

STATE TRADING CORPORATION OF INDIA

Market Data as on 5th April 2007

Recommendation	BUY
Target price	Rs.258
CMP	Rs.151.90
S& P Nifty	3752
Face value	Rs.10
52 Week high/Low	212/94
Equity Capital	Rs.30cr
Market Capital	Rs455.70
Book value	Rs.121.71
P/E	7.37

Codes

NSE	STCINDIA
BSE	512531

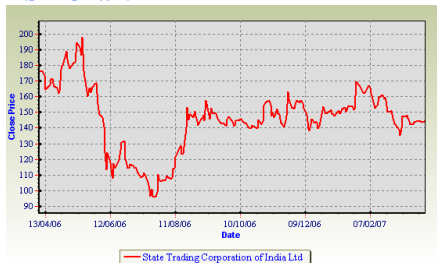
Shareholding pattern as on March 07

Promoters	91.02%
Foreign	0.11%
Institution	2.17%
Non Promoters	1.36%
Public & others	5.34%

Financial snapshot

Rs. crores	FY06	FY07E	FY08E
Net Sales	7596	15500	20150
Net Profit	44.33	98.4	181.1
EPS(Rs.)	14.05	25.80	60.37
PE(x)	13.84	10	9
BV	127.05	152.85	223.22

BSE Chart



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Company Profile

The State Trading Corporation of India Ltd. (STC) is a premier international trading house owned by the Government of India. The Corporation set up in 1956, has developed vast expertise in handling bulk international trade. Though, dealing largely with the East European countries during the early years of its formation, today it trades with almost all the countries of the world. The company is the official canalising agency for exports and imports for a number of products ranging from agricultural commodities to manufactured products from India to all parts of the world. In 1994-95, STC started trading in items like rice, wheat, coffee, Indian-made foreign liquor, sandalwood and oil. During 1995-96, STC entered into new areas of business like direct import of fertilisers, non-ferrous metals and kerosene oil. In the domestic trading sector, it expanded its activities in areas like rice, wheat, coffee, cashew, tobacco and rubber. During 2004-2005, Government of India decided not to pursue the proposed disinvestments of its equity in STC. Earlier GOI had decided to off-load 65% of its equity in STC to a strategic buyer thereby bringing down its share to 26%. During the same period the corporation was successful in getting nominated by the Govt of Uzbekistan as a nodal agency for imports from and exports to India.

Financial Highlights

Year Ended March 31(Rs in crores)	2006	2005	2004
Revenues	7125.4	9125.77	8348.96
PBIDT	78.4	56.42	67.36
PAT	38.95	25.03	19.73
EPS	12.28	7.94	6.26
Dividend (%)	50	30	25
PBIDT Margin (%)	1.08	0.68	0.75

Source:Capitaline(INR in crores except per share data)

Recommendation

At the current market price the stock is trading at 10x FY07E earnings. Its look to be pure value at its current price given the infrastructure created and the value of the real estate it has created over the past fifty year. We rate the stock a **BUY with a price target of Rs258 per share for one year.**

Company Business

The company's major businesses are exports, imports and services to Indian exporters -- financial assistance, marketing infrastructure, participation in trade fairs and exhibitions, supply of imported machinery and raw materials and testing facilities. Spice Trading Corporation of India is the subsidiary of the company.

Exports from India

STC exports a diverse range of items to a number of destinations throughout the world. Exports by STC vary from traditional agricultural commodities to sophisticated manufactured products.

Besides negotiating, contracting and shipping, STC seeks to introduce new products, explore new markets and undertake wide ranging ancillary functions such as Product Development, Financing, Quality Control and Import of machinery and raw materials for export production.

STC makes purposeful use of its world-wide connections, abundant experience, up-to-date information about the market trends and long term perspective on various commodities to ensure competitive prices, right quality and adherence to delivery schedules to the buyers abroad



Export item includes:

a)Agricultural Commodities	b)Manufactured Products
Wheat	Chemicals, Drugs & Medical
Cashew	Disposables
Coffee	Engineering & Construction
Rice	Materials
Tea	Consumer Products
Tobacco& Rubber	Textiles and Garments
Sugar	Leatherware
Extractions	Processed Foods
Opium	Iron Ore
HPS Groundnut	Steel Raw Material
Spices	
Castor oil & Seeds	
Jute Goods	

IMPORTS INTO INDIA

STC imports a number of essential commodities to cover the domestic shortfalls and hold the price line. STC serves the national objective by arranging timely imports at most competitive prices. In the process, the Corporation makes best use of its strength in handling bulk imports, vast infrastructure and above all an experience of over four decades in fulfilling the needs of the industry



Import item includes:

a)Agricultural Commodities	b)Manufactured Products
Edible oils Wheat Fatty Acids Pulses	Hydrocarbons Gold& Silver Minerals/Metals Petro-chemicals Fertilisers Scientific Instruments & Hospital/ Police equipments FMCG Goods IT Products

Investment Argument

Global Presence: Bilateral trade

The Bilateral trade and economic relations between china and India have paved the way for the speedier growth of the economies of these countries which will provide new market for growth.

Export/Import orders

- STC bagged an order to import wheat of 55 lakh tones from Govt Of India. Wheat will be imported from various countries including Russia.
- STC bagged an order to export 1.5 lakhs t of sugar fro TCP.
- Import of pulses and edible oil will also to increase in margin as GOVT has predicted the shortfall in pulses output.

Key Earning Drivers for the Company

Export Growth

The company has registered a y-o-y growth of 93% in its exports in FY 06 as Compared to 24% growth in total exports of the country. In steel operations in STC has tied up with Philippines for supply arrangement Of iron ore.

Improving Fundamental

- Increase in Profitability margin due to exports of iron ore, Hot rolled products, Steel, Gold Jewellery and Pharmaceutical.
- STC has set up their own proprietary infrastructure which includes their own warehouse and warehouses have been taken for long lease at various ports in India. The market value of real estate is close to Rs.100 crore.

SWOT ANALYSIS

Strength

- ✓ Strong International and domestic reputation as trustworthy buyer and supplier having been a key trading arm of the Govt of India.
- ✓ Expertise in bulk trade handling
- ✓ Strong network of branches across India giving it a nationwide coverage
- ✓ Relationships with local and international suppliers and buyers
- ✓ Access to prime real estate properties across main cities of India.
- ✓ MOU with Uzbekistan would help STC to set textile manufacturing base.

Weakness

- ✓ Increased Cost of operation due to opening of branches outside India.

Opportunities

- ✓ MOU with Mauritius expected to service import requirement in area of milk and milk product.
- ✓ Linkage with Philippines for steel plant for supplying raw material will expose towards global operation.
- ✓ Exports of Gold Jewellers growth will provide consortia of Jewellery manufactures through participation in overseas exhibitions and fairs

Threats

- ✓ Slow down in US economy can impact the global trade of STC .

Valuation Table

(Rs in crs)	FY06	FY05	FY04	FY03
Revenue	7596	9954.13	8663.99	2755.50
EBITDA	78.4	56.42	67.36	-75.82
Net Profit	38.95	25.03	19.73	-86.96
Eq. Capital	30	30	30	30
P/E	13.84	12.1	17.17	0
P/BV	1.4	0.9	1.09	0.74
EV/EBIDTA	8.26	0	0	0

Risk and Concern

- Rising prices of basic raw material, power, and transportation can have impact on profit margin.
- High tariff in EU nation may impact the Global trade for STC
- Recession in US market can impact the business of STC.

Detailed Financials:

P & L CONSOLIDATED - State Trading Corporation of India Ltd (Rs in Cr.)				
	200503	200603	200703E	200803E
INCOME :				
Sales Turnover	9954.13	7596.02	15500	20150
Excise Duty	0	0	0	0
Net Sales	9954.13	7596.02	15500	20150
Other Income	127.75	170.94	172	180
Stock Adjustments	108.52	84.49	75	80
Total Income	10190.4	7851.45	15747	20410
EXPENDITURE :				
Raw Materials	9819.31	7407.49	15035	19545
Power & Fuel Cost	1.39	1.49	1.52	1.55
Employee Cost	62.15	37.75	55	50
Other Manufacturing Expenses	73.16	92.84	196	214.96
Selling and Administration Expenses	160.93	99.02	196.85	215.9
Miscellaneous Expenses	11.4	125.7	137.95	151.3
Less: Pre-operative Expenses Capitalised	0	0	0	
Total Expenditure	10128.34	7764.29	15622.32	20178.71
Operating Profit	62.06	87.16	124.68	231.29
Interest	18	20.4	22.03	23.79
Gross Profit	44.06	66.76	102.65	207.5
Depreciation	1.71	1.57	1.65	1.7
Profit Before Tax	42.35	65.19	101	205.8
Tax	4.61	19.05	21	22
Fringe Benefit Tax	0	1.07	2	2.05
Deferred Tax	9.57	0.74	0.6	0.65
PAT	28.17	44.33	77.4	181.1
Minority Interest	0	0	0	0
Net Profit after Minority Interest	28.17	44.33	77.4	181.1
Extraordinary Items	-6.57	0.04	0.05	0.05
Adjusted Net Profit	34.74	44.29	77.35	181.05
Dividend	9	15	38.72	99.60
Preference Dividend	0	0	0	0
Equity Dividend (%)	30	50	55	55
EPS before Minority Interest	8.95	14.05	25.80	60.37
EPS after Minority Interest	8.95	14.05	25.80	60.37
Book Value	110.26	127.05	152.85	223.22

BALANCE SHEET CONSOLIDATED -State Trading Corporation of India Ltd (Rs in Cr.)				
	200503	200603	200703E	200803E
SOURCES OF FUNDS :				
Share Capital	30	30	30	30
Reserves Total	300.79	351.16	428.56	639.66
Total Shareholders Funds	330.79	381.16	458.56	669.66
Minority Interest	0	0	0	0
Secured Loans	162.53	222.24	280.02	252.81
Unsecured Loans	0.04	0	0	0
Total Debt	162.57	222.24	280.02	252.81
Total Liabilities	493.36	603.4	738.58	922.47
APPLICATION OF FUNDS :				
Gross Block	49.37	50.24	150	175
Less: Accumulated Depreciation	27.39	28.26	32	33.7
Less: Impairment of Assets	0	0	0	0
Net Block	21.98	21.98	118	141.3
Lease Adjustment	0	0	0	0
Capital Work in Progress	0	0	0	0
Investments	87.9	87.9	87.9	87.9
Current Assets, Loans & Advances				
Inventories	245.61	331.02	342.4	375
Sundry Debtors	1199.2	1815.85	2159.63	2457.57
Cash and Bank	3933.98	96.57	100	115
Loans and Advances	173.12	350.56	500	520
Total Current Assets	5551.91	2594	3102.03	3467.57
Less : Current Liabilities and Provisions				
Current Liabilities	5095.27	2071.47	2500	2700
Provisions	80.46	58.92	70	75
Total Current Liabilities	5175.73	2130.39	2570	2775
Net Current Assets	376.18	463.61	532.03	692.57
Miscellaneous Expenses not written off	0	0	0	0
Deferred Tax Assets	7.31	29.94	0.65	0.7
Deferred Tax Liability	0.01	0.03	0	0
Net Deferred Tax	7.3	29.91	0.65	0.7
Total Assets	493.36	603.4	738.58	922.47

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