



Essar Shipping Limited



**Twenty-third
Annual Report
1998-99**

**BOARD OF DIRECTORS**

Shri Shashi Ruia	<i>Chairman</i>
Shri Ravi Ruia	<i>Vice Chairman</i>
Shri B.S.Kumar	<i>Managing Director</i>
Shri N.N.Kampani	
Shri R.N.Bansal	
Shri O.P.Khaitan	
Shri S.K.Poddar	
Shri S.Doreswamy	<i>ICICI Nominee</i>
Shri M.P.Modi	<i>ICICI Nominee</i>

COMPANY SECRETARY

Shri V.Gopal Rao

BANKERS

IndusInd Bank Ltd
 ABN Amro Bank N.V.
 State Bank of India

AUDITORS

M/s.Deloitte Haskins & Sells, Chennai
 Chartered Accountants

SOLICITORS

1. M/s.Crawford Bayley & Co.,
 State Bank Building
 NGN Vaidya Marg
 Mumbai 400 023
2. Nataraj, Rao, Raghu & Sundaram
 Dare House Annexe
 No.44, Second Line Beach Road
 Chennai 600 001

REGISTERED OFFICE

2/3, Main Guard Cross Road
 Bangalore 560 001
 Fax : (91 80) 5591382
 Phone: (91 80) 5591650

CORPORATE OFFICE

Essar House
 11, Keshavrao Khadye Marg
 Mahalaxmi
 Mumbai 400 034
 Phone: (91 22) 4950606
 Fax : (91 22) 4954312/4954330
 Website: www.essar.com

TRANSFER AGENTS

Data Software Research Company Ltd
 "Sree Sovereign Complex"
 22, 4th Cross Street,
 Trustpuram
 Kodambakkam
 Chennai 600 024
 Phone: (91 44) 4833738/4834487
 Fax : (91 44) 4834636
 Email : dsrcomd@md3.vsnl.net.in.

Essar Shipping Limited

NOTICE TO MEMBERS

Notice is hereby given that the Twenty-third Annual General Meeting of Essar Shipping Limited will be held at the Dayanandasagar Memorial Hall, Chandrasagar Complex No.264/266, T. Mariappa Road, 2nd Block (Near Ashoka Pillar), Jayanagar, Bangalore 560 011 at 2.30 P.M. on Friday the 10th September, 1999, to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the audited Balance Sheet as at 31st March 1999, Profit and 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 the place of Shri. S N Ruia, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Shri. S K Poddar, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s. Deloitte Haskins & Sells, Chennai, Chartered Accountants who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

ORDINARY RESOLUTION

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

"RESOLVED THAT in accordance with the provisions of Sections 198, 269 and 309 read with Schedule XIII and all other applicable provisions of the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force), the consent of the Company be and is hereby accorded to the appointment of Shri. B.S.Kumar as Wholetime Director for a period of 5 (five) years from 16th January, 1999, made by the Board of Directors of the company vide their resolution dated 12th March, 1999, on the terms and conditions set out in the Explanatory Statement annexed to this Notice with the liberty to the Board of Directors to sanction and/or vary the same within the overall limit, as they may in their discretion deem fit."

6. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT in supersession of the Board resolution dated 12th March, 1999 and in accordance with the provisions of Sections 198, 269 and 309 read with Schedule XIII and all other applicable provisions of the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force), the consent of the Company be and is hereby

accorded to the appointment of Shri. B.S.Kumar as Managing Director from 31st May, 1999 to 15th January, 2004, made by the Board of Directors of the company vide their resolution dated 31st May, 1999, on the terms and conditions set out in the Explanatory Statement annexed to this Notice with the liberty to the Board of Directors to sanction and/or vary the same within the overall limit, as they may in their discretion deem fit."

7. SPECIAL RESOLUTION:

To consider and, if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution :

"RESOLVED THAT in supersession of Resolution No.7 passed at the Extra Ordinary General Meeting of the Company held on 18th May 1992 and subject to the compliance with the applicable provisions of Foreign Exchange Regulation Act, 1973, and all other applicable provisions of any other law, and in conformity with the relevant guidelines issued/to be issued by Reserve Bank of India/Securities and Exchange Board of India/Ministry of Finance, the consent of the Company be and is hereby accorded to allow Non Resident Indian (NRIs), Overseas Corporate Bodies (OCBs) and Foreign Institutional Investors (FIIs) to acquire shares/convertible debentures and/or other permissible securities of the company within the overall ceiling limit of 30% of the paid up equity capital of the Company."

NOTES:

- (a) The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, relating to the businesses stated in item Nos. 5, 6 and 7 are annexed.
- (b) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF ON A POLL ONLY. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxy forms should be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for the meeting.
- (c) All documents referred to in the accompanying Notice and the Explanatory Statement are open for inspection at the Registered Office of the Company on all working days, except Saturdays, Sundays and Bank holidays, between 11.00 AM and 1.00 PM upto the date of the Annual General Meeting.
- (d) Members/proxies should bring the attendance slip duly filled in for attending the meeting.
- (e) The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, the 1st September, 1999 to Friday, the 10th September, 1999, both days inclusive.
- (f) Pursuant to Section 205(A) of the Companies Act, 1956 the following informations are furnished:

The unclaimed Dividend for Financial Years 1994-95, 1995-96, 1996-97 and 1997-98 are held in separate accounts for each year.

- (g) The Members are requested to immediately notify in their own interest the bank account numbers and name of the bank/branch to be specified in the dividend warrants and change in their address to the company's **Registrar and Transfer Agents:**

M/s.Data Software Research Company Limited
 "Sree Sovereign Complex"
 22, 4th Cross Street
 Trustpuram Kodambakkam,
 CHENNAI 600 024

- (h) Members desiring any information regarding the accounts are requested to write to the Company at Essar House, No.11, Keshavrao Khadye Marg, Mahalaxmi, Mumbai 400 034 atleast 7 days before the date of the Meeting to enable the company to keep the information ready.

- (i) Investor Guide - Dematerialisation of Securities:

The Depository system has ushered in the era of Electronic system of securities trading which is akin to operation of Bank Account. The National Securities Depository Ltd (NSDL) and The Central Depository Services (India) Limited (CDS) are the Depositories which are presently regulating the Electronic Trading Segment. Presently, the facility of trading and settlement of shares in electronic form is available in stock exchanges at Bangalore, Calcutta, Chennai, Delhi, Ludhiana, Mumbai, National Stock Exchange, Inter Connected Stock Exchanges and Over the Counter Exchange of India.

Our company has registered with National Securities Depository Limited (NSDL) and the company's shares are available for Dematerialisation. As holding and handling of securities in electronic form eliminates problems that are normally associated with physical certificates like mutilation due to careless handling, loss in transit, problems of bad delivery, and facilitates faster settlement of cycles, you may kindly consider dematerialising your holdings in our company.

During the year, several members particularly Institutional Investors of the company, availed the facility of dematerialisation of shares of the company.

In case you have any queries or clarifications with regard to the process of dematerialisation of securities or the functioning of a Depository Participant (DP), you may contact the company's Registrars & Transfer Agents, M/s. Data Software Research Co. Ltd., Sree Sovereign Complex, 22, 4th Cross Street, Trustpuram, Kodambakkam, Chennai 600 024, Phone 4834441 - Fax 4834636, who will guide you through the process of opening an account and help clarify your doubts regarding trading of securities in dematerialised form.

- (j) **Nomination facility:**

The Companies (Amendment) Act, 1999 has introduced through Section 109A, the facility of nomination to share/debenture/deposit holders. This facility is mainly useful for all holders holding the shares/debentures/deposits in single name. In case where the securities/deposits are held in joint names, the nomination will get effective only on the death of all the holders.

Investors are advised to avail of this facility, especially investors holding securities in single name, to avoid the process of transmission by law.

Investors holding shares in physical form may send the nomination form to the registrar and transfer agents of the company. However, if the shares are held in dematerialised form, the nomination has to be submitted to your Depository Participants directly, as per the format prescribed by them.

- (k) **Updation of bank account details in the depository system:**

While opening a depository account with participants of NSDL, you may have given your bank account details, which will be used by your company for printing on dividend warrants. This ensures that the dividend warrants, even if lost or stolen, cannot be used for any purpose other than for depositing the money in the account specified on the dividend warrant. This ensures safety for investors. However, you may want to receive dividend in an account other than the one specified, while opening the depository account. If so, you may change/correct bank account details with your depository participant. We also request you to kindly give MICR code of your bank to your Depository Participant.

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ANNEXURE TO NOTICE

Explanatory Statement pursuant to Section 173(2) of the Companies Act 1956 in respect of Item Nos. 5, 6 and 7 of the accompanying Notice is as under:

Item No. 5 and 6:

Shri. B.S.Kumar is a qualified Master Mariner having 42 years of experience and expertise in Shipping Industry. Shri. B.S.Kumar was the Wholetime Director of the company from January, 1992 to June 1996 and continued as a Director till now.

The Board of Directors has appointed Shri. B.S.Kumar, as Wholetime Director for period of 5 (five) years from 16th January, 1999, and subsequently appointed as Managing Director from 31st May, 1999 to 15th January, 2004.

The terms of appointment and remuneration payable to Shri. B.S.Kumar are as under:

Salary:

In the range of Rs.35,000 - Rs.1,00,000 per month, as may be determined by the Board of Directors or such other authority as may be delegated by the Board of Directors from time to time.

Perquisites and Allowances:

In addition to salary, Shri. B.S.Kumar shall be entitled to perquisites and allowances like accommodation (furnished or otherwise) or House Rent Allowance in lieu thereof; House Maintenance Allowance together with reimbursement of expenses/allowances for utilisation of gas, electricity, water, furnishing and repairs; medical reimbursement; Education allowance; Leave Travel Concession for self and his family including dependents; club fees, premium for medical insurance, commission and all other payments in the nature of perquisites and allowances as agreed to by the Board of Directors or such other authority as may be delegated by the Board of Directors from time to time upto the limit of Rs.3,00,000 per month.

In the event of loss or inadequacy of profits in any financial year, the Managing Director shall be paid remuneration by way of salary, perquisites and allowances as specified above.

The Board is of the opinion that his appointment as Managing Director would be in the interest of your company.

Your Directors recommend this resolution for your approval.

None of the Directors except Shri. B.S.Kumar is concerned or interested in this resolution.

The above may be treated as an abstract of the proposed agreement to be entered into between the Company and Shri. B.S.Kumar pursuant to Section 302 (4) of the Companies Act, 1956. A copy of the proposed agreement is available for inspection at the Registered Office of the Company between 10.00 a.m. and 1.00 p.m. on any working day of the Company. The agreement will be executed after the approval of the members.

Item 7:

As per Reserve Bank of India's(RBI) guidelines, NRIs/OCBs/ FIIs can invest upto a maximum limit of 24% of the equity capital of a Company.

Recently, the above said limit has been raised to 30%. Your Company has been attracting NRI investments and has good number of NRIs/OCBs/FIIs investors. Your Company intends to support this initiative of the Government of India in providing further incentives to NRIs/OCBs/FIIs by passing this Special Resolution.

The resolution if passed will enable the NRIs/OCBs /FIIs to acquire and hold Equity Shares/Convertible Debentures of your Company upto a ceiling of 30% of the total paid up capital of the Company.

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

By order of the Board

V.Gopal Rao
Company Secretary

Mumbai
Registered Office :
2/3, Main Guard Cross Road
BANGALORE 560 001

DIRECTORS REPORT

To the Members of Essar Shipping Limited

1. Your Directors have pleasure in presenting the Twenty-third Annual Report of your Company together with the audited accounts for the year ended 31st March 1999.

2. FINANCIAL RESULTS:

The financial results are for a period of twelve months and are not comparable to the previous period of six months.

	(Rs. Crores)	
	Year ended on 31-03-99	Period ended on 31-03-98 (6 months)
Gross Profit	249.96	157.20
Less : Interest & Finance charges & lease & bareboat rentals of fleet	131.34	73.28
Less: Provision for Depreciation	65.69	33.48
Profit before tax	52.93	50.44
Less: provision for taxation	4.90	5.30
Profit after tax	48.03	45.14
Add: Balance brought forward from previous year	135.11	129.76
Add: Transfer from Reserves of amounts no longer required	33.75	—
Total funds available for appropriation	216.89	174.90
Proposed Dividend	—	10.54
Corporate Dividend Tax	—	1.05
Less: Transfer to Capital/Debenture Redemption Reserve	14.36	7.07
Transfer to reserve under section 33ac of the income tax act 1961	—	20.00
Transfer to general reserve	—	1.13
Total appropriations	14.36	39.79
Balance carried forward	202.53	135.11

3. DIVIDEND:

In view of your Company's investment in the Vadinar Port Project and the working capital requirements, it is necessary to conserve resources, therefore no dividend is proposed for the year ended 31st March, 1999.

4. BUSINESS REVIEW:

Your Company has registered a net profit after tax of Rs.48.03 crores for the year ended on 31st March, 1999, thereby showing a growth (excluding surplus on sale of vessels) of 16% as compared to the results of the previous financial period, on an annualised basis. This has been achieved despite a decrease of 3% in its total income from business for the year, due to the depressed market situation. The net profit after tax including

surplus on sale of vessels for the year ended 31st March, 1999, is lower than that of the previous financial period by 43%. This is mainly due to the surplus of sale of ships of Rs.22.06 crores in the last period as against a loss of Rs. 2.27 crores on sale and lease back of a ship during the year under review.

Your company has effectively reduced its operating expenses by 5% and its interest and finance charges by 23% which together have contributed to the increase in the operating profit for the year. The total income from business stood at Rs.434.88 crores for the year and the operating profit at Rs.252.91 crores. Your company has thus achieved increased net profit (excluding surplus on sale of vessels) of 12% of its total income from business as compared to 10% during the previous financial period.

The Company has always been a major foreign exchange earner in the country. Continuing the trend during the current year, the company has earnings in foreign exchange during the year under review amounting to Rs.175.16 crores, approximately 41% of its income from operations and chartering.

During the year, the shipping industry faced a weak dry-cargo market with a steep drop in freight rates by 20-30% from the levels witnessed in the last year. With the forecast improvement in the market situation, in both dry-cargo and wet-cargo, and further reductions proposed by your company in operating expenses, your company's performance would be maintained.

The weak markets and the continued recession in the global markets saw ship values falling progressively from the beginning of the year, which has reduced activity in the sale and purchase market for ships. Following this, projected returns on ships has turned downwards. This steep decline has dissuaded shipowners from investing in ships during the year.

Your company is gearing itself for meeting the turn of the century. The key areas in operations and support functions, which could be effected by the Y2K bug have been identified and debugging process is in an advanced stage of completion. Your company is preparing to be Y2K compliant by September 1999, well ahead of the deadline for such compliance.

5. GOVERNMENT POLICY:

The National Shipping Policy, as endorsed by the National Shipping Board is presently awaiting Government's acceptance.

Borrowing costs have risen and this has made replacement or expansion programmes quite unattractive. Apparently, some Companies have moved out of shipping and other shipping majors in India find trading in ships more lucrative than operating them. We have witnessed sale of about 8 Bulk Carriers, 1 Product Tanker and 3 Offshore vessels by major ship owners in 1998-99.

Not surprisingly therefore Industry figures since fiscal 1995 - (April-March) tell the story of gradual slow down in acquisition from an addition of 843,000 GRT in 1995 to a drop of about

Essar Shipping Limited

30,000 GRT in 1999. In terms of age, about 32% (about 3.6 Million DWT) of Indian Fleet DWT is 10 to 14 years old and about 42% (about 4.7 Million DWT) of Indian Fleet Dwt urgently need capital either for replacement or upgradation.

In 1998/99, Indian Shipping industry continued to face a weak international dry market with erosion in freight by an average of 20% to 30% in 1997/98 levels. The Indian Oil Companies had floated a tender for awarding contracts for the transportation of refined products by sea. This tender could not be concluded during the year resulting in uncertainty with regard to the payment mechanism for the employment of such vessels.

Consequent to the first phase of disbanding of Administered Pricing Mechanism of petroleum products the charter rate of crude oil tankers hitherto on "cost plus" basis has been withdrawn. However for handling of crude oil transportation Shipping Corporation of India Ltd (SCI) has been retained as the nodal agency.

The mechanism for the payment of charter hire has been concluded recently with the Contract of Affreightment (COA) for the transportation of crude oil being signed between SCI and Indian Oil Corporation Limited (IOC). This has now dispelled the uncertainty, which prevailed prior to the signing of the COA.

The share of Indian fleet in carrying domestic cargo has fallen from a peak of about 41% to only 27% currently. It is therefore essential that the Government seriously consider the various recommendations of the National Shipping Policy.

6. INDUSTRY REVIEW AND PROSPECTS:

The macro economic and political events of the last twelve months have hit the shipping industry from several directions. On the demand side shipping has suffered more heavily than the other sectors in particular

- a) Signs of economic protectionism and political isolation do not benefit international trade.
- b) Capital flight out of Asia has led to the collapse in investment in the region. This has brought a sharp end to a long period of Asian growth which has been the main locomotive for the seaborne trade expansion of the nineties.

Investment in ships depends highly on economic growth and investment, which primarily depends on the health of the world stock markets. Shipping business also depends heavily on the volumes of international trade and the resultant demand for transportation of commodities and goods. The robust growth witnessed a few years back, supported by globalisation, stability and buoyant financial and stock markets, has now been replaced by a scenario of political uncertainty, financial crisis and economic destabilisation.

The continued southern course of the dry bulk market saw asset values falling considerably. This has resulted in reduced sale and purchase activity. Following severe decline in charter rates, returns on most type of vessels has turned negative.

Such a poor market condition has not been experienced since the mid eighties. The current ship operation is being undertaken near the revenue stream of the mid eighties against the expenditure structure of late nineties. This obviously gets reflected in the performance and profitability of shipping operations.

All major sectors of shipping both in drybulk and tanker owning market are seeing consolidation activity by mergers. The severe downturn that the shipping companies now face may act as a catalyst for more rapid consolidation.

7. TERMINAL PROJECT:

Your Company is setting up an all weather, natural deep draft port at Vadinar, Dist. Jamnagar. The facilities in the project comprise as state-of-art crude receiving Single Buoy Mooring(SBM) terminal, Petroleum Oil and Lubricants (POL) product handling terminal, associated storage tank farm, pipelines and rail/road loading facilities. The impact of the cyclone in the State of Gujarat during June, 1998 will not have any financial impact to the company since all the capital work in progress is fully insured.

Major equipment like SBM have arrived and are under erection. The installation of the associated equipment is currently in progress and would continue in full swing. The Terminal Project has made substantial progress and expected to be completed by the second half of 2000.

8. SUBSIDIARIES

Information pursuant to the provisions of Section 212 of the Companies Act 1956 relating to the Subsidiary Companies forming part of this Report is annexed.

Your Company has the following Subsidiaries

1. Essar Tankers Limited
2. Essar International Limited.

The Accounts of these companies are annexed to the accounts of the company.

9. DIRECTORS

Your Directors deeply condole the sad and untimely demise of Shri. S. N. Roy, Wholtime Director of your Company on 8th May, 1998 in an accident and record their sincere appreciation of the valuable contributions made by Shri. S. N. Roy, during his tenure as a Director, on various matters relating to the affairs of the Company.

Shri. M.S. Varadan resigned from the office of Wholtime Director effective 16th January, 1999. The Board of Directors record their appreciation of the valuable contributions made by Shri. M.S. Varadan during his tenure as Wholtime Director of the Company.

Shri. B.S.Kumar, Director was appointed as a Wholtime Director with effect from 16th January, 1999 for a period of five years and subsequently as Managing Director from 31st May, 1999.

Shri. M.P.Modi has joined the Board as the Additional Nominee Director of ICICI with effect from 27th April, 1999.

In accordance with the provisions of the Companies Act 1956, and the Articles of Association of the Company, Shri. S N Ruia and Shri. S. K. Poddar retire at the ensuing Annual General Meeting of the Company and being eligible, offer themselves for reappointment.

10. AUDITORS:

M/s DELOITTE HASKINS & SELLS, Chartered Accountants the Statutory Auditors of the Company retire at the ensuing Annual General Meeting and following the re-organisation of the firm at all India level, it is proposed to appoint M/s. Deloitte Haskins & Sells, Chennai as Auditors for the ensuing year.

11. Y2K COMPLIANCE:

Your company has taken adequate steps to be Y2K compliant by September, 1999. No material impact on account of Y2K is expected on operations. Contingency plans for any unforeseen circumstances are in place. The expenditure in this regard is not material.

12. PERSONNEL:

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies(Particulars of Employees) Rules, 1975 as amended, is available in the Registered Office of the Company. 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.

13. CONSERVATION OF ENERGY:

Pursuant to Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules 1988, the statement annexed hereto gives the particulars as required under the said rules and forms part of this report.

14. COMMENTS ON AUDITORS REPORT

With regard to certain matters referred to by the Auditors in their Report, the respective notes to the accounts are self explanatory.

15. ACKNOWLEDGEMENTS

Your Directors thank the Ministry of Surface Transport, Transchart, Ministry of Finance, Reserve Bank of India, the Directorate General of Shipping, the Mercantile Marine Department, the Port Trusts, Oil Coordination Committee, Oil and Natural Gas Corporation, Indian Oil Corporation Limited, ICICI, IDBI, IFCI, State Bank of India, GIC and its subsidiaries, LIC, UTI and all its other bankers and business associates for their continued co-operation.

For and on behalf of the Board

B.S.KUMAR
Managing Director

Mumbai,
24th June, 1999

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Essar Shipping Limited

ANNEXURE TO THE DIRECTORS' REPORT

(Referred to in paragraph 1 of our report of even date)

A. CONSERVATION OF ENERGY

- | | | |
|--|---|---|
| (a) Energy Conservation measures taken | : | Not applicable being a Shipping Company |
| (b) Additional investment and proposal, if any, being implemented for reduction of energy consumption and consequent impact on the cost of production of goods | : | Not applicable being a Shipping Company |
| (c) Impact of measures taken at (a) and (b) above | : | Not applicable being a Shipping Company |
| (d) Total energy consumption and energy consumption per unit of production | : | Not applicable being a Shipping Company |

B. TECHNOLOGY

- | | | |
|--|---|--|
| (e) Efforts made in technology absorption progress | : | Progress was made in the upgradation of Technology in respect of running and maintenance of the fleet. |
|--|---|--|

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

- | | | |
|---|---|--|
| (f) Activities relating to exports initiative taken to increase Exports, development of new Export markets for product and services and export plans. | : | Not applicable being a Shipping Company. |
| (g) Total Foreign Exchange | | |
| (1) Used (including cost of acquisition of ships, Loan repayments, Interest etc.) | : | Rs.371.68 Crores |
| (2) Earned (including Savings) and sale of Ships | : | Rs.579.56 Crores |

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For and on behalf of the Board

B.S.KUMAR

Managing Director

Mumbai

Dated: 24th June, 1999.

AUDITORS' REPORT

To the Members of Essar Shipping Limited

We have audited the attached Balance Sheet of Essar Shipping Limited as at 31st March, 1999 and the Profit and Loss Account of the company 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, and on the basis of such checks of the books and records of the company as we considered appropriate and the information and explanations given to us during the course of audit, we give in the Annexure a statement on the matters specified in the paragraphs 4 and 5 of the said Order as are applicable to the company.
2. Further to our comments in the Annexure referred to in Paragraph 1 above, we report that:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose 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 Profit and Loss Account and Balance Sheet comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

- (e) We have placed reliance upon:
 - (i) Counsels' opinion that the disputed Income Tax / Sales Tax demands referred to in Note B.4(a) of Schedule 15 are not sustainable in Law;
 - (ii) Management's view that the significant diminution in the market value of long-term investments is temporary in nature. (Note B.1 of Schedule 15);
- (f) The appointment of and remuneration to a Whole-time Director require the approval of the Shareholders (Note B.10 of Schedule 15);
- (g) 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 with 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 the case of the Balance Sheet, of the state of affairs of the company, as at 31st March, 1999 and
 - (ii) in the case of the Profit and Loss Account, of the Profit of the company for the year ended as on that date.

For DELOITTE HASKINS & SELLS

N. SETHURAMAN
Partner

Chartered Accountants

Mumbai:
24th June, 1999

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in Paragraph 1 of our Report of even date)

1. The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. These fixed assets have been physically verified by the management and we are informed that no material discrepancies were noticed on such verification. With regard to the plant and machinery leased out, confirmation has been obtained from the lessee.
2. None of the fixed assets have been revalued during the year.
3. As the company is not engaged in manufacture or processing of goods there are no finished goods or raw material and the question of physical verification and valuation thereof do not rise.
4. The company has neither granted nor taken any loans and advances from companies, firms or parties in which directors are interested. We are informed that there are no Companies under the same management as defined in sub section (1B) of Section 370 of the Companies Act, 1956.
5. The parties and employees to whom loans and advances in the nature of loans have been given by the company are repaying the principal amounts as stipulated and are also regular in payment of interest wherever applicable.
6. There are adequate internal control procedures commensurate with the size of the company and nature of its business for purchase of fleet operating equipments and other assets.
7. According to the information and explanation given to us, there were no transactions of purchase of materials or sale of materials and services made in pursuance of contracts or arrangements in which directors are interested and aggregating to Rs.50000/- or more during the year in respect of each party.
8. In our opinion and according to the information and explanations given to us the company has complied with the provisions of Section 58A of the Companies Act, 1956 and rules framed thereunder with regard to repayment of deposits accepted from public in earlier years.
9. The company's internal audit is conducted by a firm of Chartered Accountants which is commensurate with size and nature of the business.
10. Maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956 is not applicable to the company
11. The company is regular in depositing provident fund dues with the appropriate authorities. We are informed by the company that the provisions of the Employees State Insurance scheme is not applicable.
12. According to the information and explanations given to us, and the books and records, examined by us, there are no undisputed amounts payable in respect of income tax and wealth tax were outstanding on 31st March, 1999 for a period of more than 6 months from the date they become payable.
13. During the course of our examination of the books of accounts carried out in accordance with the generally accepted auditing practices and according to the information and explanations given to us, we have not come across any personal expenses of employees or directors which have been charged to revenue, other than those payable under contractual obligations or in accordance with the generally accepted business practices.
14. The company is not a sick industrial company within the meaning of clause (i) sub-section (1) of section 3 of the Sick Industrial Companies (Special Provision) Act, 1985.
15. (a) As the hire charges for fleet are made on per diem rates the question of location of materials and man-hours to each charter is not considered necessary.
(b) In our opinion, there is a reasonable system for authorisation at proper levels and adequate system for internal control commensurate with the size of the company and nature of its business, for the issue of stores and spares.
(c) The company has reasonable system of recording receipts, issues and consumption of stores and components commensurate with the nature and size of its business.

for DELOITTE HASKINS & SELLS

N. SETHURAMAN
Partner

Chartered Accountants

Mumbai:
24th June, 1999