



PIPAVAV DEFENCE AND OFFSHORE ENGINEERING COMPANY LIMITED



Annual Report 2013 - 2014



01	DEFENCE MATTERS	17	DIRECTORS' REPORT
02	PROJECTS ACCOMPLISHED	24	MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT
04	CHAIRMAN'S MESSAGE	29	REPORT ON CORPORATE GOVERNANCE
06	OPPORTUNITIES ABOUND IN DEFENCE	39	INDEPENDENT AUDITORS' REPORT
08	INDIAN NAVY FAST TRACKING MODERNISATION	44	STANDALONE FINANCIAL STATEMENTS
10	PDOC LEADS	76	STATEMENT PURSUANT TO SECTION 212
12	PROVEN TRACK RECORD	78	CONSOLIDATED AUDITORS' REPORT
14	STRONG FUTURE BECKONS US	80	CONSOLIDATED FINANCIAL STATEMENTS
16	CORPORATE INFORMATION		



PROGRESS needs STABILITY needs SECURITY needs DEFENCE

For the past 67 years, India has been importing nearly 80 per cent of military hardware.

For the last 3 years, India has been the top arms buyer in the world as it strives to modernise its armed forces.

Modernisation of the armed forces is critical to enable them to play their role effectively for the defence of India's strategic interests.

On the floor of Parliament, significant and decisive announcements were made in July 2014:

- ★ Defence spending in the Union Budget 2014-15 was increased by 12 per cent
- ★ Military budget was increased to ₹ 2.29 trillion – ₹ 50 billion more than the previous year
- ★ Foreign Direct Investment in Defence was increased from 26 per cent to 49 per cent

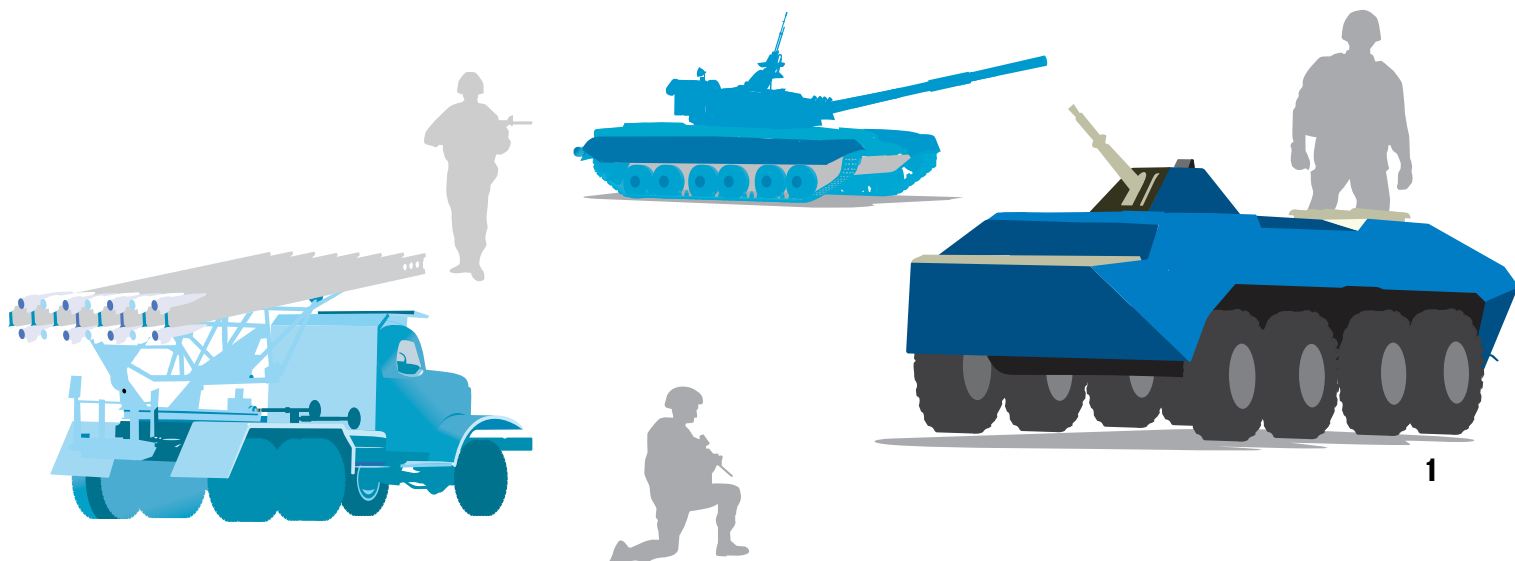
This has signalled a new direction and drive in the Indian Defence industry, opening up an unprecedented horizon of growth opportunities.

As India's first and only Integrated Defence Company, we have been building our capacities, capabilities and competencies well in advance, in anticipation of these developments.

At PDOC, we are working to build the India of tomorrow – prosperous, progressive and powerful and above all, proud of its defence capabilities.

It is time.

DEFENCE MATTERS



PROJECTS ACCOMPLISHED

SINCE APRIL 2013, WE HAVE COMPLETED 14 MAJOR PROJECTS

NEW BUILDS

- ✦ 3 PANAMAX BULK CARRIERS
- ✦ 2 DECK CARGO BARGES
- ✦ 2 OFFSHORE SUPPLY VESSELS
- ✦ 1 STATOR FRAME AND COOLER HOUSING

REFURBISHMENT & REPAIRS

- ✦ 1 PIPE LAYING BARGE
- ✦ 1 ANCHOR HANDLING TUG
- ✦ 4 JACK-UP RIGS



PROJECTS IN PROGRESS

5 Naval Offshore Patrol Vessels

2 ONGC Rigs

14 Fast Patrol Vessels for Indian Coast Guard

**1 Cadet Training Vessel for Indian Coast Guard
Fabrication Orders**

OTHER HIGHLIGHTS

- ✦ Selection of IFS Applications™ as ERP system for the Company.
- ✦ A consortium of Larsen and Toubro Ltd. (L&T) and the Company won US\$ 170 million contract for conversion of Sagar Pragati, a Mobile Offshore Drilling Unit ('MODU') to Mobile Offshore Production Unit ('MOPU') for Oil and Natural Gas Corp. Ltd (ONGC).
- ✦ Declared as the lowest bidder for design, manufacture and supply of 14 Fast Patrol Vessels (FPV) for the Indian Coast Guard worth ₹ 920 Crore.
- ✦ Declared as the lowest bidder for design, construction and supply of one Cadet Training Ship for the Indian Coast Guard worth ₹ 221 Crore.
- ✦ Indian Coast Guard created Coast Guard Station at Pipavav.
- ✦ Secured Contract for dry-docking and maintenance of critical oil rigs from two of the largest global oil and gas conglomerates – Transocean and Noble.
- ✦ Commenced construction of warships for the Indian Navy of five NOPVs worth ₹ 2,975 Crore.
- ✦ SAAB AB, a Swedish defence major, enters into a strategic alliance with the Company and also makes equity investment of ₹ 201 Crore.





FINANCIAL HIGHLIGHTS

(in Lac)

TOTAL REVENUES

₹ **2,31,907.63**

EBIDTA

₹ **61,475.38**

PBT

₹ **2,792.48**

NET WORTH

₹ **2,33,687.88**

TOTAL ASSETS

₹ **9,59,745.11**

CHAIRMAN'S MESSAGE



Dear Shareholders,

It gives me great pleasure to share with you the fact that we have firmly established our credentials as India's largest defence-focused ship building company and are rapidly emerging as a leading global integrated defence, heavy engineering and hydrocarbon EPC company. All this would not have been possible without your support and belief in the fortunes of the Company. Following a series of accelerated initiatives undertaken in the financial year 2013-14, we are poised to capitalise on several new opportunities opening up across each of our business segments.

Except for certain countries in Europe, the global economy is indicating positive signs of recovery. Recent projections suggest close to 3 per cent potential growth in global GDP during 2014, and further acceleration to about 3.5 per cent over each of the

next two years. These are encouraging signs that may in turn lead to faster expansion of demand, production, trade, investments and other such indicators that have a positive influence on the prospects for our business, both in India and globally.

The Indian economy has delivered a lacklustre GDP growth of 4.5 per cent and 4.7 per cent over the last two years, considered the worst slowdown in approximately 25 years. However, there is now a growing confidence in the ability of the newly elected Government to take necessary actions that position the Indian economy for long-term growth in line with the country's intrinsic potential.

A positive start was made with the Union Budget 2014-15 that increased allocations across every major sector vital to our national objectives, including defence. In fact, the recently announced Union Budget for 2014-15 allocated an additional capital of ₹ 5,000 Crore towards defence expenditure as compared to the interim budget.

The Hon'ble Prime Minister of India announced a vision of "Come and Make in India", which will help the industrial growth of India. The Prime Minister called upon to unleash entrepreneurial spirit and work towards manufacturing in India various items that add to the nation's import bill and emphasised that let "Made in India" become synonym of excellence. This reflects the priority assigned to indigenous manufacturing by the Government of India. At present, India is the largest importer of defence equipment in the world and the Government is taking vital steps to promote indigenous production of defence equipment, including a recently announced policy initiative to increase the composite cap on FDI in defence to 49 per cent from 26 per cent. This is bound to attract more global majors to partner with Indian companies.

In addition, the Defence Procurement Procedure (DPP), which was introduced in June 2013, has also been simplified, providing a greater impetus to indigenisation of defence procurement, development and manufacturing.

We believe that the Indian Navy will expand the process of Public-Private Partnerships to accelerate its fleet procurement which places PDOC favourably to capitalise on the substantial opportunity within the defence shipbuilding and repair sectors. Further, the implementation of offset clauses built into defence equipment import agreements creates a sizable upside for the Company.

India is the fourth biggest consumer of energy in the world after China, the US and Russia. At present, the country imports over 35 per cent of its energy requirements in the backdrop of rising demand, volatile prices and uncertain supplies. As a result, greater self-sufficiency and energy security are high on the agenda and Indian oil companies have focused on buying stakes in overseas oil and gas assets. In addition, there is a push towards exploration to meet our growing energy requirements driven by the New Exploration Licensing Policy. These developments provide significant opportunities for us both in India and overseas markets for rig construction, repairs, modifications and conversions. We believe that the Company is well positioned to benefit from rising patterns of demand and capital investments within this sector.

Against the back-drop of a challenging macro-environment in FY 2013-14, PDOC delivered higher shipbuilding revenues driven by order execution activity. The Company also reported improved margins. We delivered on both commercial and hydrocarbon EPC orders including the delivery / launch of three Panamax Bulk Carriers, three Offshore Supply Vessels and two Deck Cargo Barges. We have also carried out heavy engineering & fabrication and completed significant repair work on hydrocarbon assets such Jack-up rigs, India's biggest pipe laying barge and a floating crane.

The Company is in the process of constructing Naval Offshore Patrol Vessels for the Indian Navy. We are also focusing on executing major projects along with building offshore supply vessels for ONGC. Our order book will very soon include 14 Fast Patrol Vessels, a Cadet Training Ship

WE ARE ALL SET TO PARTICIPATE IN SOME OF THE BIGGEST AND MOST AMBITIOUS DEFENCE PROJECTS IN THE COUNTRY. THE BEST, WE BELIEVE, IS JUST ROUND THE CORNER!

where we have already been declared L1 and a few Hydrocarbon EPC Projects and these expected to provide good revenue and margin visibility.

Based on the Indian Navy's huge requirement of carriers, sophisticated and strategic assets, our long term objective is to ingrain into these substantial opportunities. We believe that we are positioned favourably to support the Indian Navy and the Coast Guard in achieving India's defence objectives. The Company has been recently selected by the petroleum ministry of Government of India as one of the three shipyards in India for building, the first four indigenous LNG carriers, each of approximately 180,000 Cu. Mtrs. This is a revolutionary step for development of LNG vessel technology in India.

Another key development during the year was the establishment of a facility in Greater Noida, India for the development of Combat Management System, Integrated Platform Management System, Integrated Bridge System and System Engineering & Integration for naval ships and combat land vehicles, which will extend to even fighter aircrafts, in technical collaboration with strategic partner, SAAB. The Company has been qualified by Indian Navy for providing CMS for warships. This is an extremely significant milestone and the first step towards backward integration of warship construction. This technology

will also support indigenous upgrades of existing defence platforms.

On the infrastructure side, we are also developing the second dry dock at Pipavav. After completion, it will be able to service even the biggest aircraft carriers in the world.

In conclusion, PDOC today is fully equipped to make its humble contribution to the country's defence and energy security. We are aware of both the opportunities and challenges that lie ahead. We are also confident of delivering long-term value for all stakeholders, create more jobs and fulfill our obligations towards society.

On behalf of the Board of Directors of the Company, I thank our shareholders, Government agencies, employees, bankers, partners and vendors - all vital stakeholders - in the long journey ahead of us. With your support and confidence, we look forward to partake in more exciting opportunities and transform our vision into reality.

We welcome you all to the 17th Annual General Meeting of the Company.

Yours Sincerely,

Nikhil Gandhi

Chairman

OPPORTUNITIES ABOUND IN DEFENCE

12 per cent increase
in budget

49 per cent FDI



Why defence is critical to India's sustained progress?

AT THE HEART OF PROGRESS OF ANY COUNTRY IS STABILITY AND SECURITY. IT IS ONLY ON A FERTILE SOIL OF SAFETY, NURTURED BY A CLIMATE OF PROTECTION AND WELL-BEING THAT SEEDS OF PROSPERITY GERMINATE AND DEVELOP INTO LUSH GREEN HARVESTS OF DEVELOPMENT AND ADVANCEMENT.





In addition to becoming self-reliant in its defence requirements, India is now aiming to become a net exporter of defence equipments in the next decade.

RECENT DEVELOPMENTS IN DEFENCE

India is heavily dependent on imports to meet its defence equipments. With the 'BUY & MAKE INDIAN' reform under the Defence Procurement Procedure (DPP), the Government has been encouraging domestic industry to participate in manufacturing defence equipments with a view to reduce dependence on imports. In the DPP of 2013, the Government unveiled big-ticket reforms whereby Indian companies would be preferred

for defence orders, and import would be considered only if there were no capabilities in India. Further, policy and guidelines for Joint Ventures (JVs) between Defence Public Sector Units (DPSUs) and Private Sector companies to facilitate synergistic fulfilment of existing and future defence requirements were approved. An offset limit was also created whereby foreign companies have to source at least 30 per cent of the order value from local vendors.

The Union Budget presented by the newly elected Government in the month of July 2014 was a directional budget in many ways. Recognising the fact that the Indian defence needs to be rapidly modernised and brought at par with other developed countries, the Government announced path-breaking measures that will have a huge impact on the defence sector, and in many ways will provide a new impetus to growth and technological advancement.

According to a research finding, defence budget is expected to grow at a CAGR of 8 per cent. The defence policy's offset requirements mandate foreign contractors to source from local vendors at least 30 per cent of the total value of orders. A huge opportunity will be available over the next decade for the domestic defence industry.

DEFENCE IS NOW EMERGING AS ONE OF THE SUNRISE INDUSTRY FOR THE NEXT DECADE.

INDIAN NAVY FAST TRACKING MODERNISATION



WITH A COAST-LINE OF OVER 7500 KMS., NEARLY 1200 ISLANDS AND ALMOST 200 MAJOR, INTERMEDIARY AND MINOR PORTS, THE INDIAN NAVY PLAYS A VITAL ROLE IN DEFENDING INDIAN WATERS.

As India takes giant economic strides, the role of the Indian Navy is becoming more significant than ever before, as it needs to keep safe-guarding the crucial East-West trade route, a strategically important trade and energy pipeline.

Given its large island assets and India's strategic emergence as a security provider in the Indian Ocean, the Indian Navy has a huge responsibility to modernise its amphibious assets and sea-lifting capacity. The Indian Navy has undertaken a rapid modernisation drive. Naval expenditure of almost US\$ 50 billion has already been approved by the Government.

Under the Maritime Capabilities Perspective Plan 2022's indigenous construction component, the Indian Navy will acquire two Cadet Training Ships, five more Offshore Patrol Vessels (OPV) to add to the already ordered, three LPDs, seven Project 17A FFGs, six SSKs, eight guided-missile corvettes, eight GRP-hulled MCMVs and another integrated aircraft carrier.

The Indian Navy has ambitious plans under its NEW BUILD programme.

