



Essar Oil Limited



Tenth Annual Report
1998-99

Essar Oil Limited

BOARD OF DIRECTORS

Shashikant N Ruia
 Ravikant N Ruia
 R K Sukhdevsinhji
 Anshuman S Ruia
 S V Venkatesan
 E B Desai
 Dilip J Thakkar
 S K Chakrabarti
 A T Kusre
 P S Teckchandani
 S R Agrawal

Chairman
Vice Chairman
Managing Director

Nominee of IDBI
Nominee of ICICI Ltd.
Whole-time Director
Director – Finance

COMPANY SECRETARY

Sheikh S Shaffi

BANKERS

State Bank of India
 State Bank of Saurashtra
 Central Bank of India
 ABN Amro Bank NV
 State Bank of Mysore

State Bank of Indore
 Bank of Baroda
 Indian Bank
 The Sakura Bank

AUDITORS

M/s. Deloitte Haskins & Sells
 Chartered Accountants
 Jehangir Wadia Bldg., 3rd floor
 51, Mahatma Gandhi Road
 Fort, Mumbai 400 023

INTERNAL AUDITORS

M/s. B. P. Jain & Co.
 Chartered Accountants
 A-16, Everest. Tardeo Road,
 Mumbai 400 034

SOLICITORS

M/s. Mulla & Mulla & Craigie Blunt & Caroe
 Jehangir Wadia Bldg.
 51, Mahatma Gandhi Road
 Fort, Mumbai 400 001

REGISTERED OFFICE

Khambhalia Post
 Post Box No. 24
 Dist. Jamnagar 361 305
 Gujarat
 Tel.: 02833-41444
 Fax : 02833-41818/41666

CORPORATE OFFICE

Essar House
 P O Box No. 7913
 11, Keshavrao Khadye Marg
 Mahalaxmi, Mumbai 400 034
 Tel. : 022-4950606
 Fax : 022-4954281
 Website : <http://www.essar.com>

TRANSFER AGENTS

M/s. MCS Limited
 Unit: Essar Oil Limited
 'Sri Padmavathi Bhavan'
 Plot No. 93, Road No. 16
 MIDC Area
 Andheri (East), Mumbai 400 093
 Tel. : 022-8201785
 Fax : 022-8201783

SECURITIES LISTED AT

Saurashtra Kutch Stock Exchange Ltd.
 Madras Stock Exchange Ltd.
 National Stock Exchange Ltd.
 The Calcutta Stock Exchange Association Ltd.
 The Delhi Stock Exchange Association Ltd.
 The Stock Exchange, Ahmedabad
 The Stock Exchange, Mumbai
 Vadodara Stock Exchange Ltd.

Cover Photos : Refinery Project under construction

NOTICE

NOTICE is hereby given that the **Tenth Annual General Meeting** of the members of **ESSAR OIL LIMITED** will be held at the Registered Office, Khambhalia Post, (40th Km Stone on Jamnagar - Okha Highway) Dist. Jamnagar - 361305, Gujarat on **Thursday the 30th September, 1999** at 11:00 a.m. to transact with or without modifications, as may be permissible, the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the Balance Sheet as at 31st March, 1999, the Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Shri R N Ruia, who retires from office by rotation as Director and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Shri S V Venkatesan, who retires from office by rotation as Director and being eligible offers himself for re-appointment.
4. To appoint a Director in place of Shri D J Thakkar, who retires from office by rotation as Director and being eligible offers himself for re-appointment.

SPECIAL BUSINESS :

5. To consider and if thought fit, to pass, with or without modification(s) following resolution as **Ordinary Resolution**.

"RESOLVED THAT M/s Deloitte, Haskins & Sells, Mumbai be and are hereby appointed as the Auditors of the Company in place of M/s Deloitte, Haskins & Sells, Calcutta to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting at a remuneration to be fixed by the Board of Directors of the Company."

By Order of the Board of Directors

Mumbai
24th August, 1999.

SHEIKH S SHAFFI
Company Secretary

Registered Office :
Khambhalia Post,
PO Box 24,
Dist. Jamnagar 361 305
Gujarat.

NOTES :

- (a) **A member entitled to attend and vote at the meeting 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 will be closed from Tuesday the 28th September, 1999 to Thursday the 30th September, 1999 both days inclusive.
- (c) All documents referred to in the accompanying Notice are open for inspection at the Registered Office of the Company on all working days, except Saturdays, Sundays and Bank holidays, between 11 a.m. and 1 p.m. upto the date of the Annual General Meeting.
- (d) Members/proxies should bring the attendance slip duly filled in for attending the meeting.
- (e) Members desiring any information with regard to Accounts are requested to write to the Company at least 10 days before the date of the meeting, so as to enable the management to keep the information ready.

ANNEXURE TO NOTICE

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of item no. 5 of the accompanying notice is as under:

Item No. 5

The retiring auditors M/s Deloitte Haskins & Sells, Calcutta, have consequent to restructuring of their firm, expressed their inability to seek re-appointment as Auditors of the Company. Instead it is proposed to appoint M/s Deloitte Haskins & Sells, Chartered Accountants, Mumbai, as the Statutory Auditors in their place. Although the matter is not governed strictly by the provisions of Sections 225(1) of the Companies Act, 1956 but by the provisions of Section 224(2)(b) of the Act, which makes no reference to any special notice being given, by way of abundant caution, such a special notice has been received by the Company from a member proposing to appoint M/s Deloitte Haskins & Sells, Chartered Accountants, Mumbai as Auditors of the Company. M/s Deloitte Haskins & Sells, Chartered Accountants, Mumbai have confirmed that if appointed, their appointment will be in accordance with the provisions of the Companies Act, 1956.

By Order of the Board of Directors

Mumbai
24th August, 1999

SHEIKH S SHAFFI
Company Secretary

Registered Office :
Khambhalia Post,
PO Box 24,
Dist. Jamnagar 361 305
Gujarat.

Essar Oil Limited

Directors' Report

To the Members of Essar Oil Limited

The Directors have pleasure in presenting the Tenth Annual Report together with the audited accounts of the Company for the year ended March 31, 1999.

FINANCIAL RESULTS

	(Rs. in Crores)	
	1998-99	1997-98
Gross Income	245.11	228.96
Gross Profit	42.05	41.77
Less : Depreciation	21.03	19.15
Profit before Income Tax	21.02	22.62
Less : Provision for Income Tax	2.10	2.38
Net Profit	18.92	20.24
Add : Balance brought forward from previous year	117.23	96.99
Total amount available for appropriations	136.15	117.23
Less : Appropriations		
(a) Transfer to General Reserve	—	—
(b) Dividend	—	—
Balance carried to Balance Sheet	136.15	117.23

EXISTING OPERATIONS

The Company's drilling operations in Kuwait which commenced in August '97 under a new contract has stabilised and is now doing well. Operations in Oman and Qatar continue to set new standards of performance and secure commendations from our clients. The Company's Oman operation obtained ISO 9002 Certification during the year. The Company also secured new contracts for 2 rigs in India. Both these contracts are under execution currently. Extraordinarily low oil prices during 1998-99 led to international Oil Companies cutting back their drilling programmes. This in turn adversely affected the demand/rates for the drilling business. Though the Company's operations were affected by this, the Company intensified its marketing activities and submitted bids for the first time in Azerbaijan and Algeria. It has also initiated market development activities in Iran, Iraq and Libya that are expected to develop into large markets for the Company's business. The Company hopes that the recent oil price increase will be sustained during the year and may lead to strong demand for land rigs in the coming years.

The offshore construction activities have shown a marginal uptrend and the division has received a platform modification contract to be completed in the next year which would improve the profitability of the Company.

Exploration & Production Division has completed seismic studies in two Rajasthan and the Saurashtra blocks. The Company has progressed to the second phase in one of the Rajasthan blocks which involves drilling of an exploratory well while the second block has been surrendered for lack of prospects. In the Saurashtra block, Government approval is

awaited for induction of a partner prior to moving to the second phase. Also two production sharing contracts for a block in the Cambay basin and for one in the Cachar District of Assam were executed during the year. In addition, Government of India has given clearance for initiating negotiations for finalisation of the contracts for the development of Ratna & R Series Oil Fields.

REFINERY PROJECT

The implementation of the 10.5 Million Metric Tonnes Oil Refinery Project at Jamnagar had a major set-back due to a devastating cyclone which caused damage to the materials and some of the facilities at the Refinery site, including seawater intake facility. In view of the delay and consequent cost escalation, ICICI the lead financial institution re-appraised the project in October 1998 and confirmed the viability of the project at the revised project cost which compares favourably with other grass root refinery projects being set-up/proposed of similar capacities in India and abroad. Further minor de-bottlenecking of some of the process units would enhance the capacity to 12 Million Metric Tonnes per annum which would bring down the unit cost and should increase the profitability of the Company. The equity part under the approved revised means of finance is fully tied-up except the Euro Issue of Convertible Bonds which could not be launched due to depressed international market conditions. The Company has approached the Financial Institutions to extend financial assistance pending full tie-up of Convertible Bonds Issue. The Financial Institutions are further reviewing the project due to delay in the Euro Issue and tying up of a part of the debt. The management is making all efforts to restore the pace of activities and complete the project in the last quarter of 2000. Major part of the equipment has arrived at site and the remaining are lying at various vendors yards. The Company has already spent Rs. 4738 Crores on the project as on 30.06.99 and achieved overall 2/3rd completion of the project. The Company is also in dialogue with a few reputed domestic/international oil companies, who have shown keen interest to participate in the Refinery Project through strategic investments. Their participation should be beneficial to source crude oil, effective operations and marketing of the refinery products.

SHARE CAPITAL

The Company recently forfeited 6,19,68,950 shares on which calls were in arrears after giving proper notice to all the shareholders.

CORPORATE GOVERNANCE

Essar strongly believes in positive attitude and self-discipline to achieve highest standard of Corporate Governance and continues to strive for excellence in business operations through transparency, accountability to its stakeholders, Government and others. The effective functioning of the Board is the key to good corporate governance. The Board is comprised of three whole time directors who are professional managers and nine eminent non-executive directors including 3 nominees from leading financial institutions. The Board has further set up various committees including the Audit Committee, Project Management Committee, Banking and



Finance Committee and Share Transfer Committee with well-defined scope and responsibilities to assist the Board in decision making. The independent external directors and the nominee director of Financial Institution play an important role in these committees. The Company has appointed internationally reputed firm as Auditor to ensure highest accounting standard and enhanced disclosures. The implementation of the Refinery Project is continuously monitored by an Independent Engineer M/s. Pace Consultant Inc. Houston, USA and the project expenditure is also concurrently audited by M/s Price Waterhouse Coopers, both appointed at the instance of the lenders. Your Directors would like to emphasize their commitment to adopt the best practices to achieve global standards and enhance the reputation of your Company.

Y2K COMPLIANCE

The company has taken appropriate steps to ensure that all its hardware, software and application systems are Year 2000 (Y2K) compliant by October 1999. The financial impact on the company is not anticipated to be material to its financial position or results of operations. The company has designed fallback options to combat contingencies and has sufficient internal resources to address any system disruption due to Y2K issues.

DIRECTORS

The nominee director of Unit Trust of India (UTI), Shri M M Kapur was withdrawn by UTI from the Board on 10th May, 1999. The Directors wish to place on record their appreciation of the valuable contribution of Shri M M Kapur to the Company.

Shri R N Ruia, Shri S V Venkatesan and Shri D J Thakkar retire by rotation and being eligible offer themselves for re-appointment.

ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE

Information as per the Companies (Disclosure of the Particulars in the Report of the Board of Directors) Rules, 1988 relating to the conservation of energy and technology absorption is not provided as the same is not applicable to the Company. The Refinery project is under implementation. Appropriate steps are being taken for the conservation of energy and effective absorption of technology.

Particulars relating to Foreign Exchange outgo and earnings appear in Notes No. 8 and 9 of the schedule XIX to the Profit and Loss Account and Balance Sheet.

FIXED DEPOSIT

Your Company has not accepted any deposits from public under Section 58 A of the Companies Act, 1956 during the financial year under review.

PARTICULARS OF EMPLOYEES

Information as per Section 217(2A) of the Companies Act 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended is given in the Annexure forming part of the report. However, as per the provisions of Section 219(1)(b)(iv) of the said Act, the Report and Accounts are being sent to all Shareholders of the Company excluding the statement of particulars or employees u/s 217(2A) of the said Act. Any Shareholder interested in obtaining a copy of this statement may write to the Company Secretary at the Registered Office.

AUDITORS

Your company's auditors M/s. Deloitte Haskins & Sells, Chartered Accountants, Calcutta are due to retire at the ensuing Annual General Meeting. Due to restructuring of the firm in India, they have expressed their inability to continue and accordingly tendered their resignation. It is now proposed to appoint M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai, as the auditors of the Company from the conclusion of this meeting till the conclusion of the next Annual General Meeting. M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai, have informed the Company that if appointed their appointment will be in accordance with the Companies Act, 1956.

PROJECTIONS v/s PERFORMANCE

The projected financials in the prospectus for the year 1998-99 included the income from the refinery operations. Since the commissioning of the Refinery Project has, got delayed due to cyclone, the projected financials could not be achieved. Your Company has achieved the turnover of Rs. 237 Crores as against the projected turnover of Rs. 467 Crores. The profit after tax during the year is Rs. 19 Crores against the projected profit after tax of Rs. 132 Crores.

ACKNOWLEDGEMENT

The Board wishes to express its appreciation and place on record their gratitude for the confidence reposed and co-operation extended to the Company by the Government of India, State Governments, Financial Institutions, Banks, Customers, Suppliers and Investors of the Company. Your Directors place on record their appreciation of the dedicated and sincere services rendered by the employees of the Company.

For and on behalf of the Board of Directors

Place : Mumbai
Dated : 24th August 1999

S N RUIA
CHAIRMAN

Essar Oil Limited

AUDITORS' REPORT**TO THE MEMBERS OF ESSAR OIL LIMITED**

We have audited the Balance Sheet of Essar Oil Limited as at March 31, 1999 and the Profit and Loss Account for the year ended on that date annexed thereto, and report that :

- 1) As required by the Manufacturing and Other Companies (Auditors Report) Order, 1988 issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- 2) Further to our comments in the Annexure referred to in paragraph 1 above, we state that :
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of such books.
 - c) The Balance Sheet and the Profit and Loss Account referred to in this report are in agreement with the books of account.
 - d) In our opinion, the Balance Sheet and the Profit and Loss Account comply with the accounting standards referred to in sub-section(3C) of Section 211 of the Companies Act, 1956.
 - e) In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit and Loss Account read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view :-
 - i) in so far as it relates to the Balance Sheet, of the state of affairs of the Company as at March 31, 1999; and
 - ii) in so far as it relates to the Profit and Loss Account, of the profit of the Company for the year ended on that date.

For **Deloitte Haskins & Sells**
Chartered Accountants

N. P. Sarda
Partner

Mumbai,
Dated: May 31, 1999.

ANNEXURE

Referred to in paragraph 1 of our report of even date

- 1) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets. The management has been conducting physical verification of the fixed assets of the Company according to a phased programme designed to cover all the items over a period of time. We are informed that no material discrepancies have been noticed on such verification.
- 2) The fixed assets of the Company have not been revalued during the year.
- 3) Physical verification has been conducted by the management at reasonable intervals in respect of stores and spares.
- 4) The procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business.
- 5) We have been informed that no material discrepancies have been noticed on physical verification of stocks as compared to book records.
- 6) On the basis of our examination of stock records, we are of the opinion that the valuation of stocks is fair and proper in accordance with normally accepted accounting principles and is on the same basis as in the previous year.
- 7) The Company has not taken any loans, secured or unsecured, from companies, firms and other parties listed in the register maintained under Section 301 of the Companies Act, 1956 or from companies under the same management as defined under section 370 (1B) of the Companies Act, 1956.
- 8) In respect of loans, secured or unsecured, granted to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 or to companies under the same management as defined under section 370 (1B) of the Companies Act, 1956, the rates of interest and other terms and conditions thereof are not, prima facie, prejudicial to the interest of the Company.
- 9) The parties and employees to whom loans have been given by the Company are generally regular in repayment of the principal amounts as stipulated and in payment of interest wherever applicable. No interest has been charged on dues from Essar Shipping Limited for transfer of port terminal w.e.f. April 01, 1998 and loan to Essar Power Limited as detailed in Note nos. 13 and 15 respectively.