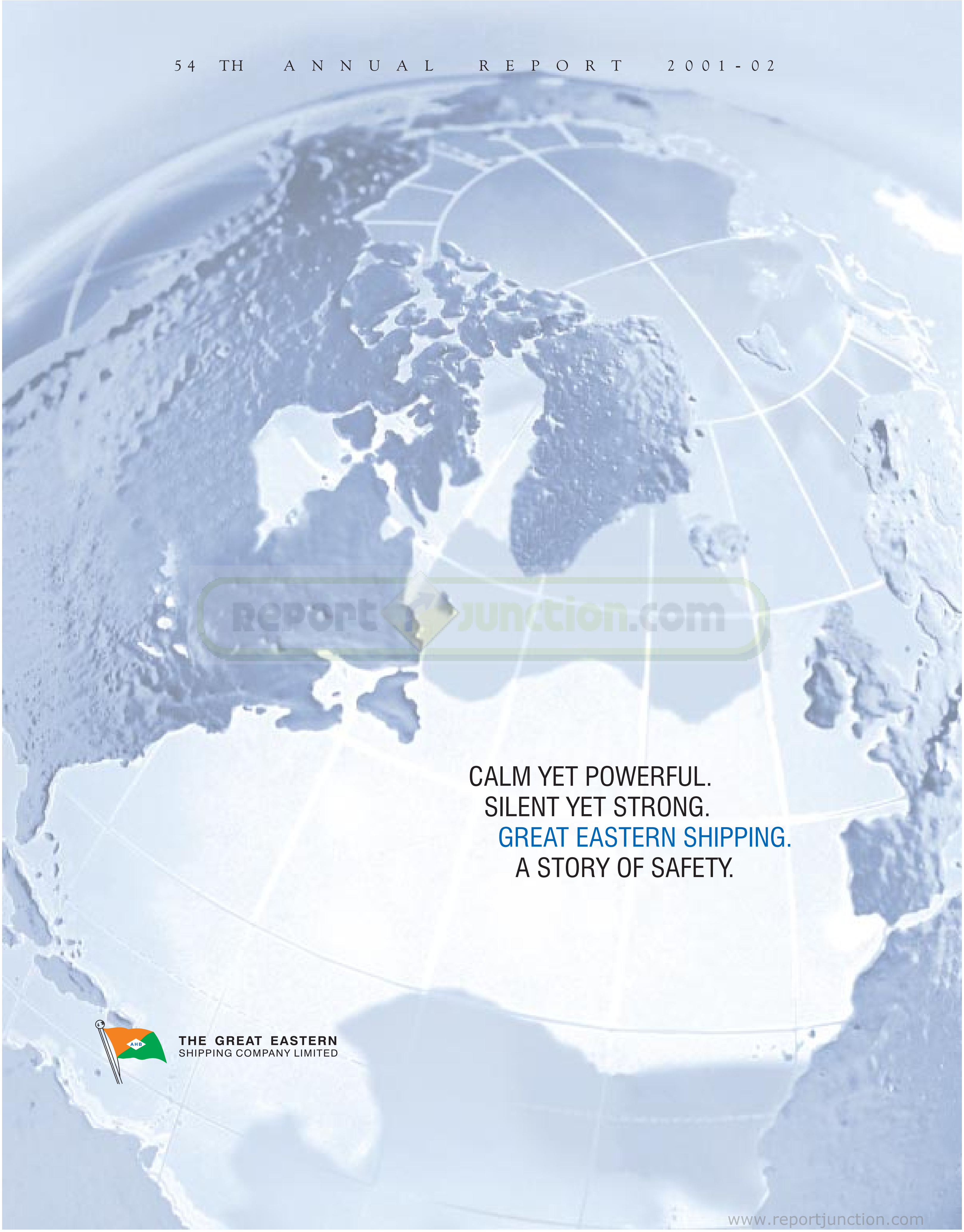
54 TH ANNUAL REPORT 2001-02



CALM YET POWERFUL.
SILENT YET STRONG.
GREAT EASTERN SHIPPING.
A STORY OF SAFETY.

THE GREAT EASTERN
SHIPPING COMPANY LIMITED

THE YEAR AT A GLANCE

In Millions except for Earnings & Cash earnings per share

	March 31, 2002		March 31, 2001	
	Rs.	**US$**	Rs.	US$
For the Year				
Total Revenue	**11,964**	**251**	11,550	252
Operating Profit (PBIDT)	**5,048**	**106**	4,739	103
Profit after tax (PAT)	**2,075**	**44**	1,774	39
PBIDT as a percentage of total revenue	**42.19**	**42.19**	41.03	41.03
Earnings per share	**8.80**	**0.18**	6.90	0.15
Cash earnings per share	**18.32**	**0.38**	14.78	0.32
Dividend amount (including tax on dividend)	**866**	**18**	687	15
Capital Investment	**4,075**	**86**	1,048	23
At the end of the year				
Total assets	**25,098**	**514**	22,665	486
Fixed assets	**18,103**	**371**	16,154	346
Total debt	**9,339**	**191**	8,264	177
Net Worth	**10,663**	**218**	10,705	230
Equity Capital	**2,026**	**42**	2,178	47
Preference Capital	**1,700**	**35**	950	20

Figures in US$ are arrived at by converting Rupee figures at the average conversion rate for all for the year items and at closing rate for all year end items, as given below, to facilitate comparision

	Rs. / US$	
Exchange Rate	**2001-2002**	2000-2001
- Closing	**48.80**	46.64
- Average	**47.64**	45.91

54TH ANNUAL REPORT
FOR THE YEAR ENDED MARCH 31, 2002

Board of Directors

K.M.Sheth
Executive Chairman

S.J.Mulji
Executive Deputy Chairman

Vijay K.Sheth
Bharat K.Sheth
Managing Directors

R.N.Sethna
K.P.Byramjee
A.K.Parikh
Asha V.Sheth
Manu Shroff
T.N.Pandey
Directors

Company Secretary

Jayesh M. Trivedi

Auditors

Kalyaniwalla & Mistry
Chandabhoy & Jassoobhoy

Registered Office & Shipping Division

Ocean House,
134/A, Dr. Annie Besant Road,
Worli, Mumbai 400 018.

Offshore Division

Energy House,
81, D.N. Road,
Mumbai 400 001.

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CHAIRMAN'S STATEMENT

Dear Shareholders,

The year ended March 31, 2002 saw your Company record the highest ever income and net profit in its history. Year on year, income from operations grew by a modest 5% while profits after tax grew by 17% despite a new provisioning of deferred tax as mandated by statute. This was achieved in a year marked with enormous economic and political uncertainty. Developments throughout the year from September 11, to the Afghan War, OPEC production cuts and the Middle East crisis significantly impacted economic sentiments the world over.

Globally, faltering industrial production coupled with weakening oil demand took a severe toll on freight rates, which declined in the range of 40% to 80% in the tanker segment, settling to levels marginally above their 1999 lows. The offshore industry too, was impacted following sharp volatility in crude oil and natural gas prices and most exploration and production activity was limited to improving yield on existing oilfields. The year, therefore, began with a great deal of optimism, evidenced by strong freight rates and eventually ended rather weak.

This year's performance is a reflection of the gradual, but systematic restructuring, that your Company has been undertaking over the past few years - both qualitatively and quantitatively. I have discussed some of these initiatives in my earlier statements to you, but today, I stand confident enough to state that on most important parameters, your Company has successfully benchmarked itself to leading global shipping companies. 3 important changes predominantly stand out in the way your Company continues to manage its operations. Focus on its core businesses, a clear deterministic approach to building a global clientele and a relentless attempt to continuously assess market risks and protect the Company's financial ability to ride what is, inherently, a volatile industry.

Safety of life, cargo and environment has always been of paramount importance at GE Shipping. Your Company remains steadfast in maintaining its high quality, safety and service standards at all levels of operations. Proactive safety culture imbibed within the organisation has ensured safety on board vessels and enabled safe passage across all oceans.

I am grateful to those shareholders who have supported us unflinchingly through the years. Your Company's financial restructuring, aimed at improving long term shareholder value, alongwith its dividend distribution policy, has resulted in a total sum of nearly Rs 5980 mn. being paid out to equity shareholders over a 5 year period, through dividends and the Company's ongoing share buyback programme. Throughout this period, your Company maintained its "AAA" rating from CRISIL thereby successfully balancing the desire to continuously reward shareholders with the need for financial prudence to tide over periods of uncertainties. Your management will continue to adhere to this philosophy in all its future decisions.

Looking forward, I foresee yet another year of challenging business environment and here I would like to emphasize that with the continuing support of all constituents, your Company will strive towards achieving high levels of performance and operational excellence, capitalising on available opportunities.

With warm regards,

K M Sheth
Executive Chairman
Mumbai : June 17, 2002.

DIRECTORS' REPORT

Dear Shareholders,

The Board of Directors of your Company are happy to present this Report on the business and operations of your Company together with the statement of accounts for the financial year ended March 31, 2002. Your Company has registered noteworthy performance during the year, recording its highest ever profits. This is especially a commendable performance in a year, which faced challenging business and economic environment. During the year, an optimal mix of spot and period charters spread over intermittent time periods enabled your Company to sustain the shocks of declining freight markets witnessed by the shipping sector world over.

FINANCIAL PERFORMANCE

		2001-02 (Rs. in mn)		2000-01 (Rs. in mn)
Total Income		**11963.5**		11550.2
Total Expenditure		**9435.7**		9536.1
Profit before tax		**2527.8**		2014.1
Less: Provision for tax				
- Current	**260.0**		240.0	
- Deferred	**192.8**		—	
		452.80		240.0
Profit for the year after tax		**2075.0**		1774.1
Less: Extraordinary Items & Prior period adjustments		**103.1**		8.8
		1971.9		1765.3
Less: Transfer to Reserve under Section 33AC of the Income-tax Act, 1961		**1250.0**		1400.0
		721.9		365.3
Add: Transferred from -				
- Investment Allowance Reserve	**180.0**		—	
- Reserve under Section 33AC of the Income-tax Act, 1961	**770.0**		—	
		950.0		—
		1671.9		365.3
Add: Surplus brought forward from previous year		**1777.2**		3851.7
		3449.1		4217.0
Less:				
- Transfer to Capital Redemption Reserve	**152.1**		410.7	
- Transfer to Debenture Redemption Reserve	**117.5**		332.5	
- Transfer to General Reserve	**764.4**		1009.1	
- Interim Dividend on Preference Shares	**94.5**		22.4	
- Proposed Dividend	**761.8**		598.9	
- Tax on Dividends	**9.6**		66.2	
		1899.9		2439.8
Balance Carried Forward		**1549.2**		1777.2

You will be pleased to note that your Company recorded a total income of Rs.11,963.5 mn. and registered net profits of Rs.2,075 mn. in the year under review as against Rs.1,774.1 mn. in the previous year. The Shipping Division contributed to around 73% of the Company's revenues while the Offshore Division accounted for 21% of the same.

In view of the increased profits, coupled with reduced capital of Rs.2,025.6 mn. for the year ended March 31, 2002, your Directors are pleased to recommend an equity dividend of Rs.4.00 per share for the year 2001-02 as compared to dividend of Rs. 2.75 per share last year. The equity dividend accounts for an overall outflow of Rs.761.8 mn. representing a payout ratio of around 37%.

During the year an interim dividend of 8.5% and 10.5% (pro rata from the date of allottment to March 31, 2002) on Redeemable Preference Shares of Rs.950 mn. and Rs.750 mn. respectively, was declared as per the terms of the issues. On this account, your Company has paid an amount of Rs.104.1 mn. inclusive of dividend tax. As per the terms of the issues no further dividend is payable for the year and the same has to be treated as final dividend.

CAPITAL RESTRUCTURING

During the year under review, your Company commenced its second Buy Back programme through Stock Market Operation and bought back 13.36 mn. of its own equity shares of the face value of Rs.10 for an aggregate amount of Rs.323.8 mn. Additionally, 1.8 mn. shares bought back during the first Buy Back programme were extinguished during the year thereby reducing the paid up equity share capital from Rs.2,177.8 mn. as on March 31, 2001 to Rs.2,025.6 mn. as on March 31, 2002. Under the continuing second Buy back programme, your Company has further bought back and extinguished up to June 14, 2002, 11.41 mn. equity shares thereby further reducing the paidup equity share capital to Rs.1,911.5 mn.

During the year, your Company issued and allotted 10.50% Redeemable Preference Shares of Rs. 750 mn. by private placement. These shares are due for redemption after 48 months from the deemed date of allotment with an option to the Company to redeem them after 30 months.

BUSINESS AND OPERATIONS OF THE COMPANY

The main business of your Company continues to remain shipping and offshore. The performance of each of these businesses has been dealt with segment wise in the following paragraphs.

MANAGEMENT DISCUSSION AND ANALYSIS

SHIPPING DIVISION

TANKER BUSINESS

ECONOMIC INDICATORS

Historically, tanker rates have been following global economic trends. With the demise of the economic boom in the second half of 2001, the tanker freight markets also nosedived. The world oil markets remained volatile during a major portion of FY 01-02, despite efforts by OPEC to maintain prices within the target range of $22-28. In June 2001, Iraq's announcement of a 30 day suspension of its oil-for-food exports acted as a catalyst in the declining tanker market. A slowdown in the US market, which was contagious to the world economy led to lower oil demand.

TRADE ASPECTS

With industrial production and oil demand faltering in most parts of the world, the tanker market could not remain immune to these global economic trends. Cut in OPEC supplies has significantly decreased the tonne mile demand as OPEC supplies are generally long haul. Drop in OPEC output was partly offset by surge of exports from non-OPEC sources. In particular, Former Soviet Union (FSU) exports to

Europe soared as also West African and Latin American exports to North America. Most of the FSU exports were, however, short haul sea borne exports to Western Europe and pipeline supplies to Central Europe. The demand for oil fell, however in tonne mile terms, the fall was much sharper. In early 2002, though Russia's agreement with OPEC limited their sea borne exports, FSU exports in total moved up on a year-on-year basis. The trend in rise of short haul exports is set to impact the tonne-mile demand in oil trade significantly.

Product tanker freight rates saw a modest drop in the first quarter of FY 2001-02. Even in the face of falling demand for products, freight rates held steady due to US imports. While US refineries were operating at near full capacity, increases in the US demand, especially for gasoline due to summer driving season, were fully met by imports. This positively impacted tonne mile demand, which got extended till mid of second quarter. Over the next two quarters the product tanker demand suffered due to the continuing economic slowdown, a warmer than normal winter and the aftermath of the World Trade Center attacks.

FLEET

While the rapidly weakening economy spelled doom for the tanker owners the only silver lining, was that tanker owners began to scrap their old ships en masse.

During the year, Suezmax fleet shrunk by around 3.08% and stood at 40.14 mn. dwt. while Aframax fleet was stagnant at 51.08 mn. dwt. Deliveries of Suezmax shrunk by nearly 17% aggregating 2.65 mn. dwt. at the end of FY 01-02, while those of Aframax shrunk by about 38% during the year aggregating to 1.33 mn. dwt. Suezmax demolitions increased by 65% as compared to the previous year to reach 3.66 mn. dwt. while Aframax registered a still higher jump of 121% with total of 2.2 mn. dwt. of the fleet going out of the market.

FREIGHT RATES

The disadvantageous trade demand and fleet supply situation took a toll on tanker earnings. By late October 2001, crude tanker rates fell back to their pre boom 1999 levels and there was little incentive for charterers to lock in for period charters at rates in excess of spot markets. Tanker rates fell from 40% to 80% across different segments with larger tankers suffering greater decline. Suezmax and Aframax rates fell sharply and the product tanker market also sputtered though the drop was not as severe as that in the crude tanker market. Most product tanker indicators fell back to their early 2000 levels but remained modestly above their 1999 lows.

INDIAN SCENARIO

In most of the 1990s, India imported a large quantity of refined products to keep up with the growing demand. This year with enhanced refining capacity, India turned a net exporter of petroleum products in selected segments.

COMPANY'S PERFORMANCE

Substantial amount of period cover prevented your Company's earnings from dropping to the extent of the spot market drops. While the market sentiment for crude carriers changed from bullish to bearish during FY 01-02 with earnings nose diving, this sharp adverse movement in the crude oil market did not completely mirror in your Company's performance.

Tankers contributed to 79% (previous year 71%) of the Shipping Division's revenues and 92% (previous year 76%) of the profits. In FY 2001-02, average tanker TCYs (crude, product and gas) were around $16,790 per day (previous year $15,798 per day). Crude carriers averaged at around $ 29,139 per day (previous year $25,811 per day) with Product carriers averaging at around $14,206 per day (previous year $13,335 per day).Your Company's sole gas carrier averaged around $17,091 per day (previous year $15,468 per day)

During the year, your Company was awarded its fourth consecutive Contract of Affreightment (COA) with Mangalore Refineries and Petrochemicals Ltd.(MRPL) for transportation of 5 mn. tons of crude. Part of your Company's product tanker fleet continued on coastal trade with the balance fleet trading internationally.

During the year, your Company bought 2 second hand (1996 built) product tankers “Jag Prachi” and “Jag Priya” (aggregating 0.08 mn. dwt). A product carrier, “Jag Pankhi” (1985 built) of 0.05 mn. dwt. was sold and delivered in May 2002. Your Company also sold a new building contract of Aframax of 0.10 mn. dwt. at a profit. The current tanker fleet of 17 vessels with an aggregate of 0.88 mn. dwt. has an average age of 11.23 years.

During the year, your Company placed orders with the Hanjin Heavy Industries & Construction Company Limited, Korea for building 2 product tankers of 0.04 mn. dwt. each scheduled to be delivered by January and April 2003. Your Company also has an outstanding new building contract for 2 Aframaxes aggregating 0.21 mn. dwt. scheduled for delivery in May 2003 and January 2004. This is in line with your Company’s objective of overall fleet modernisation.

OUTLOOK

With OECD demand rising by nearly 2% annually and with a steady annual global economic growth estimated at more than 3%, there seems a case for steady increases in demand for oil. As per projections of International Energy Agency, global oil demand is expected to grow by about 0.42 mn. barrels a day in 2002, up by around 0.5 % over 2001.

As for fleet developments, tanker ordering is expected to stay relatively low over the remaining part of 2002 but deliveries are set to accelerate further in the medium term. Scrapping is also expected to remain relatively high over this period. Hence, although tanker fleet is expected to shrink a bit further over the short term, the fleet is expected to expand rapidly in the medium term. In the medium term, economic considerations will be primarily responsible for tanker scrapping with IMO’s 13 G regulation on double hull tankers playing only a secondary role. As for product tankers, demand is expected to grow modestly over this period. Also, overall ship ordering activity in this segment is expected to remain relatively weak over the medium term.

The dismantling of the three decade old Administered Pricing Mechanism (APM) with effect from April 1, 2002 has been a significant step in the Indian oil sector reform process. With PSU oil companies having freedom to make their own arrangements for transportation of crude and products there could emerge business opportunities for your Company to provide service to such oil companies.

Looking forward, though your Company is significantly hedged against any further downturn in the tanker markets, the lower level of these hedged earnings and the impact of softer markets on remaining open positions may considerably impact tanker profitability for FY 2002-03.

DRY BULK BUSINESS

ECONOMIC INDICATORS

World GDP for the year 2001 grew by 2.4% on a year-on -year basis with the major regions reporting minimal positive growth. EU 1.7%, Russia 4.7%, China 7.5%, USA 1.1% and India 4.5% except Japan which reported a negative growth of 0.4%.

TRADE PATTERNS

2001-02 has been a dismal year for the dry bulk market with rates being directly impacted by the global economic slowdown. The slowdown had an adverse effect on steel production and steel related trades which form a major component of the total drybulk trade.

As per the International Iron and Steel Institute, in 2001 world crude steel production was about 847 million metric tons (down by 0.1% as compared to the previous year) with China, Japan, USA, Russia, Germany and South Korea attributing to around 57% of the production. Steel consumption recorded a modest growth of 1.05% at 768 mn. metric tons of which about 71% was attributable to China, Asia and Europe. Although Chinese demand partially offset reduced Japanese demand in the Far East, a fall in steel production in Europe reduced long haul iron ore shipments from Australia to Europe.

Intra regional shipments of steam coal increased. Trade was affected with US and Canadian shipments into Asia becoming less competitive. China's role in the steam coal market has assumed importance.

The global grain trade remained relatively flat though US exports showed a sharp drop but these were partly offset by South American shipments. Long haul nature of these exports provided a short lived boost to the Panamax and the Handymax sectors in early FY 2001-02. However, into the year the grain trade also dropped significantly as tonne-mile demand reduced for Asian grain imports.

FLEET

The year saw a rapid fleet growth in the Capesize, the Panamax and the Handymax segment. During the year, Capesize deliveries were to the tune of 5.37 mn. dwt., while Panamax, Handymax and Handysize deliveries were 7.59 mn.,4.59 mn. and 17.71 mn. dwt. respectively. Compared to the previous year, the year under review saw Capesize growing by 4.62% at around 91.1 mn. dwt. with Panamax registering a 9% growth at around 72.18 mn. dwt. and Handymax growing by 9% at around 50.14 mn. dwt. with only Handysize shrinking by 2.51% to 75.38 mn. dwt.

FREIGHT RATES

Capesize freight rates, which show a strong correlation with industrial production, fell most steeply. Heavy ordering in 1999 resulted in a 4% growth in fleet which impacted the earnings. Though Panamax and Handymax market continued to suffer from the overall downturn in the dry bulk markets, diversity of cargo in case of Handymax offered some protection from the downward pressure.

COMPANY'S PERFORMANCE

In FY 2001-02, average dry bulk TCYs were around $ 5,153 per day (previous year $ 6,806 per day). Dry bulk carriers contributed to 21% (previous year 29%) of the Shipping Division's revenues and 8% (previous year 24%) of the profits. Your Company's sole Panamax which was acquired during the second quarter of the year averaged around $ 6,266 per day. The Handymax, Handysize and Mini Bulk carriers averaged at around $ 6,561 per day (previous year $ 9,927 per day) , $ 5,254 per day (previous year $ 6,073 per day) and $ 1,301 per day (previous year $ 1,355 per day) respectively. During the year, your company acquired a 1995 built Panamax "Jag Arnav" (0.07 mn. dwt.) and sold 2 Handymax 1976 built "Jag Kanti" and 1984 built "Jag Rahul" and 2 Mini Bulk carriers both 1997 built "GE 1" and "GE 2" aggregating 0.09 mn. dwt. "Jag Radhika" a (1983 built) Handymax of 0.04 mn. dwt. was sold in April 2002. The average age of the current drybulk fleet of 11 vessels, of 0.36 mn. dwt. stands at 17.58 years.

OUTLOOK

Recent macroeconomic indicators have been positive, suggesting improvement in the coming few months. Demand for iron ore and coking coal is expected to pick up in Europe. China's recent steam coal imports could potentially bring about increased tonne-mile trade in the Panamax market. More significant gains are likely over the medium to long term as Panamax demand is expected to rise.

Trade in minor bulk is likely to stagnate during the next year. A significant contraction in the Handysize and Handymax fleet is expected in the medium term which would result in improved prospects for the segment. The recent steel import tariff decision will affect European loaders, but overall Handymax demand should increase in 2002. With significant contraction in the Handysize fleet, if demand picks up in the second half of 2002, freight rates could witness some improvement in this segment too.

RISKS AND CONCERNS OF THE SHIPPING DIVISION

Your Company's current fleet profile needs to adapt to changing requirements of the market. Your Company's fleet is ageing with average age of tankers around 11.23 years and of dry bulk carriers around