



62nd Annual Report 2011-2012

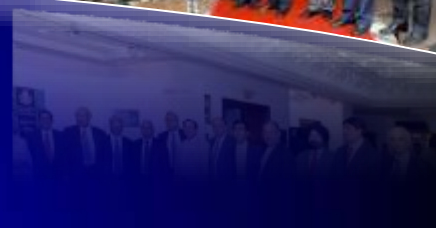


TRANSPORTING **GOODS.**
FORMING **LIVES.**



SCI
Navratna Company
ISO 9001 - 2008 Company

भारतीय नौवहन निगम लिमिटेड
The Shipping Corporation Of India Ltd.



The Shipping Corporation Of India Ltd.

Serving Nation Successfully

For the past fifty years, Shipping Corporation of India has been providing yeoman service to the country's economy by meeting its ocean transport requirements and has emerged as the undisputed leader in India's shipping industry. The SCI continues to be the only Indian mainline carrier providing liner services from India to the major global destinations.

Starting as a Liner Shipping Company, SCI, with its safe, reliable, efficient and economic shipping services has emerged as one of the most admired, diversified and progressive shipping companies in the world.

SCI, over the years, has achieved excellent results due to the integration of innovative and timely strategies adopted by the Management, in turn, creating viable returns for all its stakeholders and customers.

With a highly diversified fleet and a network, covering several major sea routes, SCI reaffirms its commitment to remain highly responsive and efficient in terms of its services, thus making a mark for itself in the Indian maritime industry.



CONTENTS

Corporate Information	01
Chairman's Statement to Shareholders	02
Board of Directors	07
Notice of Meeting	11
Annexure to the Notice	12
Salient Statistics	13
Decade at a Glance	14
Graphs	15
Directors' Report	17
Report of the Directors on Corporate Governance	41
Auditors' Certificate on Corporate Governance	54
Auditors' Report	55
Annexure to the Auditors' Report	57
Comments of the Comptroller and Auditor General of India	59
Annual Accounts	60
Cash Flow Statement	87
Glossary	88



CORPORATE INFORMATION

BOARD OF DIRECTORS

Shri S. Hajara
Chairman & Managing Director

Shri Vijay Chhibber
Government Director

Shri M. C. Jauhari
Government Director

Shri J.N. Das
Director

**Rear Admiral (Retd.)
T.S. Ganeshan**
Director

Shri Arun Kumar Gupta
Director

Shri Kailash Gupta
Director

Prof. Sushil Khanna
Director

Shri B.K. Mandal
Director

Shri Nasser Munjee
Director

Shri Arun Ramanathan
Director

Shri S. K. Roongta
Director

Shri U. Sundararajan
Director

Capt. Sunil Thapar
Director

Shri S.C. Tripathi
Director

Shri Arun Kumar Verma
Director

Shri Dipankar Halder
Executive Director (Legal Affairs) &
Company Secretary

AUDITORS

Messrs. P.S.D. & Associates, Jaipur
Messrs. Sarda & Pareek, Mumbai

REGISTERED OFFICE

Shipping House, 245,
Madame Cama Road,
Mumbai 400 021.

REGISTRAR & TRANSFER AGENTS

M/s. Sharepro Services (India) Pvt. Ltd.,
Samhita Warehousing Complex,
Gala No-52 to 56, Bldg No.13 A -B,
Near Sakinaka Telephone Exchange,
Andheri-Kurla Road, Sakinaka,
Mumbai-400072.

INVESTOR RELATION CENTRE

912, Raheja Centre, Free Press
Journal Road, Nariman Point,
Mumbai-400 021.

Name of Directors (other than S/Shri S. Hajara, Vijay Chhibber and M. C. Jauhari) appear in alphabetical order of Surnames

CHAIRMAN'S STATEMENT TO SHAREHOLDERS

Dear Shareholders, Ladies and Gentlemen,

On behalf of the Board of Directors and on my personal behalf, I extend very warm greetings to all of you. At the outset, I would like to inform all the esteemed shareholders that your company, after successfully completing 50 years of its dedicated service to the nation, has entered into 51st year of its operation on October 2nd, 2011. To commemorate this occasion, a valedictory function was held in Mumbai on October 1st, 2011, which was attended by the Hon'ble Prime Minister of India, Dr. Manmohan Singh.

I would also like to convey to the esteemed shareholders that this shareholder's meeting is of special significance to me personally, as after having the proud privilege of serving this beloved organisation for nearly four decades and being the Chairman and Managing Director of this organization for the past seven years, I would be superannuating in December 2012. Therefore, while addressing our esteemed shareholders for the last time, I recall with great affection the several memories of my tenure in this beloved organization. I would say that I have grown with this organization and have shared the worst and best phases of shipping during last nearly 40 years.

Over the years, your company has successfully retained its position as the largest and most diversified shipping company of the country and it has been a frontrunner and torchbearer in terms of growth, diversification and replenishment of its tonnage and I am happy to inform you that during my tenure as the Chairman and Managing Director for the past 7 years, your company, apart from pursuing its growth plan, also could register an average profit of about ₹ 600 crores per year. However, most regrettably your company could not register positive results last year due to the extreme depressed market conditions.

The Directors' Report describes, in detail, the working of your Company for the last financial year. I would like to share with you the important highlights of your Company's performance in the backdrop of the market conditions which prevailed in the shipping industry during the last financial year.

SHIPPING SCENARIO

As I mentioned earlier, during the last year, the worldwide shipping industry went through one of its toughest phases in the history owing to the excessive supply of tonnage on one hand and global economic crisis on the other. The Baltic Dry Index (BDI), which is an indicator of the shipping demand in the dry bulk sector, reached a historical low in February 2012 at 647 since its establishment in 1985. Subsequently, the index did improve, but the average BDI during the year 2011-12 remained almost 40% lower than the average BDI in the year 2010-11. The main cause for the severe rate decline in this sector was the oversupply of tonnage as the drybulk tonnage expanded from 525 million dwt in end of 2010 to 605 million dwt by end of 2011. The growth in drybulk seaborne trade during last year was also very weak, mainly due to the deteriorating economic conditions and also due to some of the major natural calamities in the world. In 2011, there was a marginal increase in the global coal trade, whereas, the iron ore trade was slightly lower than 2010. More importantly, despite reduction in iron ore prices, the Chinese imports of iron ore came down due to reduction in their constructional activities and rising levels of inventories. In India, due to the development of certain issues in the main ore-exporting states, exports to China came down, which in turn resulted in increase of Brazilian and Australian supplies to China, thus there was a negative impact on the Supramex demand as the India-China trade has been a significant source of Supramex employment. It is expected that the drybulk fleet would continue to grow by about 11% in 2012 and in 2013 this growth would reduce to 6%, which could help in the recovery of rates in the drybulk sector.

The past financial year was also a tough year for the tanker sector owing to oversupply of tonnage and weakening of global oil demand. The continued fleet growth at about 6% annualized pace and slowdown in the global demands pushed the tanker rates to new lows. Further, with the slowing down of demands from Japan and US, China had been



Shri S. Hajara
Chairman & Managing Director

a large driver of tanker rates in 2011. However, due to the subsequent downturn in imports by China, VLCC rates also came down. In the year 2012, the global tonne-mile demand associated with crude trade is expected to grow at the rate of about 2.2% whereas, the crude tanker fleet is projected to grow at the rate of about 4%, which would result into deliveries of additional 40 million dwt in the tanker market. It is expected that by the end of 2013 the influx of tonnage due to new deliveries would come down to about 30 million dwt and this reduction would give some respite to the tanker market. It is also hoped that due to the falling asset values and relatively high scrap prices, we could see early scrappings of some of the younger tanker vessels which would further help in early recovery of tanker sector.

In the Liner sector, the operating margins of the Liner companies crumbled last year as the capacity growth in this sector outstripped its trade expansion. Liner freight rates in the two main arterial lanes (Asia-Europe WB and Transpacific EB) have been experiencing a declining trend since the summer of 2010. Further, the bunker costs in 2011 reached twice the level of 2009. As a result, almost all the container giants in the world registered heavy losses in 2011. However, due to continued efforts of the container operators to rationalize supply, it is expected that the container fleet utilization would improve from about 78% in 2011 to about 81% in 2012. On the other hand, the container market would be required to bear the additional capacity, which would be generated by the deliveries of Ultra large vessels in the range of 8,000-10,000 TEUs, in the coming years.

FINANCIALS

Since the onset of the global economic downturn in late 2008, the freight levels in almost all sectors of shipping have been on downfall, affecting the bottom lines of many Indian as well as global shipping companies. Your company, which has been continuously making profits till the last fiscal, registered a loss of ₹ 428.21 crores in the last financial year after a gap of 28 years, owing to the severe economic slump in global markets. Although, there was an increase in the operating revenues, the same have more than been offset primarily by increase in bunker costs and revaluation of foreign currency loans which led to increase in the interest costs. Due to the depreciation of the Indian rupee vis a vis US dollar, the finance cost rose to ₹ 387.30 crores, which included the exchange loss of ₹ 296.73 crores on foreign currency loans. Also, due to the deliveries of new vessels in the last year, there was also an increase in the depreciation. In nut shell, I would like to bring out that there was no actual cash loss for the company and the exchange loss had to be considered as the finance cost as per the requirement of the relevant Accounting Standards. Further, I would like to assure you that your Company continues to have very sound financial fundamentals with a net worth of ₹ 6734 crores and strong cash balances.

OPERATIONS

In the B&T division, which has been the major profit centre of your company for years, a change in the employment pattern was observed over a period due to the sluggish markets. Employments of vessels on Time Charter basis came down substantially in comparison with the voyage charter employments, which lead to an increase in the direct operating expenses in terms of bunker consumption, port & marine dues. Several measures have been adopted to cut down the operating costs-particularly through slow steaming of vessels during ballast passages whenever possible. Your company's COA with SAIL continued during the last year. The remaining drybulk vessels were employed with a judicious mix of spot voyages and time charters employments.

In the tanker segment, your company continued with the COA arrangements with M/s. Bharat Petroleum Corporation Ltd. (BPCL) and M/s Hindustan Petroleum Corporation Ltd. (HPCL) for their requirements of crude transportations. In addition, your company also entered into short-term COAs with Chennai Petroleum Corp. Ltd. (CPCL) and Reliance Industries during the last financial year. I would also like to mention that in order to adopt adequate measures with



regard to the problem of piracy, your company has been in the process of appointing a service provider for employment of Armed Security Guards on the ships. However, recently, the GOI approved the proposal for deployment of CISF guards on the Indian ships and a proposal in this respect from CISF is awaited. On receipt of the proposal from CISF, your company would decide on the deployment of Armed Guards on its vessels.

In the Liner segment, your company continued to be the only Indian mainline carrier which provided services from India to some of the major global destinations including Far East / China, Europe, Middle-East / West Asia Gulf, East Africa. It has been observed that the global carriers, in order to sustain their services and bear the reduced freight levels, have adopted some measures like slow steaming, slot swapping and even withdrawal of tonnages from the main trade lanes and have employed their ships on secondary trade lanes. Your company has also been making its best efforts in rationalizing its liner service portfolio by restructuring and amalgamating its services and port calls so as to reduce the operating expenses and increase the revenues. Further, by employing higher capacity ships in some of the new rationalized services, the cost per slot could be reduced. I am happy to inform you that your company, after commencing the East Africa service from the Indian sub-continent in Sept 2011 on slot swap basis, has commenced a new Asia-East Africa service in April 2012 by deploying one of its vessel in the consortium with Evergreen Line so as to enter the high trade potential region of Kenya and Tanzania.

The offshore segment has been comparatively isolated from the whip of economic downtrend. Most of the OSV's of your company were on longterm charter with ONGC which fetched steady incomes. Some of the vessels, which could not be employed on long term contracts, were employed on the spot basis. Keeping in view the need to replace the older offshore vessels, your company had placed orders for replacement of vessels. During the last financial year, four such new vessels were delivered which offered the required flexibility to your company to explore employments with new E&P operators, other than its traditional client ONGC. I am glad to inform that, in order to diversify the fleet in offshore segment, your company has ordered 4 numbers of higher bollard pull AHTSVs and 2 numbers of PSVs. During the year under report, your company continued to provide technical consultancy services to A&N Administration, UTL Administration, UTL Tourism Dept., Directorate of Light Houses & Light ships, Geological Survey of India, National Institute of Oceanography and other Government Departments for their various ship acquisitions / retrofit projects.

In order to meet with regulatory fuel sulphur limits in IMO emission control areas, ports in the European Union and ports in the State of California, the main engines and auxiliaries on board existing vessels in the fleet are being modified and equipped so as to handle low sulphur distillate fuels.

Further, I would like to share with you that, for the existing fleet, your company is also developing a Ship Specific energy efficiency management plan to further improve and monitor energy efficiency in its operations.

SHIP ACQUISITION PROGRAMME

Your company had a proposal to induct 62 vessels of diversified fleet profile during the 11th Five Year Plan period and by the end of the year 2011-12 (i.e. final year of the 11th Plan), your company could place orders for 42 vessels and could acquire 3 resale vessels. In the last financial year, your company had placed order for 2 nos. resale bulk carriers which were under construction at M/s Guoyu Shipyard, China. These vessels were delivered in July and August, 2011 respectively. In the last financial year, 14 vessels, aggregating to 570,443 dwt, were disposed off whereas, 11 vessels, comprising of 7 newbuilding bulk carriers and 4 newbuilding offshore vessels, aggregating to 406,927 dwt, were delivered. Thus, the overall fleet, which was 79 ships at the beginning of the April 2011, closed at 76 ships aggregating to 5,566,587 dwt as on 31.03.2012. Further, your company as on 31.03.2012, had an orderbook of 27 different types of vessels with total tonnage of 1,667,850 dwt.



OTHER CORPORATE DEVELOPMENTS

As a responsible corporate citizen, in pursuance of CSR policy framed in 2009-10, your company continued to undertake corporate social responsibilities. The collaboration with Tata Institute of Social Sciences (TISS) for effective identification, monitoring, evaluation and reporting of CSR initiatives, also continued in the last year.

I am happy to report that your company's efforts in this field have been recognised at the International level and your company was awarded with the coveted "Seatrade Middle East & Indian Subcontinent Award" in the CSR category at Dubai in October, 2011. In October 2011, at the function organised by DPE, your company was also awarded the prestigious "Greentech Platinum Award", in the Shipping Sector for its continuous commitment to the community welfare and voluntary initiatives.

Other Awards received by your company during the last year are mentioned below:

- On 48th National Maritime Day i.e. April 05, 2011, your company was awarded as the 'Indian Shipping Company with Highest Growth of Indian Vessels'.
- On April 27, 2011, your company was honoured with the Dun & Bradstreet - "Rolta Corporate Awards 2010", in the Shipping sector.
- The National Maritime Celebrations (Central) Committee conferred "Outstanding Contribution to the Seafaring Community" Award to your company on the occasion of 'Day of the Seafarer', on June 25, 2011.
- At the Maritime and Logistics Awards 2011, held on September 30, 2011, your company was awarded as "Ship Owner of the Year - Indian".
- Your company received the "Shipping Line of the Year (Indian-Container)" Award & the "Golden Jubilee Award" in the Samudra Manthan awards 2011 which were organised by IMOL in December, 2011.
- At SMP Expo 2012, in Feb, 2012, the "Outstanding achievement for Fastest Growing Company" Award, was conferred to your company.

Corporate Governance

Your company constantly kept the Corporate Governance issues in focus. It has been your company's policy to provide adequate and timely information to all the stakeholders. Your company's endeavour in this respect has been acknowledged and appreciated year after year. This year too, your company would continue to strive to meet the expectations of its various stakeholders.

The Right to Information Act, 2005

With the coming into effect of the Right to Information Act on 12.10.2005, your company has complied with the provisions of the Act and has placed the "Information Request Form" along with a 'List', showing names of Public Information Officer and Assistant Public Information Officers, on its website. The Quarterly and Annual Returns of the Applications received / replied, as per the format given by the Central Information Commission (CIC), have also been posted on your company's website.

WAY FORWARD

When we take a look at the present global scenario in shipping, it is observed that overall, in the recent past, there has been a gradual increase in the trade in most of the segments and at the same time, there has also been a rise in the disposal of tonnage. This, coupled with drastic reduction in the number of new orders, has gathered a good hope and



has also propelled the process for the market to reach its equilibrium on the demand and supply of tonnage. Also, in the recent past, the bunker costs have stabilized at comparatively lower levels, which also would definitely offer a good relief to the Liner and tramp services. However, as I see, it would still take a long period for the market to look up and the sluggish phase would continue even in 2012-13. Further, apart from the tonnage position, the future developments in the global economic conditions would play a key role in determining the time period that would be required for the recovery of shipping markets.

In the dry bulk sector, the longterm outlook is promising, as with new power plants coming up in our country, we could hope to become a driving force in the import of coal. In the tanker segment, the global oil demand as well as Indian crude oil demand is projected to rise significantly in the coming years. In fact, India's crude oil demand is expected to rise by almost 60% in the next 10 years. Hence, in both these segments, there is enormous potential for the growth of our country's trade. Considering this, your company has always endeavoured to maintain a younger and updated fleet so as to cater to such rising requirements in future. Your company's long term strategy for B&T division would be to have long term charter agreements and COA's with mainly Indian charterers and also with other global charterers.

In the Container sector, it is projected that in 2013, the rate of expansion in fleet will be lower than the rate of growth in trade and therefore the market conditions are expected to improve in 2013. Your company in the coming years would continue its best efforts to optimise the operations of its various liner services.

In the offshore segment, which is a rapidly growing segment, to meet with the Indian Oil Industry's requirement of various types of advanced vessels, your company has already embarked upon a plan to expand its offshore fleet by acquiring more number of OSVs. Also, orders for new types of vessels i.e, AHTSV's and PSV's have been placed with Indian shipyards and these vessels would be delivered into your company's fleet in the two years.

Being the only Indian company, having experience in LNG transportation and considering huge growth potential of LNG imports in future, your company is also well placed to take advantage of the growth potential in this segment.

As far as fleet position is concerned, it is expected that the tonnage of your company would cross the mark of 6 million dwt in the current financial year. Further, due to the replenishment of older tonnage, the average age of your company's fleet has come down from 19 years in 2004 to a young 12 years in 2012, which compares very well against the average age of the total Indian fleet of about 18 years. Also, the younger tonnage brings greater prospects for employments and requires lesser costs on repairs and maintenance. Therefore, I foresee a huge potential and sunrise in terms of the younger and growing fleet of your company, which is EU compliant, and it will definitely be able to capitalise on the rising markets, both India centric as well as global in the future.

In conclusion, I would like to convey to all the shareholders that, your company has successfully weathered many such adverse phases in the past and recession has always been an integral part of a cyclical industry like shipping. Hence, I would like to assure you that, your company with its diversified young fleet, sound financial fundamentals and most importantly, with dedicated and experienced manpower including the marine professionals, is quite capable of sailing through this rough patch and it is also well poised to reap benefits when there will be next upturn in the market.

ACKNOWLEDGEMENT

I would like to express my gratitude to the Government of India for its support to your Company. I wish to thank the Hon'ble Union Minister of Shipping Shri G. K. Vasan for leading the growth of India's maritime sector and for providing his kind support to your company. I would also like to thank the Hon'ble Ex-Minister of State for Shipping, Shri Mukul Roy for his encouragement to your Company. I wish to also express my indebtedness towards Shri K. Mohandas, former Secretary (Shipping) and Shri. P. K. Sinha, existing Secretary (Shipping) for their guidance provided to your Company. My sincere thanks are also due to other officials of the Administrative Ministry, other Ministries and Departments of the Government of India. I would also like to express my sincere appreciation towards Directorate General of Shipping for its support and kind understanding of various problems being faced by the Indian shipping industry and specifically by your Company. Finally, this being the last year of my tenure as the C&MD of your company, I wish to express my deep sense of gratitude towards all the shareholders, stakeholders, my colleagues on the Board of Directors and all the floating and shore employees for their continued support over the years.

Shri S. Hajara

Chairman & Managing Director