalised competitive trading and no part of the same came from canalised or Govt. Account business. As such, today

the Corporation functions almost like any other private trading house. In the present competitive global trading environment, the margins are very low. The Corporation is, therefore, making efforts to increase the volume of business in identified areas so as to attain a reasonable level of profitability.

The vanishing of Govt. Account business has not only hampered the turnover and profitability of the Corporation but has also rendered a substantial part of the Corporation's manpower redundant resulting in a high overheads to turnover ratio. A large part of the overheads being fixed, the only way to improve the overheads to turnover ratio is to increase the turnover.

The ongoing process of disinvestment in STC by the Government proved to be another performance dampener. Buyers and suppliers are not coming forth to enter into any long-term business relationship with STC due to likely change in the status of the Corporation after disinvestment and employee morale is low.

PERFORMANCE HIGHLIGHTS

The Corporation's performance highlights for the year 2001-02 are summarised below:

	(Rs. Crores)	
	2000-01	2001-02
<u>TURNOVER</u>		
EXPORTS	463	696
IMPORTS		
Govt. Account	63	—
STC Account	362	780
TOTAL	425	780
DOMESTIC	152	106
GRAND TOTAL	1040	1582
<u>FINANCIAL</u>		
Profit After Tax	3	-41
Dividend	6	44
Transfer to General Reserves	0.22	—
Net worth	447	322

DIVIDEND

The Corporation declared Special Interim Dividend @ 146.50% i.e. Rs.14.65 per equity share from the General Reserves of the Company. The Special Interim Dividend was paid with the approval of Government of India

(Department of Company Affairs, New Delhi) U/Sec. 205 A (3) of the Indian Companies Act, 1956, and the same may be treated as final dividend.

REVIEW OF PERFORMANCE

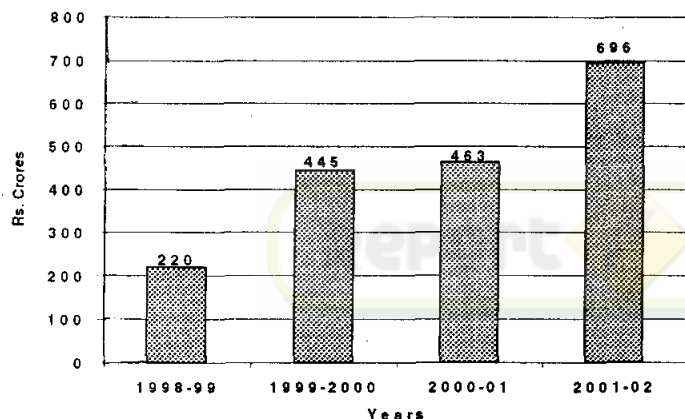
TOTAL TURNOVER

During the year, total turnover of the Corporation recorded an impressive increase of 52%, going up from Rs.1040 crore in 2000-01 to Rs.1582 crore during 2001-02. Excluding business handled on Government account, the increase in turnover on STC's own commercial account was even much higher at about 85% - rising from Rs. 857 crore in 2000-01 to Rs.1582 crore during 2001-02.

EXPORTS

In spite of worldwide recession in trade, disturbances in Gujarat affecting shipments and the ongoing process of disinvestment in STC, the Corporation's exports continued to grow.

Non-Canalised Exports Turnover



The total exports during the year 2001-02 at Rs.696 crore were up by 50% compared to Rs.463 crore in the last year.

Wheat

Making best use of its expertise in handling bulk commodities, the Corporation exported wheat worth Rs.481 crore during the year under review as against only Rs.164 crore during the last year. This could be achieved despite private exporters also being allowed to undertake exports of wheat by the Government during 2001-02.

Rice

During the preceding years, STC had been making efforts to develop rice as a major export item. The efforts made in this direction bore fruits and during the year

2001-02, the Corporation was able to effect substantial exports of rice amounting to Rs.52 crore to African countries.

Castor Oil

Due to slackness of international demand and steep fall in the international prices, the Corporation's export of castor oil at Rs.62 crore during 2001-02 were lower than Rs.129 crore in the previous year.

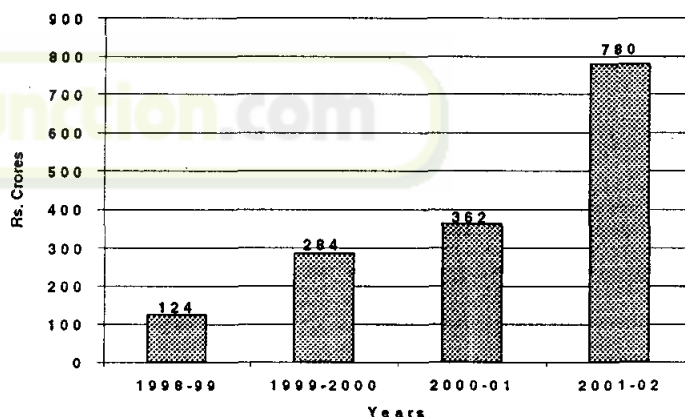
Other Exports

During the year, STC entered into sugar export business after a gap of two years and exported sugar valued at Rs.37 crore to Sri Lanka, Indonesia and Sudan. The Corporation also revived export of extractions/de-oiled cake after a gap of three years and effected sales worth Rs.15 crore. Another major item of export during the year was chemicals, drugs & disposables with exports of Rs.10 crore.

IMPORTS ON COMMERCIAL ACCOUNT

The Corporation's import turnover on its own commercial account also showed impressive growth.

Non-Canalised STC A/c Imports Turnover



The import turnover of STC on its own commercial account during 2001-02 more than doubled to Rs.780 crore when compared to Rs.362 crore during the last year. During the year, the Corporation undertook import of bullion on a much larger scale than in the preceding years. As a result, the Corporation's import sales of gold/silver increased notably by over five times from Rs.132 crore during 2000-01 to Rs.667 crore during the year under review. After a gap of two years, the Corporation again took up import of pulses on pre-sold basis ensuring least risk to STC resulting in a turnover of Rs.40 crore.

PROFIT

During the year 2001-02, the Corporation incurred a loss of Rs.41 crore as against a PBT of Rs.3 crore during 2000-01. The loss was mainly due to two reasons. Firstly, the trading profit on the Government Account business declined from about Rs.20 crore in 2000-01 to nil during 2001-02. Secondly, during 2001-02, the Corporation had to make a provision of Rs.19.30 crore because of diminution in the value of investments in US-64 made years ago.

Profit was also affected adversely as a result of (i) an outgo of Rs.5.32 crore towards de-amortization of expenses related to an earlier VRS, (ii) decline in the dividend income from investments in UTI, and (iii) the requirement of making provision for debts, loans and advances to the tune of Rs.4.9 crore during the year.

COST SAVING MEASURES EFFECTED

During 2001-02, STC took up a number of steps to effect reduction in expenses. As a result, the Corporation could reduce its overhead expenditure from Rs.70 crore during 2000-01 to Rs.64 crore during the year under review. The Corporation closed its foreign offices at New York, London and Frankfurt as the same were not considered viable. Indian branches at Guwahati and Kakinada were also closed.

As a result of various efforts by the Corporation to reduce the overhead expenses and improve the business turnover, the overheads to sales ratio declined from 6.76% in 2000-01 to 4.06% in 2001-02.

FOREIGN EXCHANGE EARNINGS/OUTGO

The total foreign exchange earnings of the Corporation by way of exports, service charges, etc. during the year amounted to Rs.302.04 crore while the foreign exchange outgo by way of imports and other expenses amounted to Rs.664.31 crore.

FUTURE PLAN

The Memorandum of Understanding (MoU) for the year 2002-2003 has already been entered into with the Department of Commerce, Ministry of Commerce & Industry. According to the MoU, the Corporation has projected its total turnover at Rs.1850 crore for the year 2002-03, which envisages an increase of 17% over the turnover of Rs.1582 crore achieved during 2001-02. While export turnover is projected to increase by 15% from Rs.696 crore in 2001-02 to Rs.800 crore, the import turnover on STC's own commercial account has been

projected to go up by 25% from Rs.780 crore to Rs.975 crore.

Rice

Encouraged by the success achieved in the export of rice during 2001-02, it is planned to give an added impetus to rice exports during current financial year. Contracts for export of 1.4 lakh MT of rice have already been finalised with Iran, Indonesia and Ivory Coast.

Wheat

The Corporation continues to undertake export of wheat as in the past year. Contracts for exporting about 3.5 lakh MT of wheat have already been finalised during the current year, of which, over 2 lakh MT had been shipped as on 31.08.2002.

Other Export Items

The Corporation is hopeful of effecting export of sugar, pulses and extractions in significantly large quantities during the current year. Exports worth about Rs.50 crore are likely to be made under counter trade arrangements.

Bullion imports

The Corporation hopes to effect bullion imports worth about Rs.1,000 crore during the current year – an increase of 50% over the imports undertaken during 2001-02. The import turnover of Rs.482 crore had been recorded as on 31.8.2002.

Edible Oil imports

The Corporation has already finalised arrangement for import sale of edible oils worth Rs.70 crore as against a turnover of Rs.71 crore achieved in the full year 2001-02. Higher contracting is expected in the coming months.

MoU with Power Finance Corporation Ltd.

The Corporation plans to become a major player in the business of coal/coke imports. For this purpose, an MoU has been signed between STC and Power Finance Corporation Ltd. (PFC). In terms of the MoU, STC will arrange import and supply of coal/coke to various State Electricity Boards and Independent Power Producers against payment guarantee by PFC. This is expected to give a boost to the Corporation's turnover and profitability in the coming years.

DISINVESTMENT

The Government of India has decided to off load 65% equity in STC to a strategic buyer thereby reducing its stake in STC to the level of 26%. The disinvestment

process has already been initiated. The Government constituted an Inter-Ministerial Group to assist the Department of Disinvestment in the process of disinvestment. Advisor to assist the Government in the disinvestment process was appointed in January'02. 'Expression of Interest' was invited from the prospective bidders who have since undertaken the due diligence exercise. Legal Advisor and Asset Valuer have also been appointed. Financial bids are likely to be invited/evaluated shortly.

SUBSIDIARIES

STC has two wholly owned subsidiaries :

Spices Trading Corporation Limited (STCL)

The total turnover of STCL during the year 2001-02 amounted to Rs.206 crore reflecting an increase of 106% over the previous year's turnover of Rs.100 crore.

The Corporation has achieved a PBT of Rs.2.94 crore and has paid a dividend of 15%.

Tea Trading Corporation of India Limited (TTCI)

TTCI has five tea gardens and two warehouses but no trading activity is presently being carried out due to financial constraints and various court cases including liquidation petition.

The accounts of the Corporation have been finalized up to the year 2000-2001 and submitted to the Govt./Parliament. The accounts for the year 2001-02 are being compiled and are likely to be finalized soon.

PERSONNEL

Industrial Relations

The industrial relations during the year continued to remain cordial despite some resentment among the employees against the disinvestment policy of the Government. The Management continued its endeavor to motivate the employees.

Human Resources Development

With a view to improve the quality of manpower through upgradation and sharpening of their skills, the Corporation continued to organise HRD Programmes, both for Managers and staff. The main feature of HRD activities undertaken during the current year was organisation of E-commerce Awareness Programme for 50 Managers in collaboration with National Informatics Centre (NIC), Ministry of Information and Technology in compliance with the MoU with the Ministry of Commerce. Besides this, employees were nominated for outside

training programmes and a total of 73 employees were imparted training to develop the marketing, vigilance and financial management expertise.

Recruitment of SC/ST and OBC Candidates

The Corporation has been implementing the policies and guidelines issued by the Government of India from time to time with regard to recruitment of SC/ST and OBC candidates.

During the year under review (2001-02), no recruitment in any category was made.

OFFICIAL LANGUAGE

STC's dedication and commitment to the cause of Official Language implementation has been amply acknowledged by the Ministry of Commerce, Govt. of India, by awarding it the coveted "Rajbhasha Shield", the top most prize for promoting Hindi. The Corporation's efforts in this direction were specially appreciated by various other agencies i.e. Ministry of Home (Deptt. of Official Language) and Town Official Language Implementation Committee. Two of the STC's officers were honoured by Kendriya Sachivalaya Hindi Parishad.

During their inspection, the Parliamentary Committee on Official Language also appreciated Rajbhasha work of STC's Hyderabad branch. The Corporation continues to promote with utmost dedication the Hindi work culture. To infuse inspiration among the managers and staff, various prizes/awards/medals and cash incentives have been instituted. Progress in this respect is regularly reviewed at top level by Departmental Official Language Implementation Committee.

VIGILANCE ACTIVITIES

The Vigilance Division of the Corporation has performed the following vigilance functions during the year:

- * Vigilance Awareness Week was held during which seminars and discussions were held with a view to create greater vigilance awareness among the employees;
- * Investigation of complaints received from various agencies/sources;
- * Handling the departmental inquiries which have a vigilance angle;
- * Constant liaison with the various agencies for ensuring preventive vigilance and providing detailed inputs to regulatory agencies as per statutory requirements;

- * Bringing to the attention of the Management various aspects related to the working of various Divisions and Branches for taking corrective/preventive action; and
- * Co-ordination of inquiry proceedings with regard to orders issued by the Courts.

LISTING

The Company is listed on Delhi and Mumbai Stock Exchanges and the annual listing fee for the financial year 2002-03 has been paid. On the request of shareholders in its last Annual General Meeting, the company has filed listing agreement with NSE and the same is likely to be finalised shortly.

PARTICULARS OF EMPLOYEES

A statement of employees in terms of section 217 (2A) of the Companies Act, 1956 read with the relevant rules is at Annexure – 'A'. None of the employees mentioned therein is related to any of the Directors of the Corporation.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, a report on Corporate Governance and a Certificate from the Auditors of the Company is given in Annexure 'B', which forms part of this report.

AUDITORS' REPORT

The report of the Statutory Auditors along with comments of the Management, wherever necessary, is annexed.

COMMENTS OF C&AG

The Comments of C&AG under section 619 (4) of the Companies Act, 1956 on the Accounts of the Corporation for 2001-2002 along with C&AG's Review of the Accounts are also submitted herewith.

DIRECTORS' RESPONSIBILITY STATEMENT

As stipulated under section 217 (2AA) of the Companies Act, 1956 your Directors state:

- * that in preparation of annual accounts for the year ended March 31st 2002, the applicable Accounting Standards have been followed alongwith proper explanation relating to material departures;
- * that the Directors had selected such accounting policies and applied them consistently and made judgements 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 profit or loss of the company for that period;

- * that the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with provisions of Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- * that the Directors had prepared the annual accounts on a going concern basis.

BOARD OF DIRECTORS

During the year, Shri Vinay Bansal, Additional Secretary & Financial Advisor, Ministry of Commerce & Industry and Shri A.N. Tiwari, Additional Secretary & Financial Advisor, Ministry of Commerce & Industry were appointed as part-time Directors on the Board of STC w.e.f. 20.3.2002 and 19.8.2002 respectively. Shri L. Mansingh, Additional Secretary, Ministry of Commerce & Industry was appointed as part-time Director w.e.f. 16.7.2002 and ceased to be part-time Director w.e.f. 19.8.2002. The Board extends them a hearty welcome. Shri S.N. Menon, Additional Secretary & Financial Advisor, Ministry of Commerce & Industry has ceased to be part-time Director on the Board of STC w.e.f. 20.3.2002. The Board places on record its deep appreciation for the valuable services rendered by Shri. S.N. Menon and Shri L. Mansingh as Members of the Board.

In terms of the provisions of Article 79 (2) of the Articles of Association regarding retirement of Directors by rotation at every AGM, Shri Arvind Pandalai, Director (Marketing) and Shri S.D. Kapoor, part-time Director shall retire at the AGM and they, being eligible for re-appointment, offer themselves for re-appointment.

The Directors of your Company are pleased to place on record their appreciation for the dedicated and sincere services rendered by the officers and staff at all levels.

For and on behalf of Board of Directors



(DR. S.M. DEWAN)
Chairman & Managing Director

New Delhi

Date : 4.9.2002

Annexure 'A' to Director's Report**INFORMATION REQUIRED UNDER SECTION 217 (2A) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 & AS AMENDED & FORMING PART OF DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2002****(A) Employed throughout the financial year and in receipt of remuneration not less than Rs. 12,00,000/- in the aggregate for the year 2001-2002**

Sl. No.	Name of Employee	Designation	Age As on 31.3.2002	Remuneration (Rs.)	Nature of employment whether contract or regular	Qualification	Date of Commencement of service in STC	Total experience (years)	Last Employment held in
1	2	3	4	5	6	7	8	9	10
1.	Sh. J.P. Goel	CMM	52	21,28,233/-	Regular	M. Com, PG DIP in Mgmt.	10.6.68	34 years	First Apptt.
2.	Sh. V.K. Bhatia	CMM	51	19,35,861/-	Regular	M.A.; Dip in Footwear & leather Goods Tech.	2.05.85	17 years	First Apptt.
3.	Sh. N. Jayakumar MM	Branch Manager Newyork	40	25,38,394	Regular	B. Tech (Leather)	4.11.88	14 years	First Appointment
4.	Sh. G.C. Khuttan MM	Branch Manager Dubai	52	22,65,690	Regular	M.A. (Pub. Admn.)	22.2.89	13 years	SAIL
5.	Sh. Vivek Mathur DMM	Branch Manager London	38	29,04,407	Regular	B.Sc, MBA, PG, DIP in International Trade	19.6.89	13 years	First Appointment

(B) Employed for part of the financial year and in receipt of remuneration not less than Rs. 1,00,000/- per month

Sl. No.	Name of Employee	Designation	Age As on 31.3.2002	Remuneration (Rs.)	Nature of employment whether contract or regular	Qualification	Date of Commencement of service in STC	Total experience (years)	Last Employment held in
1	2	3	4	5	6	7	8	9	10

NIL

NIL

NIL

Annexure 'B' to Director's Report**REPORT ON CORPORATE GOVERNANCE**

STC has implemented the Code of Corporate Governance, as stipulated vide clause 49 of the Listing Agreement, during the financial year 2001-02 and a Report on the subject is given below:

Corporate Governance Philosophy

STC, as a responsible corporate, is committed to the highest level of transparency, accountability, integrity and equity in all facets of its operations for shareholders while also balancing interest of other stakeholders viz. Government, Employees and other Business Associates. Actual management of the company vests with a team of senior executives, led by Chairman-cum-Managing Director. They are vested with operational and financial powers through a well structured process of delegation.

1. BOARD OF DIRECTORS**Composition of the Board**

— Chairman-cum-Managing Director	1
— Whole Time Directors	3
— Ex-Officio Directors	3
Total :	<u>7</u>

2. DETAILS OF MEETINGS**(A) DIRECTORS**

During the Year ended 31st March, 2002, the Board of Directors met six times. These meetings were held on the following dates:

(1) 30-04-2001	(2) 31-07-2001	(3) 29-10-2001
(4) 20-12-2001	(5) 31-01-2002	(6) 22-03-2002

(B) SHAREHOLDERS

The last Annual General Meeting for the Financial Year ending 31st March, 2001 was held on 20th December, 2001.

An Extra Ordinary General Meeting of the Shareholders was held on 25th January, 2002.

All the above meetings were held at the Registered Office of the Company i.e. Jawahar Vyapar Bhawan, Tolstoy Marg, New Delhi. 110 001.

Attendance of Directors at Board Meetings and General Meetings

Name of Director	Number of Meeting Held during His tenure	Number of Meeting Attended	Attended AGM	Attended EGM
Dr. S.M. Dewan	6	6	Yes	Yes
Dr. Arvind Pandalai	6	5	Yes	Yes
Dr. T.S. Sagar	6	5	No	Yes
Mr. P.K. Gupta	6	6	Yes	Yes
Ms. Rita Kunur	1	1	—	—
Mr. V.K. Duggal	2	2	—	—
Mr. S.N. Menon	5	4	—	Yes
Mr. Atul Sinha	4	4	Yes	—
Mr. S.D. Kapoor	6	4	No	No
Mr. Vinay Bansal	1	1	—	—