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ESSAR

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Essar Oil Limited

13th Annual Report
2001 - 2002

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Essar Oil Limited

BOARD OF DIRECTORS (as of 21 February, 2003)

Shashi Ruia
Ravi Ruia
Jagdeesh M. Mehta
P S Ruia
E B Desai
Dilip J Thakkar
K N Venkatasubramanian
R Jayaraman Iyer
R Kannan
Kamal Kishore
S N Gogate
P S Teckchandani

Chairman
Vice Chairman
Managing Director & CEO

Nominee of IDBI
Nominee of ICICI Bank Ltd.
Nominee of IFCI Ltd.
Nominee of Debenture Trustees - WITCO
Wholetime Director

COMPANY SECRETARY

Sheikh S Shaffi

BANKERS

State Bank of India
State Bank of Saurashtra
Central Bank of India
ABN Amro Bank
Allahabad Bank

Punjab National Bank
IndusInd Bank Ltd.
ICICI Bank Ltd.
Union Bank of India
Global Trust Bank

AUDITORS

M/s. Deloitte Haskins & Sells
Chartered Accountants
Mafatlal House, Backbay Reclamation
Mumbai-400 020

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

TRANSFER AGENTS

M/s. MCS Limited
Unit: Essar Oil Limited
'Sri Venkatesh Bhavan', Plot No. 27, Road No. 11, MIDC Area
Andheri (East), Mumbai-400 093
Tel.: 022-28215235 Fax: 022-28350456
Website : www.mcsind.com

REGISTERED OFFICE

Khambhalia Post
Post Box No.24
Dist. Jamnagar-361 305
Gujarat
Tel. : 02833-241444
Fax : 02833-241818/241414

CORPORATE OFFICE

Essar House
Post Box No. 7945
11, Keshavrao Khadye Marg,
Mahalaxmi, Mumbai-400 034
Tel. : 022-24950606
Fax : 022-24954281
Website : <http://www.essar.com>

SECURITIES LISTED AT

Saurashtra Kutch Stock Exchange Ltd.
Madras Stock Exchange Ltd.
National Stock Exchange of India 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.

Popatbhai Sorathia Bhavan, Sadar Bazar, Rajkot-360 001
P.O. Box No. 183, 11, Second Line Beach, Chennai-600 001
Exchange Plaza, 5th Floor, Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (E), Mumbai-400 051
7, Lyons Range, Kolkata-700 001
DSE House, 3/1, Asaf Ali Road, New Delhi-110 002
Kamdhenu Complex, Opp. Sahajanand College, Panjarapole,
Ahmedabad-380 015
1st Floor, Rotunda Bldg., P.J. Towers, Dalai Street, Mumbai-400 023
Fortune Tower, P.O. Box No. 2547, Sayajigunj, Vadodara-390 005

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NOTICE is hereby given that the **Thirteenth Annual General Meeting** of the members of **ESSAR OIL LIMITED** will be held at the Registered Office of the Company at Khambhalia Post, (40th Km. Stone on Jamnagar-Okha Highway) Dist. Jamnagar - 361305, Gujarat on **Thursday, the 27th March, 2003 at 2:30 p.m.** to transact with or without modifications, as may be permissible, the following business:

SPECIAL BUSINESS

1. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED THAT the Balance Sheets of the Company as at 31st March, 1994, 1995, 1996, 1997, 1998, 1999, 2000 and 2001, the Profit and Loss Accounts for the years ended on those dates and the Directors' Reports thereto, laid before and adopted by the Members at the 5th, 6th, 7th, 8th, 9th, 10th, 11th and 12th Annual General Meetings of the Company held on 24th August, 1994; 30th September, 1995; 27th September, 1996; 25th September, 1997; 2nd July, 1998; 30th September, 1999; 27th September, 2000 and 28th September, 2001 respectively, be amended as mentioned in the statement of amendments annexed hereto dated 26th February, 2003 signed by the Company's Directors and the Auditors and that the same together with the annexed Auditors' Report on the Statement of Amendments be and are hereby considered, approved and adopted.

"RESOLVED FURTHER THAT the amendments herein above referred to shall be, and shall always be deemed to have been incorporated in the aforesaid Balance Sheets and the Profit and Loss Accounts and formed part thereof respectively."

2. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri S N Gogate, who was appointed as an Additional Director by the Board of Directors pursuant to Section 260 of the Companies Act, 1956 and who holds office only upto the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, in writing, proposing his candidature for the office of director, be and is hereby appointed as a Director of the Company liable to retirement by rotation."

ORDINARY BUSINESS

3. To receive, consider and adopt the Balance Sheet as at 30th September, 2002, the Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
1. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board of Directors

Jambai
28th February, 2003

SHEIKH S SHAFFI
COMPANY SECRETARY

Registered Office :
Khambhalia Post,
O. 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 remain closed from Tuesday, the 25th March, 2003 to Thursday, the 27th March, 2003, 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 / Reports are requested to write to the Company at least ten days before the date of the meeting, so as to enable the management to keep the information ready.
- (f) The details of unpaid dividends that will become due for transfer to the Investor Education and Protection Fund are :

Year ended	Date of Declaration	Due for Transfer on
31.3.1996	27.9.1996	14.11.2003
31.3.1997	25.9.1997	12.11.2004

Members who have not encashed their dividend warrants for the aforesaid years may approach the transfer agents.

- (g) Directors retiring by rotation :
Shri E B Desai, Director, retires by rotation at the Annual General Meeting and does not offer himself for reappointment.
Shri P S Teckchandani, Wholetime Director, retires by rotation at the Annual General Meeting and does not offer himself for reappointment.
- (h) The Explanatory Statements pursuant to Section 173(2) of the Companies Act, 1956 relating to the Special Business mentioned in Item Nos. 1 and 2 of the accompanying Notice are annexed.

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1. STATEMENT OF AMENDMENTS

(Forming part of Resolution at Item no. 1 to the Notice)

Amendments to the Balance Sheets of the Company as at 31st March, 1994, 1995, 1996, 1997, 1998, 1999, 2000 and 2001, the Profit and Loss account for the years ended on those dates as also schedules thereto

I. Changes in Profit & Loss Account of the respective years after appropriation to Foreign Projects Reserve								
(Rupees in crores)								
Particulars	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
a) Existing								
Profit after Tax	43.38	49.27	36.89	42.46	20.23	18.92	25.06	10.43
Balance b/f from previous year	10.88	37.91	72.61	88.37	96.99	117.22	136.14	114.88
Total (i)	54.26	87.18	109.50	130.83	117.22	136.14	161.20	125.31
Interim Dividend Paid	4.92	—	—	—	—	—	—	—
Proposed Dividend (Subject to deduction of Tax)	4.93	7.07	21.13	30.77	—	—	—	—
Tax on Proposed Dividend	—	—	—	3.07	—	—	—	—
Transfer to General Reserve	6.50	7.50	—	—	—	—	—	—
Foreign Projects Reserve in respect of earlier years	—	—	—	—	—	—	27.82	—
Transfer to Foreign Projects Reserve	—	—	—	—	—	—	18.50	10.00
Balance carried forward to balance sheet	37.91	72.61	88.37	96.99	117.22	136.14	114.88	115.31
Total (ii)	54.26	87.18	109.50	130.83	117.22	136.14	161.20	125.31
b) Proposed								
Profit after Tax	43.38	49.27	36.89	42.46	20.23	18.92	25.06	10.43
Balance b/f from previous year	10.88	36.21	69.91	84.66	93.28	107.39	106.63	113.19
Total (i)	54.26	85.48	106.80	127.12	113.51	126.31	131.69	123.62
Interim Dividend Paid	4.92	—	—	—	—	—	—	—
Proposed Dividend (Subject to deduction of Tax)	4.93	7.07	21.13	30.77	—	—	—	—
Tax on Proposed Dividend	—	—	—	3.07	—	—	—	—
Transfer to General Reserve	6.50	7.50	—	—	—	—	—	—
Foreign Projects Reserve in respect of earlier years	—	—	—	—	—	—	—	—
Transfer to Foreign Projects Reserve	1.70	1.00	1.01	—	6.12	19.68	18.50	10.00
Balance carried forward to balance sheet	36.21	69.91	84.66	93.28	107.39	106.63	113.19	113.62
Total (ii)	54.26	85.48	106.80	127.12	113.51	126.31	131.69	123.62
II. Changes under the head "Reserves and Surplus" in the Balance Sheet of the respective years after creation of Foreign Projects Reserve Account								
a) Existing								
(i) Share Premium Account								
Balance as per last Balance Sheet	—	—	66.92	492.40	791.20	1,074.56	1,078.91	1,079.65
Add: Received during the year	—	66.92	425.48	298.80	283.36	4.35	0.74	—
Total (i)	—	66.92	492.40	791.20	1,074.56	1,078.91	1,079.65	1,079.65
(ii) General Reserve								
Balance as per last Balance Sheet	2.03	8.53	16.03	16.03	16.03	16.03	16.03	22.30
Add: Transfer from Profit & Loss Account	6.50	7.50	—	—	—	—	—	—
Add: Forfeiture of Dividend	—	—	—	—	—	—	6.27	—
Total (ii)	8.53	16.03	16.03	16.03	16.03	16.03	22.30	22.30
(iii) Foreign Projects Reserve Account								
Balance as per last Balance Sheet	—	—	—	—	—	—	—	46.32
Add: Transfer from Profit & Loss Account	—	—	—	—	—	—	27.82	—
For Previous Year	—	—	—	—	—	—	18.50	10.00
For Current Year	—	—	—	—	—	—	46.32	56.32
Total (iii)	—	—	—	—	—	—	46.32	56.32
(iv) Surplus as per Profit & Loss Account (iv)	37.91	72.61	88.37	96.99	117.22	136.14	114.88	115.31
Total (i+ii+iii+iv)	46.44	155.56	596.80	904.22	1,207.81	1,231.08	1,263.15	1,273.58
b) Proposed								
(i) Share Premium Account								
Balance as per last Balance Sheet	—	—	66.92	492.40	791.20	1,074.56	1,078.91	1,079.65
Add: Received during the year	—	66.92	425.48	298.80	283.36	4.35	0.74	—
Total (i)	—	66.92	492.40	791.20	1,074.56	1,078.91	1,079.65	1,079.65
(ii) Foreign Projects Reserve Account								
Balance as per last Balance Sheet	—	1.70	2.70	3.71	3.71	9.83	29.51	48.0
Add: Transfer from Profit & Loss Account	1.70	1.00	1.01	—	6.12	19.68	18.50	10.0
Total (ii)	1.70	2.70	3.71	3.71	9.83	29.51	48.01	58.0
(iii) General Reserve								
Balance as per last Balance Sheet	2.03	8.53	16.03	16.03	16.03	16.03	16.03	22.3
Add: Transfer from Profit & Loss Account	6.50	7.50	—	—	—	—	—	—
Add: Forfeiture of Dividend	—	—	—	—	—	—	6.27	—
Total (iii)	8.53	16.03	16.03	16.03	16.03	16.03	22.30	22.3
(iv) Surplus as per Profit & Loss Account (iv)	36.21	69.91	84.66	93.28	107.39	106.63	113.19	113.6
Total (i+ii+iii+iv)	46.44	155.56	596.80	904.22	1,207.81	1,231.08	1,263.15	1,273.5

As per our Report of even date attached

For Deloitte Haskins & Sells
Chartered Accountants

N. P. Sarda
Partner
Mumbai, 26th February, 2003

P. R. Ashok
Vice President (Accounts)

S. S. Shaffi
Company Secretary

For and on behalf of the Board of Directors

Jagdeesh M. Mehta
Managing Director & CEO

R. N. Rulkar
Vice Chairman

Mumbai, 26th February, 2003

(Report of Auditors referred to in Resolution at Item No. 1 of the Notice)

AUDITOR'S REPORT

TO THE MEMBERS OF ESSAR OIL LIMITED

We have examined the attached "Statement of Amendments in Financial Statements for the financial years 1993-94 to 2000-01 for creation of Foreign Projects Reserve under section 80HHB of the Income tax Act, 1961" with the revised books of account of Essar Oil Limited for the relevant financial years.

As per the General Circular of the Department of Company Affairs, a company can re-open and revise its accounts even after their adoption in the Annual General Meeting in order to comply with the technical requirements of any law.

We report that: -

- We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purposes of our examination;
- The auditor's report on the original accounts for the financial years 1993-94 to 2000-01 will not change due to changes in financial position for the financial years 1993-94 to 2000-01 for creation of Foreign Projects Reserve under section 80HHB of the Income Tax Act, 1961.
- In our opinion and to the best of our information and according to explanations given to us, the attached statement gives the true and fair view of changes in the Profit and Loss accounts for the financial years 1993-94 to 2000-01 and internal changes under the head "Reserves and Surplus" as on March 31, 1994, March 31, 1995, March 31, 1996, March 31, 1997, March 31, 1998, March 31, 1999, March 31, 2000 and March 31, 2001.

For Deloitte Haskins & Sells
Chartered Accountants

N P Sarda
Partner

Mumbai, February 26, 2003

2. EXPLANATORY STATEMENTS PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No.1

The Company has been executing various drilling contracts overseas, since the financial year 1993-94 and is entitled to a deduction under section 80HHB of the Income-tax Act, 1961, on income earned by execution of foreign projects, provided a "Foreign Projects Reserve" is created through the Profit & Loss Account to the tune of 50% of the foreign profits earned in the relevant year.

The Company had not created foreign projects reserves in the financial years 1993-94 to 1998-99 because deduction under section 80HHB could not be claimed in view of losses computed while filing Income Tax returns. The Company, however, reserved its right to make the claim in the form of a note, in the computation of income for the said years. In the course of assessments, from time to time, the income for some of the years was assessed as positive, except in the financial years 1995-96 and 1996-97. As a precautionary measure, the Company nevertheless created foreign projects reserve during the financial year 1999-2000, for the earlier years i.e. the financial years 1993-94 to 1998-99. However, the Company has been advised to create "Foreign Projects Reserve" in each of the respective years instead of creating Reserves at one time in the financial year 1999-2000, for availing of deduction u/s 80HHB for each of the relevant years.

To get the said deduction now the Company is required to open the books from financial year 1993-94 onwards and create the foreign projects reserve.

This will result in a reduction of the taxable income of the Company and accordingly the tax liabilities will also get reduced.

Section 210 of the Companies Act, 1956 provides for placing of the Balance Sheet and Profit and Loss Account, by the Board of Directors, before the Company in General Meeting, for adoption. Revision in annual accounts would accordingly require the approval of members at a General Meeting. The Department of Company Affairs has recently clarified that companies can reopen and revise their accounts even after their adoption at the annual general meeting in order to comply with technical requirements of taxation and other laws.

The Directors accordingly recommend the resolution at Item No.1 of the Notice for your approval.

The Statement of Amendments together with Auditor's Report thereon detailing the amendments in financial statements of the relevant years is self explanatory. The amendments mentioned in the aforesaid Statement of Amendments shall be and shall always be deemed to have been incorporated in the respective Balance Sheets and Profit and Loss Accounts for the financial years 1993-94 through 2000-2001, both inclusive.

Copies of the amended Balance Sheets and Profit and Loss Accounts for the financial years 1993-94 through 2000-2001 incorporating the changes, amendments made in the Directors' Reports thereon and Auditor's Report on the Statement of Amendments are available for inspection of the members at the Registered office of the Company on all working days except Saturdays, Sundays and holidays between 11:00 a.m. and 1:00 p.m. upto the date of the Annual General Meeting.

None of the Directors is concerned or interested in the resolution.

Item No.2

Shri S N Gogate was appointed as Additional Director of the Company on 26th February, 2003 on nomination by The Western India Trustee and Executor Company Limited (WITCO), the Trustees to the holders of 14% Non Convertible Debentures of Rs. 105/- each and holds office of Director only upto the date of this Annual General Meeting.

Shri S N Gogate aged 61 years is a practicing chartered accountant based in Pune and has been on the Board of United Western Bank, holding company of WITCO for more than ten years. He has a vast and rich experience of around 40 years in various corporate fields including foreign collaboration, foreign exchange matters, taxation and finance. He has rendered consultancy services in these fields to a number of companies incorporated abroad.

The Directors accordingly recommend the resolution at Item No. 2 of the Notice for your approval.

None of the Directors other than Shri S N Gogate is concerned or interested in the resolution.

By Order of the Board of Directors

Mumbai
26th February, 2003

SHEIKH S SHAFFI
COMPANY SECRETARY

Registered Office :
Khambhalia Post,
P. O. Box 24,
Dist. Jamnagar-361 305
Gujarat

To the Members of Essar Oil Limited

The Directors have pleasure in presenting the Thirteenth Annual Report together with the audited accounts of the Company for the financial year ended 30th September, 2002.

FINANCIAL RESULTS

(Rs. in Crores)

	2001-2002 (18 months)	2000-2001 (12 months)
Gross Income	329.05	192.60
Gross Profit	77.77	33.94
Less: Depreciation	35.47	20.99
Profit before Income Tax	42.30	12.95
Less: Provision for Income Tax	17.14	2.52
Net Profit	25.16	10.43
Add: Balance brought forward from previous year	113.62	113.19
Less: Transfer to deferred tax liability	30.73	—
Total amount available for appropriations	108.05	123.62
Less: Appropriations		
(a) Foreign Projects Reserve	14.00	10.00
(b) Debenture Redemption Reserve	11.16	—
(c) Transfer to General Reserve	—	—
(d) Proposed Dividend	—	—
Balance to be carried to Balance Sheet	82.89	113.62

The financial year of the Company was extended by six months to close on 30th September, 2002 and the balance sheet and profit and loss account have been compiled for a period of eighteen months.

DIRECTORS

The position of Shri R Kannan is changed from Nominee of Debenture Trustees (ICICI Ltd.) to Nominee Director of ICICI Limited (now merged with ICICI Bank Ltd.) in its capacity as Lender, replacing Shri A T Kusre. During the year Shri V R Sahasrabudhe was appointed as Nominee of Debenture Trustees (ICICI Ltd.) but subsequently resigned. Shri S N Gogate has been appointed on the Board by the new Debenture Trustees, The Western India Trustee and Executor Company Ltd. IFCL Limited nominated Shri Kamal Kishore, in place of Shri M V Muthu, on the Board of the Company.

The Board wishes to place on record their appreciation for the valuable services rendered by Shri M V Muthu, Shri A T Kusre and Shri V R Sahasrabudhe.

Shri E B Desai, Director and Shri P S Teckchandani, Whole-time Director retire by rotation at the ensuing Annual General Meeting and do not offer themselves for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, it is hereby confirmed:

- that in the preparation of the accounts for the financial year ended 30th September, 2002, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were 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 of the Company for that period;
- that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- that the Directors have prepared the accounts for the financial year ended 30th September, 2002 on a 'going concern' basis.

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 this 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 of 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.

ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE

Information in accordance with Section 217(1)(e) of the Companies Act, 1956 read with 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 Note Nos.8 and 9 of Schedule XIX to the Annual Accounts.

SUBSIDIARY COMPANY

As required under Section 212 of the Companies Act, 1956, the audited statements of accounts along with the report of the Board of Directors and the Auditors' Report thereon of the subsidiary company, Vadinar Power Company Limited for the financial year ended 30th September, 2002 are included in the Annual Report.

FIXED DEPOSIT

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

CORPORATE GOVERNANCE

In terms of clause 49 of Listing Agreement with Stock Exchanges, a Management Discussion and Analysis Report is annexed to the Directors' Report and compliance report on Corporate Governance forms part of the Annual Report. A certificate from the Statutory Auditors of the Company, in this regard, is included in the Annual Report.

AUDITORS

M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai, Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting. M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai, have informed the Company that, if appointed, their appointment will be within the limits prescribed under Section 224(1B) of the Companies Act, 1956. Accordingly, the members' approval is being sought to their appointment as the Auditors of the Company at the ensuing Annual General Meeting.

AUDITORS' REPORT

- The information given by the Management on allocation of borrowing costs into revenue and capital expenditure during suspension of construction/development activities of the Refinery Project in Note No.11 of Schedule XIX to the Annual Accounts as referred to in the Audit Report is self explanatory.
- The Company has submitted to the principal lenders to the Project a business plan, based on reasonable and realistic assumptions, including a debt restructuring scheme for the restart of the Project. The Company is hopeful of obtaining the resolution based on these proposals, which would ensure the continued economic viability and early restart of the Project.

ACKNOWLEDGEMENT

The Board wishes to express appreciation and place on record its gratitude for the faith reposed in and co-operation extended to the Company by the Government of India, State Governments, various Government Agencies/Departments, 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

Mumbai

26th February, 2003**JAGDEESH M. MEHTA**

MANAGING DIRECTOR & CEO

R. N. RUIA

VICE CHAIRMAN

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Annual Report of the Director
MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Refinery & Marketing

Essar Oil Limited is setting-up a 10.5 MMTA crude oil Refinery at Vadinar, Jamnagar (Gujarat). The implementation of the Refinery Project was affected due to a severe cyclone in June, 1998 damaging some of the facilities under construction and causing delay in project implementation and consequent delay in tying up the balance funds required for the restart of the project. The implementation of the Refinery is 63% completed with progress of engineering being 94%, procurement 70% and construction 42%. The Refinery is expected to be commissioned within 18 to 24 months after restart.

The project cost was reappraised at Rs.8000.00 Crores and the participating financial institutions and banks have sanctioned additional financial assistances. The Company is at an advanced stage of complying with certain pre-disbursement conditions stipulated by the financial institutions/banks. Presently the financial assistances availed for the project are subjected to high interest cost despite the market interest rates having moved southwards. The Company is at an advanced stage of finalisation of financial restructuring package with the principal lenders to the project including the lead lender. The package includes rational treatment of interest cost during stoppage of project activity to ensure the continued economic viability of the project. Most of the issues regarding the restart of the project have been resolved. It is expected that the work at the refinery site will restart shortly.

The amount spent on the project is Rs. 5,250 Crores, on cash basis, as on 31st December, 2002. Once commissioned, this will be the second largest private sector refinery with a high level of competitiveness. The Essar Oil Refinery configuration is well suited to meet the stringent product specifications being introduced by the Government and we would be able to meet the BS - II product specifications on commissioning.

Business environment in the Oil industry has witnessed unprecedented changes. After divesting 33.58% of its equity in IBP, the Government, taking on-going economic reform program forward, announced privatisation of BPC and HPC to be undertaken in the financial year 2002-03. The Administered Pricing Mechanism for transportation fuels was dismantled effective 1st April '02 and new private companies meeting the eligibility criteria have been given marketing authorisation for MS/HSD. When the Company's refinery starts production, industry would be free of all controls leading to challenging market environment. The Company on the basis of the investments already made in its refinery, is one of such recipients for marketing authorisation.

Your Company's Marketing Division is fully geared to implement its plan to set up a network of retail stations across the country. Over 1000 Letters of Intent have been issued to prospective Franchisees and after second round of short listing, Appointment Letters will be issued to about 300 to 400 Franchisees over the next few months. In preparation for fierce competition that is expected to prevail in the market, the Company is in the process of putting in place a superior supply / distribution model and comprehensive retail market station including brand strategy and efficient marketing set-up to maximise returns.

With the slow down in the economy for the last couple of years leading to a sluggish growth in the demand for petroleum products, the industry may have to deal with a marginal surplus situation for couple of years leading to export of certain products. The main challenges before the companies are to take all possible steps to generate maximum volumes of sales in a competitive market and ensure delivery of superior quality of products and services.

As the Company moves towards commencement of refining operations, the main challenges before the Company would be to (a) face-up competition from the refineries within India and outside (b) effectively cope with emerging changes in the fuel quality norms in international market and India's desire to follow them in a compressed time frame and (c) prepare superior marketing organization to take advantage of opening of markets.

In order to effectively handle the challenges, appropriate product, market and organizational strategies are being put in place. Further, required investment is

proposed to be made in development and upgradation of scale, technology and infrastructure and training of personnel.

Exploration and Production

Continued volatility in oil prices, increasing demand of petroleum products and declining domestic oil production have resulted in the Government of India making intensive efforts to increase exploration and production activities in the country. During the year the Government invited offers for potential blocks for Coalbed Methane exploration, under international competitive bidding for the first time.

The Company was awarded the Coalbed Methane (CBM) exploration block in Raniganj (West Bengal) measuring 500 sq. km. The Contract for the block was signed in July 2002 and exploration work would commence on grant of the Petroleum Exploration License.

The Company is actively pursuing exploration and production activities and also partnered with international oil companies both for risk sharing as well as for access to technology. The exploration activities in Rajasthan, Cachar & Gujarat are likely to result in creation of additional oil and gas reserves. Further commencement of CBM activity in West Bengal would help the Company to move rapidly towards realising the full value of this resource. Like all other businesses, exploration and production of oil and gas carries inherent risks. The Company has well diversified portfolio of discovered acreage as well as exploration blocks in different prospective basins of India to mitigate against such business risks.

The Production Sharing Contract (PSC) for the Ratna & R-series fields near Ratnagiri still awaits execution. The documents were formally initialled in April 2001. The Company is pursuing the matter with the Government to expedite the same. The signing of PSC will enable the Company to monetize the already discovered oil reserves of around 50 million barrels (the Company's share).

Energy

There has been significant pick-up in demand for contract drilling in Middle East countries. Your Company had entered the Saudi Arabian market and secured its second contract from Saudi Aramco during the year. Rigs operating in Oman have given satisfactory performance. Out of the six rigs operating in Oman four were coming off contract during the year. While three have received an extension in their contracts, one has procured a new contract. In Qatar, one contract was successfully completed in September, 2002 and thereafter a new, three year, contract was secured. Rigs in India continued to operate satisfactorily and have been bid against number of upcoming projects.

The Company has strategically decided to focus on three core areas of Exploration & Production, Refining and Marketing. In line with this objective, it was decided to sell the Energy division. Agreements have been finalised with an Abu Dhabi based Purchaser. All the required approvals have been taken in this regard. The sale is expected to close by March, 2003.

Internal Control System and their adequacy

The Company has taken appropriate measures to ensure adequate internal controls and safeguards to protect its assets and financial and business practices. The scope of internal audit system covers all the areas of operations. Further the lenders to the Refinery Project have appointed an International Accounting Firm as Concurrent Auditor to monitor the utilisation of the funds in the Project.

Human Resources/Industrial Relations

The Company strongly believes that success is primarily dependent on its people and that development of the greatest potentials of each employee is good for both the employee and the business and, therefore, the organisation. The system encourages healthy work atmosphere, knowledge sharing and reward achievements while providing opportunities for progression in the Company. The Company had a strength of 179 employees at the end of the financial year.

The Company is committed to continuous development of its human resources at all levels. The training policy of the Company is to enhance employees capabilities and contributing towards the Company growth and achieving other corporate objectives. The Company lays a lot of emphasis on training, both inhouse and external. Every employee has to undergo atleast three mandays of training programme in a year. To name a few, Management Development Programmes were attended by all levels of management and Executive Leadership Camps and Basic Managerial Skills by our Junior Management executives. Few employees are nominated on conferences and seminars also.

Our policy is to attract and retain the best talent and offer opportunities for development and growth. Criteria and norms for recruitment and selection are laid down. The manpower needs are based on approved manpower budget and business plans. Career opportunities are provided to deserving personnel in line with their skill and potential. The candidates are selected only on fulfilling the criteria laid down.

Essar Oil believes in the general well being, good health and hygiene of its employees. The Company arranges for annual health checkups, has a tie-up with well known hospitals for hospitalization of their employees and their spouse/children. In addition, domiciliary medical benefit is also extended to the employee and his family every

year. At our refinery site the Company operates a Clinic manned by qualified doctor and paramedics and maintains day and night Ambulance service at site. Regular liaison is maintained with General Private hospitals as well as specialist doctors.

The working premises are kept hygienically clean. Regular cleanliness checks are maintained at Canteen, Guest Houses, offices, Colony to ensure hygienic surroundings. Seasonal advisory medical bulletins are published advising staff and employees for prevention of contagious diseases.

Cautionary Statement

Statements in this Management Discussion and Analysis Report describing the Company's objectives, predictions, expectations may be 'forward looking' within the applicable securities laws and regulations. Actual results may differ materially from those expressed or implied. Important factors that could influence the Company's operations include among others economic conditions effecting demand/supply in which the Company operates, change in Government policies, legislation, tax laws, political and economic developments within and outside the country and other allied factors.

CORPORATE GOVERNANCE REPORT

Your Company has implemented the mandatory requirements of Corporate Governance as set out in the Listing Agreement with Stock Exchanges.

1. Board of Directors

The composition of the Board of Directors as on 30th September, 2002 and other required details are given below :

Name	Category	No. of other directorships held #	Committee Membership	
			Member	Chairman
Shashikant N Ruia [Chairman]	Promoter, Non-Executive	8	3	None
Ravikant N Ruia [Vice Chairman]	Promoter, Non-Executive	13	3	1
Jagdeesh M Mehta [Managing Director & CEO]	Executive	3	2	None
Prashant S Ruia	Promoter, Non-Executive	10	6	None
E B Desai	Independent Non-Executive	9	10	4
Dilip J Thakkar	Independent Non-Executive	10	9	4
K N Venkatasubramanian	Independent Non-Executive	5	2	None
R Jayaraman Iyer	IDBI - Nominee	4	None	None
R Kannan ¹	ICICI - Nominee	3	4	None
Kamal Kishore ²	IFCI Ltd.-Nominee	3	1	None
P S Teckchandani [Wholtime Director]	Executive	Nil	1	None
M V Muthu ³	IFCI Ltd.-Nominee	2	—	—
A T Kusre ³	ICICI - Nominee	Nil	—	—
V R Sahasrabudhe ⁴	ICICI - Debenture Trustees' Nominee	Nil	—	—

Excluding directorships in Private Limited Companies

1. Status changed from Nominee of ICICI Ltd. in their capacity as Debenture Trustees to ICICI Bank Ltd. Nominee in their capacity as Lenders.
2. Appointed as Director w.e.f. 31st October, 2001.
3. Ceased to be Directors w.e.f. 31st October, 2001 and 6th April, 2002 respectively.
4. Appointed as Director w.e.f. 6th April, 2002, subsequently withdrawn effective 21st June, 2002.

Nine Board Meetings were held during the financial year on 30th June, 2001; 13th July, 2001; 31st July, 2001; 23rd August, 2001; 31st October, 2001; 29th January, 2002; 6th April, 2002; 30th April, 2002 and 31st July, 2002.

Shri Jagdeesh M Mehta attended all the nine meetings. Shri E B Desai, Shri K N Venkatasubramanian and Shri R Kannan attended seven meetings. Shri P S Ruia and Shri P S Teckchandani were present at six meetings. Shri Kamal Kishore attended five meetings, while Shri D J Thakkar attended four meetings. Shri R N Ruia and Shri R Jayaraman Iyer attended three meetings. Shri M V Muthu was present at two meetings while Shri A T Kusre and Shri V R Sahasrabudhe were present at one meeting each.

Shri Jagdeesh M Mehta, Shri D J Thakkar, Shri K N Venkatasubramanian and Shri P S Teckchandani attended the last Annual General Meeting.

The day-to-day management of the Company is conducted by the Managing Director & CEO who is assisted by the Wholtime Director, subject to the supervision and control of the Board of Directors.

2. Remuneration to Directors

Non-Executive Directors

The Non Executive directors do not draw any remuneration from the Company except sitting fees for each meeting of the Board or any Committee thereof.

The Company does engage M/s. Mulla & Mulla & Craigie Blunt & Caroe, a Solicitor firm, in which Shri E B Desai is a Partner. The services rendered by the firm are purely of professional nature.

Executive Directors

During the financial year 2001-2002 remuneration paid to Shri Jagdeesh M Mehta, Managing Director & CEO included a Basic Salary of Rs.57,78,000/-; House Rent allowance/rent of Rs. 54,00,000/-; Perquisites amounting to Rs.35,74,957/-; and Employers contribution to retirement benefits of Rs.17,45,149/- aggregating to Rs.1,64,98,106/-. Shri P S Teckchandani, Wholtime Director was paid a Basic Salary of Rs.10,63,260/-; House Rent allowance/rent of Rs.2,70,000/-; Perquisites to the extent of Rs.36,05,660/-; and Employers contribution to retirement benefits of Rs.3,10,345/- aggregating to Rs.52,49,265/-.

Annual Reports Librar

Audit Committee, which was constituted in 1995, was renamed as Audit & Governance Committee in the year 2000 with 4 directors viz: Shri D J Thakkar, Shri E B Desai, Shri R Kannan and Shri P S Ruia as its members. The terms of reference of the Committee are as contained in clause 49 of the Listing Agreement.

During the financial year 2001-2002, the Committee met six times. Shri E B Desai, Shri D J Thakkar and Shri R Kannan attended five meetings each. Shri D J Thakkar, a qualified Chartered Accountant, generally chairs the Meetings. The Statutory Auditors, Internal Auditors, Head of Finance Department & Vice-President (Accounts) are invited to attend the meetings of the Committee.

4. Investors' Relations Committee

A Transfer Committee was constituted in 1995 to approve various transactions of shares/debentures. The Committee was reconstituted and renamed as Investors' Relations Committee in the year 2000.

The Committee consists of two executive Directors viz: Shri Jagdeesh M Mehta and Shri P S Teckchandani and three non-executive Directors, namely Shri E B Desai, Shri D J Thakkar and Shri P S Ruia. One of the Non-executive Directors, generally chairs the meetings.

During the financial year 2001-2002, the Committee had 52 meetings. Shri P S Ruia attended 28 meetings, Shri Jagdeesh M Mehta was present at 43 meetings, Shri E B Desai participated in 47 meetings, Shri D J Thakkar was present at 46 meetings and Shri P S Teckchandani attended 28 meetings.

The Company Secretary, Shri Sheikh S Shaffi is the Compliance Officer.

During the financial year, 39,510 letters / complaints were received from the share/debenture holders, out of which 39,302 letters / complaints were replied to / resolved.

The Company had issued and allotted 12.5% Optionally Fully Convertible Debentures of Rs.190/- each pursuant to a Public issue in 1995, to part finance the cost of the Refinery Project at Jamnagar, Gujarat. Post conversion, they are now 14% Non Convertible Debentures of Rs.105/- each. The Debentures are due for redemption in April, 2003. The redemption was to be serviced out of the revenue generation from operation of the Refinery.

With the implementation of the Refinery Project being held-up after the cyclone of 1998, there has been delay in payment of half-yearly debenture interest due to absence of cash-flows. The Company is in the process of finalising a scheme of arrangement with Debenture holders in terms of sections 391 to 394 of the Companies Act, 1956 to settle/reschedule the payment of principal amount/ interest of debentures.

As on 30th September, 2002, 27 requests involving transfer of 4,350 shares and 4 requests involving transfer of 350 debentures were pending to be processed. These pending requests are less than eight days old.

5. General Body Meetings

The date, time and venue of the last three Annual General Meetings of the Company are given below :

Financial Year	Date	Time	Venue
2000-2001	28 th September, 2001	12:30 p.m.	Khambhalia Post, Dist. Jamnagar
1999-2000	27 th September, 2000	11.30 a.m.	Khambhalia Post, Dist. Jamnagar
1998-1999	30 th September 1999	11.00 a.m.	Khambhalia Post, Dist. Jamnagar

All resolutions including the special resolutions are generally passed by show of hands. No resolutions were required to be put through postal ballot last year.

- The Company does not have any Related parties' transactions which have potential conflict with the interest of the Company at large.
- There were no instances of non-compliance on any matter related to the capital markets, during the last three years except the following :

- Part of the listing fee has been paid to some Stock Exchanges, where the Company's securities are listed, for the financial year 2000-2001. The Company had requested those Stock Exchanges to reduce the fee in line with the fee payable to BSE and NSE where the securities of the Company are more actively and regularly traded. Listing Fee has not been paid to all the Stock Exchanges where the Company's securities are listed except Saurashtra Kutch Stock Exchange Limited, Regional Stock Exchange, BSE and NSE, for the financial year 2001-2002, while for the financial year 2002-2003 listing fee has not been paid to any Stock Exchange.
- Trading in securities of the Company was suspended by BSE for few days in April, 2001 due to non-resolution of complaints lodged with them pertaining to non-payment of debenture interest.

7. Means of communication

- Quarterly results are published in Indian Express, a prominent daily newspaper. The annual/quarterly results are made available at the website of the Company www.essar.com.
- Management Discussion and Analysis Report in compliance with the requirements of Clause 49 of the Listing Agreement with Stock Exchanges forms part of this Annual Report which is being sent to all the members of the Company.

8. General Shareholders Information

- Next Annual General Meeting :** Annual General Meeting is scheduled to be held on 27th March, 2003, at the Registered Office of the Company at Khambhalia Post, Post Box No. 24, Dist. Jamnagar - 361305, Gujarat.

ii Tentative Financial Calendar :

Annual results of previous year	End February, 2003
Mailing of Annual Reports	End February, 2003
Unaudited results for the quarter ended 31 st December, 2002	End January, 2003
Annual General Meeting	End March, 2003
Payment of Dividend	Not recommended by Board
Unaudited results for the quarter ended 31 st March, 2003	End April, 2003
Unaudited results for the quarter ended 30 th June, 2003	End July, 2003
Unaudited results for the quarter ended 30 th September, 2003	End October, 2003

- Dates of Book closure :** 25th March, 2003 to 27th March, 2003 (both days inclusive).

- Dividend :** The Board of Directors of the Company has not recommended any dividend for the financial year ended 30th September, 2002.

- Listing of equity shares/debentures on Stock Exchanges :** The Equity Shares and the 14% Secured Redeemable Non-convertible Debentures of Rs. 105/- each of the Company are listed at Saurashtra Kutch Stock Exchange Ltd., Rajkot, The Stock Exchange, Mumbai, The National Stock Exchange of India Ltd, The Stock Exchange, Ahmedabad, Calcutta Stock Exchange Association Limited, Vadodara Stock Exchange Limited, Madras Stock Exchange Limited and The Delhi Stock Exchange Association Ltd.

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The Company has applied for listing of its Equity Shares and Debentures from the Stock Exchanges at Delhi, Kolkata, Chennai, Ahmedabad and Vadodara after obtaining the requisite approvals from the share and debenture holders. The Exchanges at Ahmedabad and Chennai have asked for completing the entire procedure.

Stock Codes :

Trading Symbol

Saurashtra Kutch Stock Exchange Ltd. ESSAROIL

The Stock Exchange, Mumbai 500134

National Stock Exchange of India Ltd. ESSAROIL EQ

ISIN with NSDL and CDSL

Equity shares INE011A01019

14% Non Convertible Debentures 1NE011A07016
of Rs.105/- each

vi. Stock Market price data for the financial year 2001-2002

Month	Year	BSE		NSE		BSE 500 (closing)
		High	Low	High	Low	
April	2001	5.50	4.50	5.40	3.80	1073
May	2001	5.25	4.05	5.15	4.45	1137
June	2001	4.75	3.55	5.50	3.75	1050
July	2001	4.50	3.05	4.40	3.30	1007
August	2001	4.25	3.10	4.25	3.45	986
September	2001	4.25	3.40	4.20	3.15	851
October	2001	6.00	3.50	5.90	3.65	903
November	2001	7.65	4.80	7.45	4.80	1011
December	2001	9.00	4.50	8.60	5.10	1006
January	2002	6.05	4.65	6.10	4.60	1033
February	2002	6.10	4.70	6.15	4.50	1133
March	2002	7.10	4.75	7.50	4.85	1165
April	2002	6.70	5.00	7.05	5.00	1182
May	2002	8.70	4.70	8.90	4.70	1133
June	2002	8.75	6.00	8.70	5.80	1181
July	2002	8.60	5.40	8.90	5.50	1082
August	2002	6.25	5.00	6.25	5.05	1127
September	2002	5.35	4.75	6.10	4.75	1056

vii. **Share Transfer Agent :** MCS Ltd., is our Share Transfer Agent. The R & T Agent acknowledges and executes transfers of securities, arranges for issue of dividend/interest warrants and issues documentation for receipts and repayments of deposits and interest thereon. The R & T Agent also accepts, deals with and resolves complaints of shareholders and debentureholders.

viii. **Share Transfer System :** The Company's shares are traded in the Stock Exchanges compulsorily in demat mode. Physical shares, which are lodged for transfer with the Transfer Agent are processed and returned to the shareholders within a period of 18 - 25 days.

ix. Distribution of shareholding as on 30th September, 2002:

No. of shares	No. of shareholders	%	No. of shares	%
Upto 500	4,56,742	96.45	63322120	17.83
501 - 1000	10,764	2.27	8447298	2.38
1001 - 2000	3,400	0.72	5221919	1.47
2001 - 3000	1,007	0.21	2609729	0.73
3001 - 4000	425	0.09	1551903	0.44
4001 - 5000	392	0.08	1865744	0.53
5001 - 10000	482	0.10	3492061	0.98
10001 and above	354	0.08	268633540	75.64
Total	4,73,566	100.00	355144314	100.00

x. **Dematerialisation of shares and debentures :** As on 30th September 2002, 57.56% of the Company's total shares comprising 20,44,07,258 shares were held in de-materialised form and 42.44% comprising 15,07,37,056 shares were in physical form.

The 14% Secured Redeemable Non-convertible Debentures of Rs.105/- each have been admitted by CDSL and NSDL for trading in dematerialised form with effect from 4th March, 2002 and 6th March, 2002 respectively. The total number of debentures held in demat form as on 30th September, 2002 is 2,20,21,700.

xi. **Plant Location :** The Refinery Project of the Company is under implementation and the same is located at Essar Oil Limited, Post Box No. 24, Khambhalia Post, Dist. Jamnagar - 361 305, Gujarat.

xii. **Address for communication :** For any assistance, request or instruction regarding transfer or transmission of shares and debentures, dematerialisation of shares, change of address, non-receipt of annual report, dividend or interest warrant and any other query relating to the shares and debentures of the Company, please write to the following address : **MCS Limited, Unit : Essar Oil Limited, Sri Venkatesh Bhavan, Plot No. 27, Road No. 11, M.I.D.C. Area, Andheri (East), MUMBAI - 400 093.** Phone: (022) 28215235 Fax: 28350456 email: mcsnum@vsnl.com

AUDITORS' CERTIFICATE

To

The Members of
Essar Oil Limited

We have examined the compliance of conditions of Corporate Governance by Essar Oil Limited for the period 1st April, 2001 to 30th September, 2002 as stipulated in clause 49 of the Listing Agreement of the said company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that no investor grievance is pending for a period exceeding one month against the company as per the records maintained by the Investors' Relations Committee.

We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the Management has conducted the affairs of the company.

For Deloitte Haskins & Sells
Chartered Accountants

Mumbai
February 26, 2003

N P Sarda
Partner