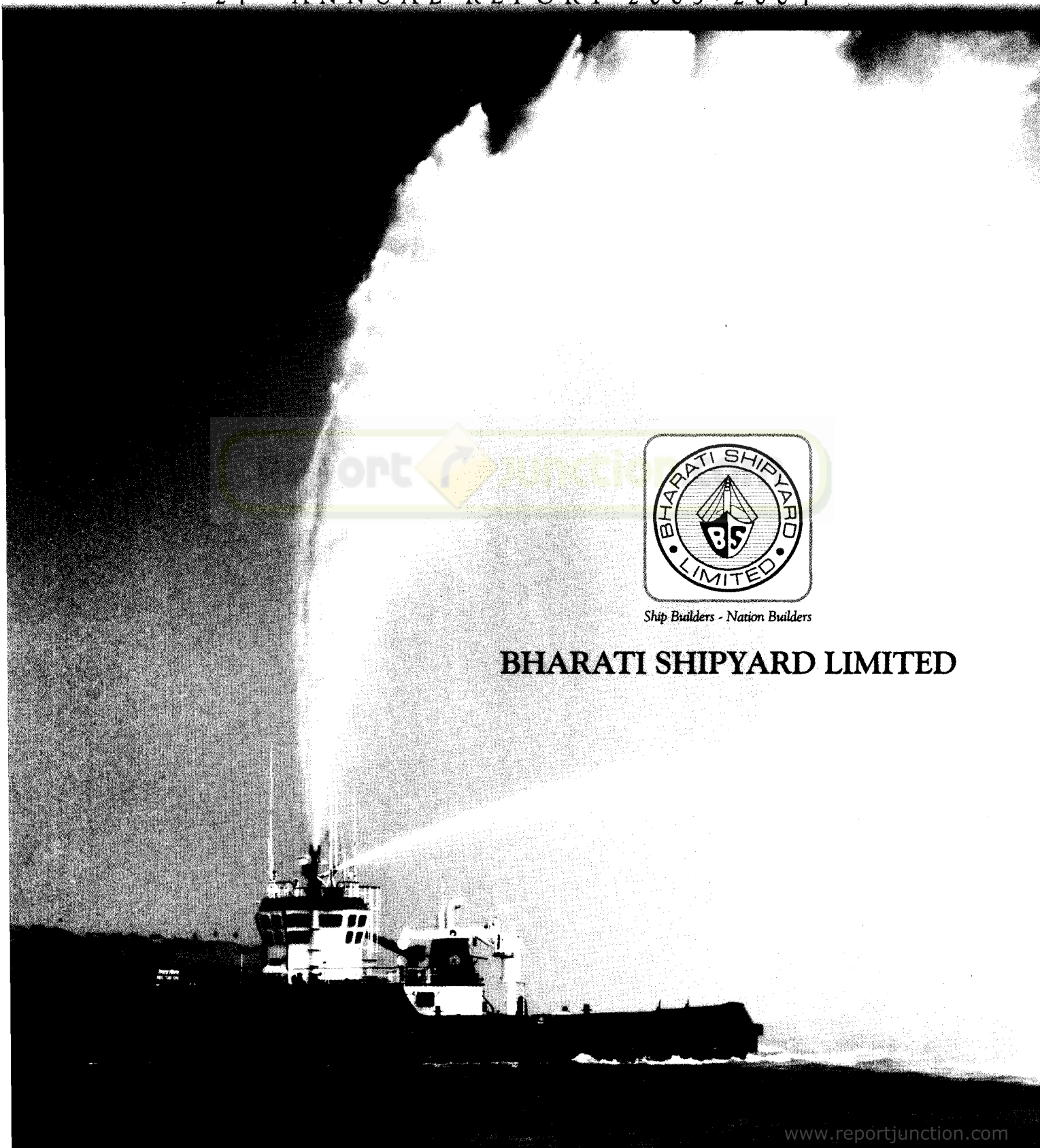


27TH ANNUAL REPORT 2003-2004



Ship Builders - Nation Builders

BHARATI SHIPYARD LIMITED





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Illustrious Business

Bharati Shipyard Limited has built its reputation as a renowned and reliable shipbuilder in the domestic and international market. Enhancing its product range from simple inland cargo to hi-tech maneuverable and power-packed vessels, Ocean Going Tractor Tugs, Cargo ships, Tankers and highly sophisticated vessels for offshore industry are being crafted. Bharati has achieved an output of one vessel on an average of every 55 days.

Major strengths of Bharati

Technical Expertise

Bharati has a unique advantage over its competitors owing to the large number of technically qualified people employed with it and the utilization of highly sophisticated techniques used for designing and construction of vessels.

It has hired highly experienced naval architects, marine engineers, mechanical engineers, electrical engineers etc. to look after the design, construction, purchase, marketing etc. Bharati prevails on the shoulders of around 700 skilled employees.

Apart from technical experts on board, the company also possesses state-of-the-art facilities for designing and constructing vessels. Modern organizational practices such as, area management, supervision and the use of integrated pre-production teams are used.

Benchmark Quality

Bharati has constructed vessels to stringent quality requirements of organisations such as Lloyds Register of Shipping-U.K., Bureau Veritas Quality International-France, American Bureau of shipping, Cyprus Bureau of shipping and the Indian Register of Shipping. Bharati's shipyard is certified under ISO 9001:2000 Standards. With respect to construction and repair of ocean going, coastal and inland steel ships, vessels and tugs, it uses CAD facility. It's only a matter of time when Bharati shipyard will earn the certification for International Ship and Port Facility Security (ISPS) code and Occupational Health and Safety Assessment Series (OHSAS) certification.

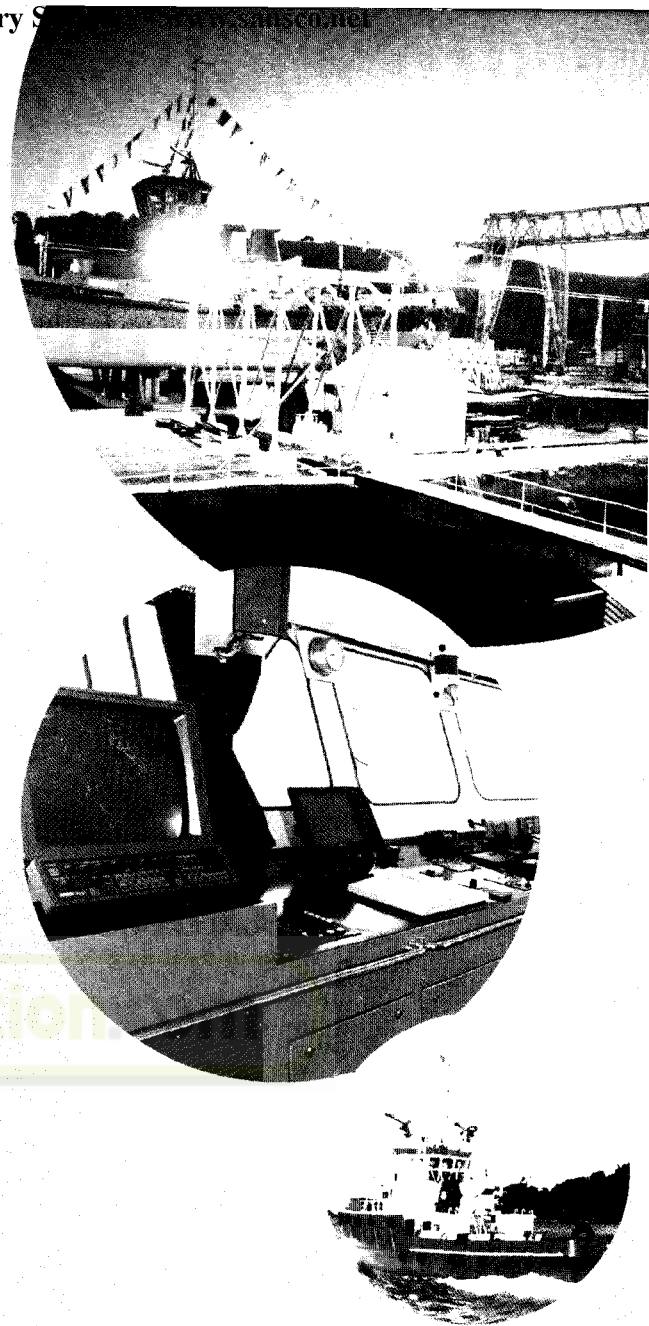
Adherence to Delivery Commitments

A study of Bharati's track record will reveal that Bharati is committed to timely delivery of vessels. With detailed planning and execution using the latest in technology

and engineering, Bharati ensures delivery of vessels as per schedule. Due to this adherence in promptness in delivery, Bharati has managed to get repeat orders from the same clients.

Human Resources

Highly qualified Managers who are experts in this field of ship building look after the production at Ratnagiri and Ghodbunder. Bharati also employs Naval Architects, Marine Engineers, Mechanical and Electrical engineers, Chartered Accountants, Legal Advisors, Purchase Managers etc. who oversee purchase, construction, design, marketing, finance & accounts, legal matters etc.





MISSION : Having the world at our feet

"To establish Bharati as a leading Ship Builder, domestically as well as internationally"

Our focus has been on providing excellent quality at competitive costs. We have developed cutting-edge technology, knowledge and processes that have helped us in improving efficiencies and in reducing production time considerably. We are now focusing on increasing the turnover and maintaining these high quality standards.

Our company has an edge advantage of building capacity for fabricating large sized vessels. Further, our company has established its reputation in the industry by adhering to stringent quality requirements of its various customers and agencies. Existing Indian shipyards offer only limited competition and a good opportunity exists for us to capture an increased share of the shipbuilding market.

According to current published information with respect to the competition in the international front, Japan and Korea at present are constructing more than 60 percent of the ships on order worldwide in terms of dead weight tonnage. Our company has been successful in getting orders from UAE, Qatar, Cyprus, Singapore, etc. and demands from these markets will sustain in future, especially for service vessels like offshore supply and other support crafts. Further India with its lower labour cost in comparison with the labour in Japan and Korea has a high potential for developing shipbuilding market.

To concentrate on building heavy and large sized vessels while continue building small and medium sized vessels"

Earlier we only concentrated in building different types of vessels in small and medium size. We have gained considerable expertise in this segment over a period of time. The demand for small and medium sized ships is largely met by regional shipbuilders. We have been successful in getting business from UAE, Qatar, Cyprus, Singapore, Yemen etc. and demand from this market will keep escalating in future especially for service vessels like offshore supply and other support crafts.

At present we are focusing on heavy and large vessels, the demand for which is constantly growing. We are receiving increasing number of enquiries for building of large vessels from new as well as existing clients. Demand for large ships is generally met by the international shipyards.

Building activity in the large ship sector has been ever decreasing in recent years. The average age of the existing fleet is around 18.8 years. Given that the life expectancy is between 20 and 25 years, much of the fleet is due for replacement over the coming decade.

"To establish ourselves as a unique, reliable and economical service provider for repairs of highly technical nature"

The Ship repair market, being open and accessible to all the



yards, needs to be captured in a planned way. We plan to capitalize on following factors, which will lure Ship repairs customers at our yard.

1. Location and Infrastructure of yard
2. Quality and reliability
3. Delivery schedule
4. Cost of repairs

Ratnagiri Yard enjoys tremendous locational advantage. It is located on the international trade route, hence the ships require little diversion from their routes. Our quality engineers with vast experience in this field will help us do enhanced quality repairs to satisfy our customers wholly.

"To make use of contemporary procedures to achieve maximum productivity and throughput"

A high level of pre-production (office) work is being carried out to avoid problems experienced by production workers. Good management systems are used to maximize quality and optimise staff work. Modern organizational practices such as area management & supervision and integrated pre-production teams are increasingly being exercised.

A modern computing and networking facility is provided covering pre and post-production work. Extensive use of CAD skills is being made for better designing of vessels.



Management Discussion and Analysis

I) Business Overview

Introduction

After completing 28 successful years since its inception in 1976, Bharati is currently occupying a position as one of the leading private sector shipyards of the country. The company has come a long way and has achieved supremacy by providing quality vessels to its varied customers located nationally as well as internationally. Objectives of technical excellence and prompt delivery, backed by quality assurance are central in the shipbuilding business, to Bharati.

Macro Level Scenario

A company's future is linked with the world economy along with the domestic economy. It is therefore imperative to understand both these scenarios to know where the company stands and about its future prospects.

There is enough market for shipbuilding and repair to support a large volume of work. Any shipyard with moderate productivity, given the prevalent wage rate could easily compete in the global market. The world shipbuilding markets are in a phase of expansion. After a period of stagnation, world trade is now poised for a higher growth rate of the order of 3%. Direction of the wind indicates that sizeable opportunity exists for industry players. These changes are primarily characterized in the following way.

- **Introduction of new regulations banning single hull tankers:**

It will be necessary for world wide fleet owners to modify their vessels to comply with the new regime. Banking on past reputation and its commitment to quality excellence and prompt delivery, the company foresees profitable opportunities in the wake of a proposed ban on single hull tankers.

Currently, there is an overhang of early 1970's built tonnage in both the oil tanker and dry bulk carrier sectors. These need to be replaced in the next few years. In addition, following a wake of well-publicized disasters, the replacement of single hulled tankers from the world fleet has to be completed by 2005. At the moment almost 180 of the 295 million DWT tanker fleet is single hulled.

- **Abandoning of old ships specially bulk carriers due to introduction of higher structural standards :**

As the world progresses, better structural and construction standards and techniques are invented. They supersede, the existent norms in many aspects. Due to innovation and upgradation in technology of crafting bulk carriers, it has become necessary to scrap old ships and acquire the technologically sound vessels which abide by the internationally set standards.

- **Increasing containerization:**

Increase in containerization would lead to higher demand of container ships. It is expected that this segment will grow by 11% as against the general growth of trade of 3%.

Given the earlier performance and forecasts for the future, it will be very realistic to say that "Perception of India as a shipbuilding destination is constantly evolving and has changed for the better in the recent past".

About 60% of the global new build market is accounted for by large size vessels like – Aframax, Panamax, Suezmax, VLCC, ULCC etc. In India there has been no capacity augmentation to build sizes beyond Aframax. If adequate investment is done in the production facilities in the current liberalized environment, it is definitely possible to have a larger market share from the available global market. It seems that the time is just right for investment in expansion of ship building facilities, by introducing cutting edge production and design technology etc.

Domestic Perspective

Current domestic shipbuilding market is growing in response to high growth rates for trading and industrial production in India. India Inc. stands to gain the advantage on following grounds :

- Lower labour cost in comparison to Singapore, Korea, Japan, and Eastern European yards
- Availability of large pool of technically qualified personnel with proven skills in shipbuilding production engineering and other maritime areas
- A vast coast line of India with many suitable sites for large yards
- Rise in domestic Indian coastal and overseas trade and this trade driven growth is likely to give a push for new buildings
- The present buoyant Global demand will keep the ship prices firm and rising upward for next 4 to 5 years
- The quality of Indian built ships is perceived to be better in comparison to the one's built by competitors.
- The input cost of material and machinery are now being made available to Indian shipyards at global benchmarked prices with economical liberation
- The labour and managerial productivity is on a rise with incorporation of better manufacturing facilities

The world shipbuilding market is sufficiently substantial and diverse to support the entry of the Indian shipbuilding industry. According to published sources, approximately half of the anticipated shipbuilding requirements for this decade involve the construction of tankers for moving crude oil and products, chemicals, and liquified gas. A second large segment of the market involves construction of ships for transporting dry bulk commodities, such as coal and iron ore.

Both of these market segments involve constructing ships to transfer commodities and raw materials worldwide, in quantities large enough to warrant a ship built specifically for the purpose.

The work undertaken in the world's shipyards, however, is presently at a comfortable level. The Indian market share could be insignificant at the moment but there is tremendous scope for improvement in the backdrop of subsidy recently introduced by Govt. of India, both for Indian Flag ships as well as export orders.

Role of Subsidies

Government of India, realizing the need to create a level playing field, has now extended the subsidy scheme, for ships built in Indian shipyards both for Indian owners as well as exports. This subsidy is presently available to private sector Indian shipyards too. The amount of subsidy is stabilised at 30% of the sale price of the ship subject to fulfillment of conditions.

Sagarmala Project

The Government of India has announced a ground-breaking project known as 'Sagar Mala' for development of India's Maritime Sector. Primarily aimed at capacity expansion and modernization and creation of multitude of ports along India's West and East Coasts, it is estimated that the project will result in additional demand of over 2,250 vessels in the inland water transport sector and 200 vessels for coastal shipping.

Some of the salient features of this project are as follows :

- New ports at a distance of every 100 nautical miles will be set up for shipping as well as for fishing. A separate fund will be established for the coastal shipping infrastructure
- Movement of bulk cargo to be encouraged by inland water and coastal shipping. Further, hinterland connectivity for movement of sea borne cargo through the national highway grid will also be encouraged

The shipping turnover is expected to escalate by 1200 %. The maintenance and ship repair requirements are expected to grow 8 times over.

Therefore a good opportunity exists for an economically and operationally efficient shipyard to capture an increased share of the shipbuilding market.

Expansion Plan

With the growing global shift of this industry to India, we have chalked up a growth plan to expand and modernise our shipyard at Ratnagiri to cater to the increasing demands of building custom-made ships upto 25,000 DWT. The Cost of expansion of the shipyard at Ratnagiri is expected to be approximately Rs. 65 crores and additional Rs. 10 crores towards working capital margin. The new facilities will have reclaimed land, new jetties, dry dock, slipways, cranes, machineries and various other equipments, Administrative block, various shops, structures and sheds. The company has a target level of productivity of 40 GWT per man-year. It is estimated that after installing / modernising the facilities, the Shipyard will achieve an average throughput of 5 to 8 big ships per year over a wide size range up to about 25,000 DWT OR 12 to 18 ships per year comprising of offshore vessels and auxiliary vessels.

Company's Market Share in the Shipbuilding Market

Demand for ships below 5000 DWT is very much met by regional shipbuilders. The Company has been successful in getting orders from UAE, Syria, etc. and demand from this market area will sustain in the future, specially for service vessels like offshore supply and other support crafts.

Demand for ships above 5000 DWT is generally met from global market. The Company is at present targeting ships of up to 25000 DWT (Handy Size). The ships in the range between 5000—25000 DWT represent market volume of 30% of total ship demand. Gross global demand for ships is currently at 40 million tonnes annually. Demand in this range of ships is 12 million tonnes annually which is equivalent to 800- 1200 ships of assorted size and type.

It is expected that the Company can easily book 2/3 ships in this category in the medium term and increase it to 4/5 ships in longer term.

The target output of the shipyard at Ratnagiri is 3.5 ships of 25,000 DWT per year. However, this would cater for a wide range of product mix up to this range.