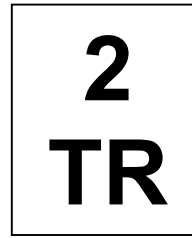


C.P.U.NO . 886



**COMMITTEE ON PUBLIC UNDERTAKINGS**

**(2004 - 2005)**

**( FOURTEENTH LOK SABHA )**

**SECOND  
STUDY TOUR REPORT**

**SPICES TRADING CORPORATION LIMITED**

**Laid in Lok Sabha on 21.12.2004**

**Laid in Rajya Sabha on 21.12.2004**

**LOK SABHA SECRETARIAT**

**NEW DELHI**

**December, 2004 / Agrahayana, 1926 (S)**

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**COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS**  
**( 2003 – 2004 )**

**CHAIRMAN**

Prof. Vijay Kumar Malhotra

**MEMBERS**  
**LOK SABHA**

2. Shri Mani Shankar Aiyar
3. Shri Ram Tahal Chaudhary
4. Smt. Reena Choudhary
5. Smt. Sangeeta Kumari Singh Deo
6. Shri C. K. Jaffer Sharief
7. Shri K. E. Krishnamurthy
8. Dr. Rama Krishna Kusmaria
9. Shri Vilas Muttemwar
10. Shri Shrinivas Patil
11. Shri Prabhat Samantray
12. Shri Tarit Baran Topdar
13. Prof. Rita Verma
14. Shri A K S Vijayan
15. Shri Dinesh Chandra Yadav

**RAJYA SABHA**

16. Shri Suresh Kalmadi
17. Shri Lalitbhai Mehta
18. Shri Kalraj Mishra
19. Shri Satish Pradhan
20. Shri K. Kalavenkata Rao
21. Shri Jibon Roy
22. Smt. Ambika Soni

**COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS**  
**(2004 – 2005)**

**CHAIRMAN**

Shri Rupchand Pal

**MEMBERS, LOK SABHA**

2. Shri Manoranjan Bhakta
3. Shri Gurudas Dasgupta
4. Shri P. S. Gadhavi
5. Shri Suresh Kalmadi
6. Dr. Vallabhabhai Kathiria
7. Smt. Preneet Kaur
8. Shri Sushil Kumar Modi
9. Shri Kashiram Rana
10. Shri Mohan Rawale
11. Shri Rajiv Ranjan Singh
12. Shri Bagun Sumbrui
13. Shri Rajesh Verma
14. Shri Parasnath Yadav
15. Shri Ram Kripal Yadav

**MEMBERS, RAJYA SABHA**

16. Prof. Ram Deo Bhandary
17. Shri Ajay Maroo
18. Shri Pyarimohan Mohapatra
19. Shri Jibon Roy
20. Shri Shahid Siddiqui
21. Smt. Ambika Soni
22. Shri Dinesh Trivedi

**SECRETARIAT**

- |    |                   |                      |
|----|-------------------|----------------------|
| 1. | Shri John Joseph  | Additional Secretary |
| 2. | Shri S Bal Shekar | Director             |
| 3. | Shri Raj Kumar    | Under Secretary      |

## **INTRODUCTION**

In pursuance of the procedure adopted under Rule 281 of the Rules of Procedure and Conduct of Business for laying the Study Tour Reports on the Tables of both the Houses of Parliament, I, Chairman, Committee on Public Undertakings having been authorised by the Committee to lay the Study Tour Report on their behalf, lay this Second Study Tour Report of the Committee on their discussions with the officials of Spices Trading Corporation Limited.

2. The Committee held discussions with the officials at Bangalore on 11.10.2003. A copy of the tour programme is annexed (Annexure-I).
3. The Committee considered and approved the Report at their sitting held on 15 December, 2004.
4. The Committee wish to express their thanks to Spices Trading Corporation Ltd. for providing facilities during the visit of the Committee and for supplying necessary material and information required in connection with the Study Tour.
5. They would also like to place on record their sense of appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

New Delhi  
**15 December, 2004**  
**24 Agrahayana 1926 (S)**

**RUPCHAND PAL**  
**CHAIRMAN**  
**COMMITTEE ON PUBLIC UNDERTAKINGS**

## **STUDY TOUR NOTES OF THE COMMITTEE ON PUBLIC UNDERTAKINGS**

### **DISCUSSION WITH THE REPRESENTATIVES OF SPICES TRADING CORPORATION LIMITED AT BANGALORE ON 11.10.2003**

At the outset, the Convener, Committee on Public Undertakings (COPU) made opening remarks and requested the Chairman, Spices Trading Corporation Limited (STCL) to introduce himself and his colleagues to the Committee. The Convener, COPU also requested him to give a brief account of the Company.

2. After introduction of officers of Spices Trading Corporation Ltd., the Chairman, STCL informed the Committee that the Spices Trading Corporation was originally incorporated in the name and style "Cardamom Trading Corporation Limited" as a private limited company under the Companies Act, 1956 in October, 1982. Consequent to the change of name, the Company obtained fresh certificate of incorporation with effect from August, 1987 in order to diversify from trading of cardamom to whole range of spices. The company became a subsidiary of State Trading Corporation of India Ltd. with effect from 14 September, 1999. As on date, STCL is wholly owned by the State Trading Corporation of India Ltd. The main objectives of the company are :-

- (i) To carry on domestic and international trade in spices, spice products and other agricultural commodities and inputs.
- (ii) To process and cure spices and manufacture spice products.
- (iii) To support, protect, maintain, increase and promote the production of spices and spice products as also their sale and export.

- (iv) To undertake and promote research and development of spices and spices products.
- (v) To promote and develop markets for spices, spices products and other agricultural commodities.

The Company has 6 Branch Offices and 5 Collection Depots at various places.

3. The Committee have also been informed that the Company has been a pioneer Government organization in conducting of Cardamom auctions by establishing codes of ethics by maintaining transparency through open bidding and minimized the exploitation of the growers. The Company also procures commodities directly from growers in addition to buying from Wholesale Traders on back-to-back contract at their costs and risks, thereby establishing healthy market trend as well as a bench mark for procurement of spices in the market. The company sells fertilizers along with other agricultural inputs namely pesticides, spraying equipments, etc., to growers at competitive prices, which also includes sale of fertilizers to tobacco growers under the Scheme sponsored by the Tobacco Board, Government of India. The Company has been performing as a nodal agency for export of commodities, viz., rice, wheat and onion, thereby earning valuable foreign exchange for the country as well as importing of pulses and other commodities for domestic consumption based on the demand.

4. The Management of the Company is vested in the Board of Directors consisting of 4 Directors including Chairman. The composition of Board of Directors of the company is as under :-

Chairman	Dr. Arvind Pandalai CMD, State Trading Corporation of India Ltd.
Managing Director (Functional)	Shri K C Ponnana Spices Trading Corporation Ltd.
Director	1. Shri V K Gauba Dy. Secretary, Ministry of Commerce & Industry
	2. Shri Vijay Krishan Director-Finance State Trading Corporation of India Ltd.

5. The details of budgeted and actual achievements in respect of profit earned and turnover achieved by the Corporation for the last 5 years are as under :-

Year	TURNOVER		PROFIT AFTER TAX	
	BUDGET (Rs)	ACTUALS (Rs)	BUDGET (Rs)	ACTUALS (Rs)
1997-98	42.19	36.24	5.77	3.05
1998-99	50.00	55.97	1.22	1.40
1999-00	78.58	80.71	0.65	0.64
2000-01	100.07	100.37	0.54	0.65
2001-02	110.23	204.83	0.75	2.02

(Rs. In Crore)



6. When asked to state the reasons for shortfall in actual sales turnover and actual profit during 1997-98, the Committee have been informed that there was a shortfall of Rs.5.95 crore in the turnover and consequential fall in profit (after tax) mainly due to change in the Government policy where the import of Cloves and Cassia were shifted from canalysing to OGL as well as the domestic market was not favourable for imports due to decline in the ruling prices.

7. The Committee pointed out that despite the sales turnover exceeding Rs.200 crore, the profit earned by the Company during 2001-02 was only Rs.2.02 crore. When asked to state the reasons for the net profit of the Company being very low despite the turnover being in excess of Rs.200 crore, the Committee have been informed that the Company has earned a profit (after tax) of Rs.2.02 crore during the year 2001-2002 for a turnover of Rs.204.83 crore as against the profit (after tax) of Rs.0.65 crore during the year 2000-01 against a turnover of Rs.100.37 crore, which is 213% increase in profit (after tax) over the previous year. Considering the profitability (after tax) of Rs.0.65 crore earned during 2000-01 against the turnover of Rs.100.37 crore, the profit (after tax) for the turnover of Rs.204.83 crore during the year 2001-02 would have been around Rs.1.33 crore, whereas the actual profit of Rs.2.02 crore, which had exceeded by 213% over the previous year and thus, the Company had performed exceptionally well during the year 2001-02 both in terms of turnover and profit (after tax) compared to previous year.

In addition it is also clarified that the trade margin in commodity is only in the range of 1 to 2% in the domestic and international markets in view of the competition from the domestic and global players.

8. As per the Annual Report (2001-02), the sales turnover of Rs.204.83 crore achieved in the year (2001-02) is significant mainly on account of the fact that the Company could surpass the Rs.200 crore mark in spite of the liberalized import policy and also the stiff competition in the domestic and global markets. Further, the export turnover, at Rs.59.02 crore and domestic sales turnover at Rs.145.79 crore for the year have been stated to have amounted to a 11% and 210% increase over the previous year's performance. When asked to state whether any targets are fixed for sales turnover in respect of export and domestic sales turnover separately each year, the information furnished by the Company in this regard for the last six years is as under :-

(Rs. In crore)

YEAR	TURNOVER – BUDGET			TURNOVER – ACTUAL		
	DOM. (Rs.)	EXP. (Rs.)	TOTAL (Rs.)	DOM. (Rs.)	EXP. (Rs.)	TOTAL (Rs.)
1997-98	40.73	1.46	42.19	35.57	0.67	36.24
1998-99	50.00	0.00	50.00	55.89	0.08	55.97
1999-00	68.85	9.70	78.55	67.95	12.76	80.71
2000-01	83.04	17.03	100.07	46.97	53.40	100.37
2001-02	35.92	74.31	110.23	145.79	59.04	204.83
2002-03	160.07	60.89	220.96	104.78	118.18	222.96

9. The Committee have also been informed that the Company has achieved the targeted turnovers for the last 5 years i.e. 1998-99 to 2002-03 except for one year i.e., 1997-98 where there was a shortfall in the turnover by Rs.5.95 crore to the targeted turnover. However, the profit earned after tax of Rs.3.05 crore during the year 1997-98 was the highest since its inception. Considering the actual achievements made against the targeted turnover under domestic and export sales, the shortfalls which becomes inevitable due to various variable factors are made good either in domestic / export sales and achieved the targeted total turnover.

10. When enquired about the foreign exchange inflow and out flow during the last six years, the information furnished by the Company to the Committee is as under :-

(Rs. In crore)

YEAR	FOREIGN EXCHANGE	
	INFLOW (Rs.)	OUTFLOW (Rs.)
1997-98	0.67	14.15
1998-99	0.08	33.86
1999-00	12.76	40.62
2000-01	53.40	28.49
2001-02	59.04	74.43
2002-03	118.18	60.84

11. The Committee have been informed that the major competitors of the Company in the national and global markets are STC of India Ltd., MMTC, PEC, NAFED, NCCF, Co-operative Marketing Federations, State Trading Organisations and Private Trading Companies as well as International Trading Houses in the global markets.

12. When enquired about the modalities / bases on which the Company procures / purchases and sells food-grains and spices in both domestic and international markets, the Committee have been informed that the Company, by and large does not take position in procuring and holding of stocks and does not engage in speculative trade. The Company takes position only as a facilitator by generating export and import orders, where the entire risks and costs are borne by ultimate buyer / seller based on back-to-back contract terms and conditions. Besides, the Company procures fertilizers and agricultural inputs directly from manufacturing companies at dealers' price and supply the same to growers in the plantation areas as well as tobacco growers under the scheme sponsored by Tobacco Board. The Company has also been conducting cardamom auctions successfully since 1989 at Bodinayakanur (Tamil Nadu) through open bidding to help the growers to realize a reasonable price for their produce by minimizing the exploitation by other private auctioneers.

13. The Committee have also been informed that due to liberalized import policy, the canalysing status for import of cloves and cassia and import of garlic as well as export of maize under licence were brought under OGL and

consequently the profitability of the Company has been affected drastically e.g. the profit (after tax) of Rs.3.05 crore was the highest, earned during the year 1997-98 due to canalysing status of the Company. In order to increase the domestic and export turnover and profitability, the Company diversified its trading from spices to various commodities viz., Rice, Wheat, Maize, Onion, Fertilizers, Pulses and agricultural inputs.

14. Considering the Company's role in trading of spices, when asked to state the need for diversification into export of Rice, Wheat, Onion etc., in-spite of ample opportunities available in spices trade, the Committee have been informed that in view of the stiff competition in trading of spices as well as steep price fluctuations, it becomes inevitable to diversify from spices to other commodities to increase the turnover as well as earn profits whenever opportunities exists for sustenance and growth. The Company does not have the required infrastructure facilities for storing and processing of spices which are required to meet the quality standards in the domestic and international markets. Being a Nodal Agency for export of rice and wheat, it becomes necessary to procure rice and wheat from FCI and export the same to Asian countries.

In addition to exports and imports, the company is also aggressively trading in sale of agricultural inputs, procurement and sale of maize in domestic markets, as well as conducting of cardamom auctions and thus keeping pace with the change in the market scenario and achieving the targeted growth of 25% during the current year, over the previous year's achievement.

15. Considering the business potential in the State of Maharashtra the Committee asked the Company to clarify why they have not ventured into export of sugar, grapes, pulses, ginger and onion sourced from Maharashtra, the Company has informed the Committee that as a Nodal Agency for export of Onion, the Company has been procuring onion from various parts of Maharashtra and exporting the same to Bangladesh, Sri Lanka, Malaysia, Singapore and Indonesia. During 2002-03, the Company has procured 62310 MTs of onion from the State of Maharashtra and achieved a export sales turnover of Rs.44.97 crore. Besides onion, the Company has also been procuring Toor Dhall from Akola, Maharashtra for its domestic sales in the States of Karnataka and Tamil Nadu. In view of the manpower constraints, it is difficult at this stage to spread out its trading activities and therefore, the Company has been focusing on some of the core commodities which helps in increasing the turnover and profitability for sustenance and growth.

16. As per the Annual Report (2001-02) of the Company, the cost of sales is Rs.201.89 crore against the total sales of Rs.204.83 crore. When asked to state as to how the cost of sales is so very high, the Committee have been informed that the trade margin on the sales of commodities are in the range of 1-3% after taking into consideration of cost of sales, in view of the stiff competition from private and Government organizations. The margin could be higher, if there is exclusivity in trading, having less competition. The cost of sales includes the purchase price, transportation, packing and forwarding expenses, purchase tax and other direct costs which are steadily increasing. The cost of sales in terms of

percentage between 2000-01 and 2001-02 is in the range of 98% to sales and these are the direct costs add on to the cost of sales.

17, About the disinvestment of STCL, the Committee have been informed that STCL is a subsidiary company of the State Trading Corporation of India Ltd., (wholly owned by STC), where 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 2002. 'Expression of Interest' was invited from prospective bidders who have since undertaken the due diligence exercise. Legal Advisor and Asset Valuer have also been appointed. It is understood that the Government has finalized the transaction documents (SHA, SPA, etc.) and the financial bids may be invited / evaluated shortly. The Company has been growing from strength to strength with its limited manpower of 32 employees and consistently making profits and declaring dividends. The productivity per employee has increased many folds over the years and would continue to enhance its productivity in the coming years. The Company would sustain its growth because of the experience and competence gained over the years even in the post disinvestment period. However, after disinvestment, the operations may be run on purely commercial basis and the social role presently being played by STCL to protect the interests of the growers may take a back seat.

18. As intimated to the Committee, the actual strength of manpower against the sanctioned strength are as under :-

S.No.	NAME OF THE POST	SANCTIONED STRENGTH	ACTUAL STRENGTH
	<b><u>EXECUTIVES</u></b>		
1.	Managing Director	1	1
2.	General Manager	1	0
3.	Company Secretary	1	0
4.	Chief Finance Manager	1	1
5.	Chief Marketing Manager	1	0
6.	Marketing manager	3	1
7.	Finance Manager	1	0
8.	Dy. Marketing manager	2	2
9.	Dy Finance Manager	2	1
10.	Asstt. Marketing manager	5	3
11.	Asstt Finance Manager	1	1
	<b>TOTAL</b>	<b>19</b>	<b>10</b>

	<b><u>NON-EXECUTIVES</u></b>		
1.	PRO / Liaison Officer	1	0
2.	Sales Officer	23	1
3.	Accountant	3	3
4.	Sr. Stenographer	4	3
5.	Accounts Assistant	18	0
6.	Typist-cum-Clerk	1	1
7.	Office / Auction Assistant	10	10
8.	Driver	7	1
9.	Peon	7	3
	<b>TOTAL</b>	<b>73</b>	<b>22</b>
	<b>GRAND TOTAL</b>	<b>92</b>	<b>32</b>



19. When asked to clarify regarding the vacant positions and the reasons for not filling up of the posts, the Committee have been informed that the recruitment has been kept in abeyance since September, 1991 as the Government was contemplating to close down the company / merge with other Government Central / State PSUs. Subsequently in view of the proposal for disinvestment the recruitment was deferred though the turnover of the Company has increased many folds in the last six years.

## **RECOMMENDATION / OBSERVATION OF THE COMMITTEE**

### **RECOMMENDATION**

#### **TRACK RECORD OF SPICES TRADING CORPORATION LTD**

The Committee note that the Spices Trading Corporation Ltd. has increased its profit from Rs.0.64 crore in 1999-2000 to Rs.2.02 crore in 2001-02 and the turnover has increased from Rs.80.71 crore in 1999-2000 to Rs.204.83 crore in 2001-02. The Committee are happy that the company had performed exceptionally well both in terms of turn over and profit after tax in the last three years and this achievement of growing from strength to strength has been made with its limited man-power of only 32 employees. The Committee wish to place on record their appreciation of the remarkable increase in productivity per employee which has risen up manifolds over the years and the Committee hope that this trend of enhancing productivity in the coming years would continue. However, the Committee feel that the Company has got only one Sales Officer against the sanctioned strength of 23 Sales Officers. The Committee feel that the sales personnel constitute the cutting edge of the trading activities in a trading company and, therefore, they recommend that

**the strength of sales personnel may be suitably increased as consistent with efficiency and profitability so that the Company becomes a model for emulation by others.**

**ANNEXURE – I**

**TOUR PROGRAMME OF COMMITTEE ON PUBLIC UNDERTAKINGS  
TO MUMBAI, HYDERABAD AND BANGALORE, FROM 7 TO 11  
OCTOBER 2003 AS ACTUALLY PERFORMED**

**( MEMBERS ASSEMBLED AT MUMBAI)**

<b><u>DATE &amp; DAY</u></b>	<b><u>TIME</u></b>	<b><u>SUBJECT</u></b>
7.10.2003 (Tuesday)	1730 hrs	Discussion with the representatives of Rashtriya Chemicals & Fertilizers Ltd. (Audit Para No.10.3.1 of C&AG's Report No.3 {Comml} of 2003)
	1845 hrs	Discussion with the representatives of New India Assurance Co. Ltd. (Audit Para No.11.1.1 of C&AG's Report No.3 {Comml} of 2003)
<b>( NIGHT HALT AT MUMBAI)</b>		
8.10.2003 (Wednesday)	1100 hrs	Discussion with the representatives of Indian Oil corporation (Audit Para No.17.6.2 of C&AG's Report No.3 {Comml} of 2003)
	1430 hrs	Departure for Hyderabad by IC – 928
	1730	Arrival Hyderabad
<b>( NIGHT HALT AT HYDERABAD)</b>		
9.10.2003 (Thursday)	1100 hrs	Discussion with the representatives of Housing & Urban Development Corporation
	1245hrs	Discussion with the representatives of Food Corporation of India (Audit Para No.2.1 of C&AG's Report No.4 {Comml} of 2003)
	1600 hrs	Discussion with the representatives of Bharat Heavy Electricals Ltd. (Audit Para No.13.2.2 of C&AG's Report No.3 {Comml.} of 2003)
<b>( NIGHT HALT AT HYDERABAD)</b>		
10.10.2003 (Friday)	1530	Departure for Bangalore by IC-977 (1700 hrs)
	1800 hrs	Arrival Bangalore
<b>( NIGHT HALT AT BANGALORE)</b>		
11.10.2003 (Saturday)	1000 hrs	Discussion with the representatives of Antrix Corporation Ltd.
	1115 hrs	Discussion with the representatives of Spices Trading Corporation

**DISPERSAL**

COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS  
WHICH VISITED MUMBAI, HYDERABAD AND BANGALORE FROM 7 TO 11  
OCTOBER, 2003

S. NAME

No.

LOK SABHA

1. Prof Vijay Kumar Malhotra, Chairman
2. Shri Ram Tahal Chaudhary
3. Smt Reena Choudhary
4. Smt Sangeeta Kumari Singh Deo.
5. Shri C K Jaffer Sharief
6. Sh. K.E.Krishnamurthy
7. Dr. Ramkrishna Kusmaria
8. Shri Vilas Muttemwar
9. Shri Shriniwas Patil
10. Shri Prabhat Samantray
11. Shri Tarit Baran Topdar
12. Prof Rita Verma
13. Shri A K S Vijayan

RAJYA SABHA

14. Sh. Suresh Kalmadi
15. Sh. Lalitbhai Mehta
16. Sh. Kalraj Mishra
17. Shri Satish Pradhan
18. Sh. Jibon Roy

SECRETARIAT

1. Shri S Bal Shekar, Director
2. Shri Raj Kumar, Under Secretary

**ANNEXURE – III**

**LIST OF OFFICIALS OF SPICES TRADING CORPORATION LIMITED  
WHO WERE PRESENT DURING DISCUSSION WITH THE COMMITTEE  
ON PUBLIC UNDERTAKINGS AT BANGALORE ON 11-10-2003.**

- |    |                       |                       |
|----|-----------------------|-----------------------|
| 1. | Dr. Arvind Pandalai   | Chairman              |
| 2. | Shri K.C.Ponnana      | Managing Director     |
| 3. | Shri N Devaraje Gowda | Chief Finance Manager |
| 4. | Shri K. L. Anand Sai  | Marketing Manager     |