
Vadinar Port


Hazira Port

MT Smiti


Essar Wildcat

ESSAR
SHIPPING, PORTS
& LOGISTICS

Essar Shipping Ports & Logistics Limited

Annual Report 2009 - 2010

ESSAR SHIPPING PORTS & LOGISTICS LIMITED

Annual Report 2009-10

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ESSAR SHIPPING PORTS & LOGISTICS LIMITED

BOARD OF DIRECTORS

Shashi Ruia
Chairman

Anshuman Ruia
Director

Sanjay Mehta
Managing Director

Rajiv Agarwal
Wholetime Director

A. R. Ramakrishnan
Wholetime Director

V. Ashok
Wholetime Director

R. N. Bansal
Independent Director

N. Srinivasan
Independent Director

K. V. Krishnamurthy
Independent Director

Dilip J. Thakkar
Independent Director

S. V. Venkatesan
Independent Director

Deepak Kumar Varma
Independent Director

COMPANY SECRETARY
Manoj Contractor

AUDITORS
Deloitte Haskins & Sells

REGISTERED OFFICE
Administrative Building
Essar Refinery Complex
Okha Highway (SH-25)
Taluka Khambalia
District Jamnagar, Gujarat 361 305

REGISTRAR & TRANSFER AGENT
Data Software Research Company Private Limited
"Sree Sovereign Complex"
22, 4th Cross Street, Trustpuram
Kodambakkam, Chennai 600 024
e-mail: dsrcmd@vsnl.com

AUDIT COMMITTEE
Anshuman Ruia
R. N. Bansal
N. Srinivasan
S. V. Venkatesan

SHAREHOLDERS' GRIEVANCE COMMITTEE
Anshuman Ruia
Rajiv Agarwal
A. R. Ramakrishnan
V. Ashok
R. N. Bansal
K. V. Krishnamurthy

SHARE TRANSFER COMMITTEE
Rajiv Agarwal
A. R. Ramakrishnan
V. Ashok

COMPENSATION COMMITTEE
Shashi Ruia
Anshuman Ruia
R. N. Bansal

CORPORATE OFFICE
Essar House
11, K. K. Marg, Mahalaxmi
Mumbai 400 034

DIRECTORS' REPORT

To the Members of Essar Shipping Ports & Logistics Limited

Your Directors take pleasure in presenting the Thirty-fourth Annual Report of your Company together with Audited Accounts for the year ended March 31, 2010. Pursuant to the provisions of Section 219 of the Companies Act, 1956 and as permitted by the Securities and Exchange Board of India (SEBI), the abridged annual accounts of the Company are enclosed. Any member interested in obtaining a copy of the unabridged accounts may write to the Company Secretary at the Registered Office.

1. FINANCIAL RESULTS

The summary of the standalone and consolidated financial results of your Company for the year ended March 31, 2010 are furnished below:

(Rs. in crore)

Particulars	Consolidated		Standalone	
	For the year ended 31.03.2010	For the year ended 31.03.2009	**For the year ended 31.03.2010**	For the year ended 31.03.2009
Total Income	**3,092.14**	2,676.57	**1,132.80**	1,154.79
Total Expenditure	**1,985.64**	1,739.70	**705.56**	748.15
EBITDA	**1,106.50**	936.87	**427.24**	406.64
Less: Interest & Finance charges	**537.35**	434.80	**218.69**	129.22
Less: Provision for Depreciation	**446.94**	377.82	**119.51**	159.45
Profit before Tax	**122.21**	124.25	**89.04**	117.97
Less: Provision for Tax	**27.01**	47.05	**(0.96)**	10.31
Profit before Share of Minority Interest	**95.20**	77.20	**90.00**	107.66
Less: Share of Minority Interest (loss)	**1.43**	–	**–**	–
Profit after Tax	**93.77**	77.20	**90.00**	107.66

On a consolidated basis, during the year under review, your Company registered an increase of 16% in the Total Income and an increase of 18% in EBITDA as compared to the previous year. This increase in Total Income and EBITDA is largely attributed to the contribution by the Oilfields Services business.

On a standalone basis which is represented by the Sea Transportation Business, the revenues were consistent with last year, with an increase in EBITDA by 5%.

2. DIVIDEND

Your Company has consolidated the Ports and Terminals and Oilfield Services business and is currently expanding the capacities in these businesses which are highly capital intensive in nature. Some of these investments have already started generating cashflows. Expansion of capacities in these businesses along with the existing business of sea transportation and the various capital expenditure committed require substantial resources. This necessitates the operating profits to be ploughed back towards capital expenditure. With a view to conserving resources for these requirements, your Directors have not recommended any dividend for the year ended March 31, 2010.

3. MANAGEMENT DISCUSSION & ANALYSIS

Overview of the World Economy

The world is gradually recovering from the shocks of the most severe recession in recent history. It was the first time since World War II that the global economy has substantially contracted when compared to previous years. The acute phase of the financial crisis has passed and a global economic recovery is underway. However, the recovery remains fragile and is expected to slowdown in the second half of 2010 as the growth impact of fiscal and monetary measures wane and the current inventory cycle runs its course. Economists believe that the baseline scenario for global growth would be 2.7 percent in 2010 and 3.2 percent in 2011. The world can be classified into slow growth economies like U.S.A, U.K and the rest of Europe who are grappling with huge fiscal deficits and significant debt, and faster growing Asian countries which have remained well insulated from the turmoil. The Euro zone is currently facing the possibility of sovereign defaults which has had a negative impact on the Euro; it has lost significant value against the US dollar. With a weakening currency and low growth prospects, the Euro zone is expected to grow at a very slow pace.

Overview of the Indian Economy

The Indian economy witnessed an average annual GDP growth of over 9% during the period from 2005-08. The global financial crisis contributed to the deceleration in annual GDP growth to 6.1% in 2009. India escaped the brunt of the global financial crisis because of its prudent banking regulations and a relatively low dependence on exports for growth. Domestic demand driven by purchases of consumer durables and automobiles has emerged as a key driver of the economy. During the slowdown, imports and exports were severely impacted. The Indian economy has bounced back, with industrial output improving every month. The government expects GDP growth to be over 8% in 2010 and above 9% from 2011 onwards.

The risks that India faces are more external in nature. The risk of the global economy experiencing a downturn, sovereign default or failure of banks threaten India's impressive growth rate. The fiscal deficit for 2009 was at 6.9% of GDP, which is a cause of concern for the economy. Improvement in this situation will allow better credit access to corporates as government borrowing will reduce.

4. YOUR COMPANY'S BUSINESS PERFORMANCE, OPPORTUNITIES AND OUTLOOK

The business model adopted by your Company is unique in nature with no peer group comparison. The business is based on the intrinsic and captive demand for transportation services and logistics & cargo handling infrastructure required by the steel, power generation and refining industry. With interests in dry bulk ports and oil terminals, crude and dry bulk carriers, port to plant logistics and oilfield services, your Company continues to provide end-to-end logistics solutions to its customers in a very cost effective manner.

a) Ports & Terminal Business

Consolidated cargo throughput at major ports in India grew by 5.7 percent in the current fiscal according to the latest data released by the Indian Ports Association. The country's 13 gateway ports, seven on the east and six on the west coast handled 560 million tons of cargo during 2009 compared to 530 million tons in the previous year and are expected to handle more than 600 million tons in the current year.

Your Company through its subsidiary Vadinar Oil Terminal Limited (VOTL) is operating the 46 million metric tons per annum (mmtpa) liquid terminal at Vadinar on the west coast of India. The expansion of the current capacity to 53 mmtpa is planned through another subsidiary Vadinar Ports & Terminals Limited (VPTL) which is scheduled for completion by April 2011. VPTL has already commissioned an evacuation jetty adjacent to the existing evacuation jetty of VOTL.

Your Company through its subsidiary Essar Bulk Terminal Limited (EBTL) commissioned its all weather deep draft dry bulk port of 30 million tons per annum (mtpa) capacity at Hazira on May 1, 2010. The expansion work at this port is currently underway and once completed the dry bulk port at Hazira will have an aggregate capacity of 50 mtpa.

Your Company through another subsidiary Essar Bulk Terminal (Salaya) Limited is setting up a dry bulk port facility at Salaya in Gujarat. The port will handle import of coal and export of pet coke.

In view of the tremendous long term opportunities provided by the Government of India to privatise ports, especially container terminals, your Company is actively pursuing development of Ports & Terminal projects through competitive bidding route or through joint ventures and strategic alliances.

Qualifying through a competitive bidding process, your Company has been awarded the bid to construct a 14 mtpa coal terminal on a Build, Operate and Transfer (BOT) basis by Paradip Port Trust. The project is being implemented by Essar Paradip Terminal Limited (EPTRL), a subsidiary Company. EPTRL has been granted a 30 years concession by Paradip Port Trust for the said project and the construction is expected to commence soon.

b) Sea Transportation Business

Existing forecasts suggest that the outlook for seaborne trade is uncertain and that challenging times lie ahead for shipping and international seaborne trade. While demand fell, the supply of new vessels continued to grow. As the world's shipping capacity continues to increase even during the current economic downturn, freight rates are expected to stagnate. Since the beginning of the economic crisis, numerous orders at the world's shipyards have been cancelled. Shipbuilders have been spending more time on renegotiating existing contracts rather than receiving new enquiries or orders.

The dry bulk segment witnessed a marginal increase in seaborne trade of dry bulk commodities. Seaborne transport of iron ore, coking coal and steel products was largely driven by China. With the global economic recovery underway, demand for commodities has increased. This has resulted in freight rates bottoming out and stabilising. Uncertainty and volatility of the freight rates has been the highlight of the last year and is expected to continue this year too.

In the energy transportation segment, global oil consumption is expected to improve over the next few years. Increase in consumption has resulted in stabilisation of freight rates and the outlook for wet bulk is quite positive.

As per International Maritime Organisation (IMO) regulations, single-hull vessels have to be phased out by 2010. However, considering the economic constraints that developing countries could face in this exercise, countries were allowed to extend the phase-out up to 2015. India is one of the many countries that chose to extend the deadline. Many countries are expected to deny entry to single-hull vessels post the 2010 deadline. Due to this, a large number of single hull tankers have been/are in the process of being phased out and large tonnage of double hull tankers are expected to join the fleet in the next couple of years.

c) Oilfields Services Business

Global demand for offshore services is likely to revive gradually in line with the positive outlook on crude. New supplies of assets are likely to peak in FY11. Hence, while demand for rig services will revive gradually, supply may keep rates tepid for some time.

Crude oil has a positive outlook due to the revival of the global economy. Crude demand is expected to grow at 1.6% for the next few years. Crude supply is likely to be supported by OPEC and Brazilian crude. The long-term price of crude is expected to be at USD 90 per barrel levels, which will encourage companies to increase their budgets towards new explorations.

The domestic offshore services sector is poised for significant growth on the back of development of India's relatively unexplored sedimentary basin, the New Exploration Licensing Policy (NELP) commitments, growing offshore crude/gas production and future monetisation of new discoveries in prospective basins like KG, Cambay, Mahanadi, etc. This is likely to be a catalyst for demand for offshore supply vessels, drilling units and construction services.

Essar Oilfields Services Limited (EOSL), a wholly owned subsidiary has successfully completed its maiden drilling contract with Gujarat State Petroleum Corporation Limited (GSPCL), for its Semi-submersible Rig, "Essar Wildcat". The Rig has now been deployed with Vietsovpetro JV, Vietnam. Of the twelve onshore rigs, seven are currently contracted with global energy majors. Your Company through another subsidiary has also entered into an agreement to acquire two New Building Jack Up Rigs which are expected to be delivered during the next financial year.

d) Logistics Business

Your Company through its wholly owned subsidiary Essar Logistics Limited (ELL) provides project cargo, transshipment, lighterage and trucking services to steel mills and oil refineries. ELL has made investments in acquiring assets for movement of project cargo.

5. RISK MANAGEMENT

Economic Risks: As a business philosophy, your Company has followed the conservative policy of entering into long term contracts with reputed global majors in each of its divisions thereby ensuring long term profitability of the Company and assured cashflows.

Forex Risk: A majority of the revenues of your Company are in foreign currency which creates a natural hedge against foreign exchange exposures. Apart from this, Essar Group's specialised forex team provides efficient advice to mitigate the exchange risk of your Company.

Interest Rate Risk: Your Company has been undertaking suitable hedging strategies to overcome any adverse interest rate risks. It has formulated internal target rates at which any open interest rate risk can be hedged.

6. QUALITY, SAFETY AND ENVIRONMENT

Your Company, in order to ensure highest standard of safety, has implemented and initiated various measures with respect to Quality, Safety and Environment Management Systems. The initiatives by your Company have been rewarded with several recognitions. Some of the noticeable ones amongst the many are as follows:

a) OHSAS 18001 certified by American Bureau of Shipping (ABS); first and only shipping Company in India to obtain this certification.

b) VOTL along with Essar Oil Limited has been awarded the Integrated Management System – ISO 9001, 14000 and 18001 certification by Det Norsk Veritas (DNV).

c) VOTL has also been awarded the ISO 29001 certification by ABS.

d) Essar Wildcat has been awarded IADC Certificate for 365 days of Loss Time Injury (LTI) Free Operations.

e) ISO 9001:2000 and ISO 14001:2004 certification to the Sea Transportation division by ABS Quality Evaluations Inc.

f) Nil detention of vessels during the year, with most of the fleet trading internationally.

7. INTERNAL CONTROL FRAMEWORK

Your Company conducts its business with integrity, high standards of ethical behavior and in compliance with the laws and regulations that govern its business. Your Company has a well established framework of internal controls in operation, including suitable monitoring procedures. In addition to the external audit, the financial and operating controls of your Company at various locations are reviewed by Internal Auditors, who report their observations to the Audit Committee of the Board.

8. HUMAN RESOURCE

Your Company has introduced contemporary Human Resource practices to enhance technical and managerial competence of the employees and to further leverage their capabilities to enhance the performance of its business. Further the Company has taken a series of initiatives to enhance emotional and intellectual engagement of employees with the Company and its business.

9. INFORMATION TECHNOLOGY

Your Company has successfully implemented SAP in its financial and budget management systems. The Company is also exploring various methods of automation so as to have greater visibility and control over its assets and further improve the turnaround time thereby increasing asset utilisation and profitability. All the vessels are undergoing upgradation of systems in terms of hardware and software. Your Company has implemented a robust Document Management System thus improving the availability of critical information in e-mode thereby reducing the use of paper.

10. SUBSIDIARIES

Your Company had the following subsidiaries as on March 31, 2010:

1. Essar Ports & Terminals Limited, Mauritius (EPTL)
2. Vadinar Oil Terminal Limited, India (VOTL) (wholly owned subsidiary of EPTL)
3. Vadinar Ports & Terminals Limited, India (a subsidiary of VOTL)
4. Essar Bulk Terminal Limited, India (EBTL) (a subsidiary of EPTL)
5. Essar Bulk Terminal (Salaya) Limited, India (EBTSL) (wholly owned subsidiary of EPTL)
6. Essar Logistics Limited, India (ELL)
7. Essar Dredging Limited, India (EDL) (wholly owned subsidiary of EBTL)
8. Essar Paradip Terminals Limited, India (EPTRL)
9. Essar International Limited, Guernsey, Channel Islands (EIL)
10. Energy Transportation International Limited, Bermuda (ETIL) (wholly owned subsidiary of EIL)
11. Energy II Limited, Bermuda (E-II) (wholly owned subsidiary of EIL)
12. Essar Oilfields Services Limited, Mauritius (EOSL)
13. Essar Oilfield Services India Limited, India (wholly owned subsidiary of EOSL)
14. Essar Oilfields Services FZE, Dubai (EOSFZE) (wholly owned subsidiary of EOSL)

Subsequent to March 31, 2010, one more Company has become a wholly owned subsidiary of the Company viz. Essar Ports & Terminals Limited, India (effective April 16, 2010) and Essar Oilfields Services FZE, wholly owned subsidiary of the Company has been liquidated (effective April 14, 2010).

11. DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. S. N. Ruia, Mr. V. Ashok, Mr. N. Srinivasan and Mr. K. V. Krishnamurthy retire at the ensuing Annual General Meeting of the Company and being eligible, offer themselves for re-appointment.

Mr. Ravi Ruia, resigned from the Directorship of your Company with effect from March 31, 2010. Mr. Sanjay Mehta, Managing Director also retires at the ensuing Annual General Meeting and does not offer himself for re-appointment. Your Board places on record their appreciation for the valuable contribution made by Mr. Ravi Ruia and Mr. Sanjay Mehta in the progress of the Company.

Mr. Rajiv Agarwal has been appointed as an Additional Director in the wholetime employment of the Company. The Company has received a notice from a member proposing the appointment of Mr. Agarwal as the Director of the Company. If appointed Mr. Agarwal will be designated as the Managing Director of the Company with effect from July 24, 2010.

12. AUDITORS

Your Company's Auditors, Messrs. Deloitte Haskins & Sells, Chartered Accountants, retire at the ensuing Annual General Meeting. It is proposed to re-appoint Messrs. Deloitte Haskins & Sells, Chartered Accountants, as the Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting.

13. CORPORATE GOVERNANCE

The Company has complied with the requirements under the Corporate Governance reporting system. The disclosures as required therein have been furnished in the Annexure to the Directors' Report under the head "Corporate Governance".

14. PARTICULARS REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988

This does not apply to your Company as the shipping industry is not included in the Schedule to the relevant rules.

Foreign exchange earnings and outgo are summarised below:

Total Foreign Exchange:

(1)	Earned (including loan receipts, sale of ships, freight, charter hire earnings, interest income, etc.)	:	Rs. 798.62 crore
(2)	Used (including cost of acquisition of ships, loan repayments, interest, operating expenses, etc.)	:	Rs. 785.33 crore

Your Company has obtained exemption from the Central Government under Section 211(4) of the Companies Act, 1956 from giving information required under clauses (a), (b), (c) and (e) of Paragraph 4-D of Part II of Schedule VI to the Companies Act, 1956 vide Order no. 46/5/2010-CL-III dated March 19, 2010.

15. 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 the 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 for the same at the Registered Office of the Company.

16. STATEMENT OF DIRECTORS RESPONSIBILITIES

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956 the Board of Directors hereby state that:

a) in the preparation of the annual accounts, the applicable accounting standards have been followed and there have been no material departures;

b) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are 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 or loss of the Company for that period;

c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

d) the Directors have prepared the annual accounts on a going concern basis.

17. GOVERNMENT POLICY

The Government needs to favourably consider issues relating to Withholding Tax, Tax on Capital Gains on Sale of Ships, Tax on Ship Staff Salary, Service Tax and Fringe Benefit Tax. Due to these factors the Indian Tonnage has been hampered. Infrastructure Projects such as Ports are highly capital intensive and therefore liberal policies relating to External Commercial Borrowings needs to be formulated to encourage investments.

18. APPRECIATION AND ACKNOWLEDGEMENTS

Your Directors express their sincere thanks and appreciation to all the employees for their commendable teamwork and contribution to the growth of the Company.

Your Directors also thank its bankers, charterers and other business associates for their continued support and co-operation during the year.

For and on behalf of the Board

Mumbai	**V. Ashok**	**R. N. Bansal**
May 27, 2010	Wholetime Director	Director