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TOLANI
Bulk Carriers Limited



ANNUAL REPORT 1997-98





TOLANI
Bulk Carriers Limited**SEVENTH ANNUAL GENERAL MEETING****Date** : 14th August 1998**Day** : Friday**Time** : 3.00 p.m.**Place** : Kamalnayan Bajaj Hall,
Bajaj Bhavan, Jamnalal Bajaj Marg,
Nariman Point, Mumbai - 400 021.**BOARD OF DIRECTORS**

Dr. N. P. Tolani – Chairman Emeritus

Mr. R. N. Tolani – Chairman

Mr. P. L. Nain

Mr. Anil Harish

Mr. N. P. Gidwani

Mr. A. K. Srivastava

Vice Adm. (Retd.) M. P. Awati

Lt. Col. (Retd.) T. J. Reejhsinghani

Capt. S. K. Mansukhani

MANAGER CUM SECRETARY

Mr. R. Kumar

BANKERS

Dena Bank

State Bank of India

Corporation Bank

AUDITORS

Messrs Chandabhoy & Jassoobhoy

Kamanwala Chambers

Sir P. M. Road

Mumbai - 400 001.

REGISTRARS & SHARE TRANSFER AGENTS

Messrs Sharepro Services

912, Raheja Centre

Free Press Journal Road

Nariman Point

Mumbai 400 021.

REGISTERED OFFICE

10-A, Bakhtawar

Nariman Point

Mumbai 400 021.

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ANNEXURE TO THE NOTICE

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 annexed to Notice dated 16th June 1998.

ITEM NO. 7

Members of the Company had at the Fourth Annual General Meeting held on 21st July 1995, approved the appointment of Mr. R. Kumar as Manager of the Company, with effect from 25th May, 1995 on a basic salary of Rs. 8,000 per month plus perquisites as per the rules of the Company. By a resolution passed by the Members at the Fifth and Sixth Annual General Meetings held on 3rd September, 1996 and 16th September, 1997, the basic salary of Mr. R. Kumar was revised and raised to Rs. 10,000 and Rs. 12,000 respectively.

It is now proposed to revise/modify the terms of appointment and remuneration of Mr. R. Kumar, w.e.f. 1st April, 1998 so as to increase the basic salary from Rs. 12,000 per month to Rs. 14,000 per month. Except for the above all other terms and conditions of the appointment remains unchanged. The said increase in the remuneration which is within the limits prescribed under Schedule XIII of the Companies Act, 1956 has been approved by the Board at its meeting held on 16th June, 1998.

Further, it is proposed that Members authorise the Board or Committee thereof to increase, alter or vary the terms of appointment/remuneration of Mr. R. Kumar from time to time so as to enhance the basic salary upto Rs. 20,000/- per month. In addition, Mr. R. Kumar will also be entitled to perquisites and other benefits as may be determined by the Board or Committee thereof in terms of resolution passed by the members on 21st July, 1995.

The Board has now recommended the same for the approval of the Members to be passed as a Special Resolution.

None of the Directors of the Company is interested in the resolution.

Mumbai, Dated : 16th June, 1998.

Registered Office :

10-A, Bakhtawar

Nariman Point, Mumbai 400 021.

By Order of the Board of Directors

R. Kumar
Manager cum Secretary

DIRECTORS' REPORT

To

The Members of Tolani Bulk Carriers Ltd.

Your Directors are pleased to submit their Seventh Annual Report on the operations and performance of the Company as well as the audited statement of accounts for the year ended 31st March, 1998.

1. FINANCIAL RESULTS

	(Rs. in million)	
	1997-98	1996-97
Profit before Depreciation and Taxes	116.34	110.73
Less: Depreciation	88.66	84.13
Profit before Tax	27.68	26.60
Less: Provision for Taxation	2.29	3.43
Profit after Tax	25.39	23.17
Less: Prior period adjustments (net)	1.96	0.86
Less: Depreciation for earlier years	—	11.74
Add: Balance brought forward from previous year	97.70	45.63
Add: Transferred from Reserve under Section 33AC of the Income Tax Act, 1961	—	67.90
Less: Transferred to Reserve under Section 33AC of the Income Tax Act, 1961	67.90	—
Amount available for appropriation	53.23	124.10
Appropriations have been made as under :		
(i) Proposed dividend	14.40	24.00
(ii) Tax on proposed dividend	1.44	2.40
(iii) Balance carried to Balance Sheet	37.39	97.70
	53.23	124.10

Exercising prudence when freight markets show little signs of imminent recovery, your Directors recommend a moderated dividend of 6% (previous year 10%) on 24,000,000 equity shares of Rs. 10 each for the year ended 31st March, 1998. The dividend, if approved by the Members at the Seventh Annual General Meeting, will be paid to those Shareholders whose names appear in the register of members as on 14th August, 1998. The dividend will be tax free in the hands of the Shareholders since the Company will bear the tax on dividend.

2. OPERATIONS

While the freight markets gyrated rather violently during the previous year, the year under review saw the Baltic Freight Index exhibit a definite sustained downward trend. Thus the opportunities to lock in superior earning levels through fortunately timed contracts and charters of the past year simply did not arise during the 1997-98 fiscal year. On the other hand, the year under review saw the Rupee at an average exchange rate of US \$ 1 = Rs. 37.27 while this rate averaged about Rs. 35.53 during the previous year. This depreciation of the Rupee served to marginally improve net earnings from shipping operations.

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Bulk Carriers Limited

On a more positive note, the Directors are pleased to report that, out of the Rs. 20.24 million that was set aside as doubtful debts, the management's persistence and energetic recovery efforts were successful in collecting Rs. 9.44 million. This has moderated the drop in total income to Rs. 533.39 million from last year's Rs. 588.02 million. The successful recovery of bad debts has had a more significant impact on the net profit for the year which has shown a modest rise to Rs. 25.39 million from Rs. 23.17 million inspite of lower net profits from shipping operations.

Until and including the first quarter of the year under review, the Company's vessels were managed with significant input from the parent Company, Tolani Shipping Co. Ltd., under an Agency Agreement at a cost of Rs. 0.15 million per ship per month. From the second quarter, this Agency Agreement was terminated to achieve somewhat greater self reliance. However, parent Company, Tolani Limited continues to provide office space on a cost sharing basis. Under this revised management arrangement the total cost of management has shown a small decline from Rs. 11.92 million in the previous year to Rs. 10.96 million.

In an effort to improve profitability, the Company has taken some steps to reduce its cost of borrowings. In spite of a poor freight market, the Company has continued with its aggressive repayments of high cost debt, even prepaying some high cost Rupee debt. However, it is imperative to retain adequate liquidity during periods of declining freight rates and this has been accomplished through fresh, lower cost borrowings of US \$ 2.25 million from Den norske Bank, London. In this endeavour the Company was supported by the parent Company, Tolani Shipping Co Ltd., which provided the security in the form of a mortgage on one of its vessel, M.V. Prabhu Jivesh.

3. FUTURE PROSPECTS

In spite of two years of un-remunerative freight rates the prices of bulk carriers, both second-hand as well as new, showed little softening during the year from April 1997 to March 1998. However, since the close of the year, with freight markets at the lower end of the year's range, the Asian financial crisis in full bloom and a marked slowdown in tanker ordering, second-hand bulk carrier prices have slid by about 15%. This is bringing a measured degree of buying interest. The lower second-hand prices have also provided a definite bias against new-buildings whereby orders on shipyards have slowed to a trickle. As the order-book position of shipyards shows cover for less than two years, anxiety to book orders will start rising with the requisite drop in prices. The dramatic weakening of the Korean and Japanese currencies against the US Dollar will certainly facilitate such a drop.

However, the sobering impact of two to three years of loss making freight rates puts a definite damper on the will to order new tonnage as well as the availability of financing. Hence the addition of new dry bulk tonnage after the end of 1999 will undoubtedly show marked deceleration. The continuing addition of new tonnage till the end of 1999, nevertheless will maintain pressure on freight rates which will stimulate the scrapping of older tonnage faced with rising repair costs, in a regulatory environment that is becoming increasingly quality and safety conscious.

Therefore, though the macro indicators of the dry bulk markets fail to provide any encouragement for expectations of an early revival of freight markets, the signs of eventual recovery in the latter part of next year and beyond are definitely in place. This indicates a strategy of preparing the Company's fleet to be positioned to capitalize on the rise. To this end, the Company will dry-dock two ships before mid-1999, avoiding the lay-up time for dry-docking during periods of higher expected earnings. At the same time as M.V. Prabhu Gopal approaches an age of 30 years,

her exit from the trading fleet is imminent. To replace her, the Company is working to build the resources and garner the necessary support from its parent companies, Tolani Limited, and Tolani Shipping Co. Ltd., to help acquire another vessel at the increasingly attractive price levels that are emerging.

4. GENERAL INDUSTRY SCENARIO

Shipping is also an intensely competitive industry. Thus to remain profitable and viable, a Company has to exploit the economies of scale and the advantage of innovative solutions for niche markets. In addition, domestic markets provide a natural advantage of proximity and familiarity. Therefore the indicated strategy has been to focus on ones national trade, move to the larger size ships suited to the trade and focus on ships which are built and equipped to be most effective in the trading environment. However, the needs and circumstances of cargo interests are also likely to change rapidly in a developing country and therefore to avoid obsolescence the ships and equipment selected must conform to international norms and standards. In response to these characteristics, the Company and its parent companies have steadily moved to larger ships with recent purchases being of 43,000 – 48,000 dwt handymax vessels. These ships have been equipped with high performance cranes and automatic grabs well suited to the ill-equipped ports in India and the rest of the developing world. Looking to the future the focus must remain on Indian trade and with new, larger port facilities in the offing, the Company will strive to push ahead to the 70,000 – 75,000 dwt panamax sized ships.

Shipping is a global business and elimination of economic disadvantages imposed by local conditions is a prerequisite for success. In this respect the Indian Government has been unable to adopt a cohesive policy to stimulate the growth of Indian shipping in a sustained manner. The national loss resulting from such failure becomes evident most strikingly during periods of recession and immediately thereafter. A well administered shipping policy can lead to a strong industry and this enables it to capitalize on the low ship prices which provide enormous returns as the markets turn upwards. These gains are shared by shipping companies and the Nation. While the companies see enhanced profits, the nation receives an invisible but tangible boost to its foreign exchange reserves and improvement in the trade balance. These are both of utmost importance to a country like India that is embarking on globalization and modernization requiring massive infusion and expenditure of foreign exchange. China took full advantage of the last shipping recession during the mid-1980s, becoming a global shipping super-power, which has contributed in no small measure in achieving their remarkable economic growth. India missed the bus on that occasion and it would be a tragedy if we were to repeat history.

Shipping is a business based on a mobile asset entrusted to a small group of technically trained personnel. Efficient operations therefore require the selection of the best seafarers, who must be trained not just in a narrow technical expertise but in a more holistic manner capable of managing the ship with less than constant supervision from the office. In furtherance of this ideal, the Company will support the efforts of the Tolani Group's initiatives in improved training of marine personnel. Also there is an emphasis on recruiting higher quality crew that will graduate to the ranks of officers and build a more cohesive team on board rather than maintain the more traditional glass ceiling for ratings.

Shipping is a cyclical business and therefore faces a relatively high cost of equity capital. However, due to the mobility of its prime asset, competitive financing is available internationally at relatively lower cost for debt capital. The reduction of market risk and the vagaries of the

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Bulk Carriers Limited

business cycle can yield rich dividends through availability of lower cost and greater amounts of equity capital. Here the national trade can play a pivotal role in supporting the growth of a national fleet by providing a base cargo that is preferentially available to national carriers. The Indian Government, through Transchart has endeavoured to accomplish this but in more recent times the intended cargo support has been weakened in the name of liberalization.

With a large pool of well trained marine personnel, experienced ship-managers plus a substantial and growing national sea-borne trade, India is well positioned to become a shipping super-power. We look forward with hope that the Indian Government can recognize the potential for our country in this industry and provide a facilitative platform of stability without economic or unnecessary regulatory impediments.

5. SUPPORT FROM PROMOTERS

The Promoters, Tolani Ltd. and Tolani Shipping Co. Ltd. continued to support the Company by extending the subordinated loans of Rs. 275 million, helping the Company to maintain the debt to equity of 1.5 : 1. Tolani Shipping Co. Ltd. provided a second statutory mortgage on its vessel M.V. Parbhu Jivesh, enabling the Company to raise borrowings of US \$ 2.25 million from Den norske Bank. For accommodating Company's office, Tolani Limited has permitted the Company to utilise an area of 1000 sq.ft. belonging to it at 10-A, Bakhtawar, Nariman Point, Mumbai - 400 021.

6. INSURANCE

The fleet of the Company has been insured against Marine and War Risk for Rs. 2086 million.

7. FOREIGN EXCHANGE EARNINGS AND OUTGO

The details of foreign exchange earnings and outgoings are as follows :

<u>Particulars</u>	(Rs. in million)	
	<u>1997-98</u>	<u>1996-97</u>
Foreign Exchange earnings/savings.	454.41	535.65
Foreign Exchange used (including Rs. 133.78 million towards loan repayments and interest; Previous year Rs. 100.37 million towards loan repayments and interest).	295.73	296.08

The other particulars in The Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 are not applicable to the Company.

8. DIRECTORATE

Mr. P.L. Nain, Mr. A.K. Srivastava and Lt. Col. (Retd.) T.J. Reejhsinghani, retire by rotation at the Seventh Annual General Meeting and being eligible have offered themselves for re-appointment.

The Directors express deep sorrow at the sad demise of Mr. D.M. Harish, who expired on 6th February, 1998. Mr. D.M. Harish, a leading Tax Counsel, was the Director on the Board since September, 1991. The Directors wish to place on record their gratitude for unstinted support extended by Mr. D.M. Harish, who was a guiding force to the Board.

The Board places on record its appreciation for the valuable guidance received from Mr. V. R. Mehta during his tenure as Nominee Director of the Industrial Credit and Investment Corporation of India Ltd. (ICICI Ltd.) from 16th January 1995 to 16th June 1998.

9. PARTICULARS OF EMPLOYEES

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, a statement of particulars of the employees has been annexed to this report.

10. AUDITORS

Chandabhoy and Jassoobhoy, Chartered Accountants, the auditors of the Company hold office until the conclusion of the Seventh Annual General Meeting and are eligible for reappointment.

11. APPRECIATION

Your Directors wish to thank the Ministry of Surface Transport (Department of Shipping), Transchart, Directorate General of Shipping, Mercantile Marine Department, Dena Bank, Corporation Bank, State Bank of India, Den norske Bank and other institutions for their consistent support to your Company. The Directors also wish to record their appreciation for the support received from shareholders and ICICI Ltd. As a shareholder and as the Company's primary lending institution, ICICI Ltd. has provided invaluable and unfailing support. The confidence reposed in your Company's management by all these parties has been a source of strength to your Directors. Your Directors have appreciated their advice and support which has always been constructively received and utilized to the fullest. They look forward to the same support in the future. Your Directors further wish to place on record their appreciation for the services rendered by our agents, brokers and last but not the least, by our floating staff and those placed ashore.

For and on behalf of the Board,

ROHET N. TOLANI

CHAIRMAN

Mumbai, Dated 16th June, 1998.

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Bulk Carriers Limited

Particulars of Employees under section 217 (2A) of the Companies Act, 1956 read with The Companies (Particulars of Employees) Rules, 1975 forming part of Director's Report for the year ended 31st March, 1998.

Name of Employee	Designation & Nature of Duties	Remuneration (in Rs.)	Qualification	Period of Service in Company From	To	Expe-rience (in Yrs.)	Age	Last Employment & Designation
I EMPLOYED THROUGHOUT THE YEAR								
R. KUMAR	MANAGER CUM SECRETARY	335,555	ICWAI, A.C.S	25/05/95	*	15	33	TOLANI SHIPPING CO. LTD. COMPANY SECRETARY
II EMPLOYED FOR PART OF THE YEAR								
A. Shore Staff								
S R VISHWANATHAN	GENERAL MANAGER	270,377	B Sc, C Eng, F MAR E (London)	01/08/97	*	40	67	TOLANI SHIPPING CO LTD. GENERAL MANAGER
S M DESHMUKH	DY GENERAL MANAGER (TECH)	218,801	MOT 1ST CLASS	01/09/97	*	20	43	TOLANI SHIPPING CO LTD. DY GENERAL MANAGER
B. Floating Staff								
J V ISRANI	MASTER	202,551	MASTER FG	10/12/97	24/01/98	11	44	ACCORD SHIP MANAGEMENT
H V KARUNAKARA	ELECTRICAL OFFICER	648,647	DIP.ELEC.ENGR.	07/03/97	01/01/98	28	53	—
B R MATTA	FITTER	43,009	EX.INS.	01/07/97	19/01/98	27	42	—
H B AGHICHA	MASTER	1,253,025	MASTER FG	26/02/97	10/12/97	33	39	TOLANI LTD - 2ND OFFICER
K G SAJNANI	MASTER	725,086	MASTER FG	17/12/96	13/07/97	20	40	—
O G VERGHESE	THIRD ENGINEER	536,706	MOT II PA	07/03/97	04/09/97	36	45	INDIAN NAVY
N SHIVAPRASAD	FITTER	142,314	N A	25/07/96	01/07/97	18	43	—
S S SADHU	THIRD ENGINEER	596,542	MOT II PART A	21/02/97	16/07/97	39	53	SHIPPING CORPORATION OF INDIA
U K PUNDIR	ELECTRICAL OFFICER	477,859	CERT ELEC ENGR	20/09/97	27/03/98	37	46	NAVAL DOCK YARD - SR CHIEF ENGINEER
O P SANGWAN	THIRD ENGINEER	634,970	MOT II PART A	14/07/97	*	43	50	INDIAN NAVY 5TH ENGINEER
J J RAPOSE	SECOND OFFICER	554,403	2ND MATE FG	08/08/97	30/03/98	6	35	—
DEEPAK SACHDEV	MASTER	153,146	MASTER FG	03/04/97	18/11/97	14	33	—
L B D'SOUZA	MASTER	1,223,354	MASTER FG	09/11/96	11/12/97	24	38	TOLANI LTD CHIEF OFFICER
A K MISHRA	RADIO OFFICER	604,821	COP-II	12/05/97	16/11/97	22	43	SHIPPING CORPORATION OF INDIA - RADIO OFFICER
V J X FERNANDES	CATERING OFFICER	283,648	N A	18/08/95	28/06/97	13	60	SHIPPING CORPORATION OF INDIA
M S PARADKAR	MASTER	1,107,581	MASTER FG	07/03/97	16/11/97	19	35	TOLANI LTD.
A S M MULLA	FITTER	304,572	ITI	01/03/97	25/11/97	13	48	—
PANKAJ GUPTA	CHIEF OFFICER	605,320	MASTER FG	10/03/97	13/10/97	9	33	—
V B KHANNA	CHIEF ENGINEER	385,281	MOT 1ST CLASS	03/02/97	30/06/97	18	37	DEMPO STEAMSHIPS LTD 5TH ENGR.
K T THOMAS	FITTER	319,967	N A	25/09/97	27/03/98	12	48	ALLANA SONS PVT. LTD.
J M JOHN	CHIEF ENGINEER	1,055,655	MOT 1ST CLASS	21/02/97	11/12/97	10	33	—
J D'SOUZA	CATERING OFFICER	338,692	S S C	23/06/97	*	7	64	SEAMENS EMPLOYMENT OFFICE
P S MURLIDHARAN	CHIEF ENGINEER	639,379	MOT 1ST CLASS	25/09/97	27/03/98	10	33	—
K V SUBIAH	CATERING OFFICER	278,182	MARINE CATRG	26/02/97	23/06/97	19	37	INDO OCEANIC SHIPPING CO. LTD.
A M THOMAS	ELECTRICAL OFFICER	395,524	DIP ELEC ENGR	08/10/97	*	13	33	SCINDIA WORKSHOP LTD. TR. ENGR.
G S CHHABRA	SECOND OFFICER	796,266	2ND MATE FG	23/04/97	*	1	27	—
JOHN PINTO	RADIO OFFICER	957,014	COP 2ND CLASS	22/05/97	31/03/98	3	32	KILLICK NIXON
X M FELIX	FITTER	86,043	N A	25/07/96	12/05/97	9	50	—
DEEPAK POIREKAR	FITTER	303,411	ITI	03/07/96	21/04/97	10	41	NERVAN SHIPPING
SUBIR SENGUPTA.	THIRD ENGINEER	580,659	MOT CLASS IV	07/07/97	31/12/97			
D S JOLLY	CHIEF OFFICER	414,781	FIRST MATE FG	26/06/97	28/01/98	10	43	SHIPPING CORPN. OF INDIA
S K PATIL	FITTER	89,761	N A	11/11/97	*	5	28	—
P L JOSEPH	FITTER	223,398	N A	07/03/97	08/07/97	5	53	—
MAGNO GRACIAS	CHIEF COOK	259,289	COOKERY CERT	15/01/98	22/03/98			
V K SRIVASTAVA	CHIEF OFFICER	63,267	1ST MATE FG	29/03/97	25/09/97	10	61	COCHIN SHIPPING CO
AJAY KUMAR PALIWAL	MASTER	337,697	MASTER FG	04/10/96	31/05/97	9	43	SEAMENS EMPLOYMENT OFFICE
PARESH S PATIL	RADIO OFFICER	616,504	COP 2ND CLASS	22/07/97	13/02/98			
SEBASTIAN FERNANDES	RADIO OFFICER	508,301	COP 2ND CLASS	02/02/97	21/04/97	5	27	—
A C RANADE	SECOND OFFICER	544,182	2ND MATE FG	07/06/97	*			
S S PHADKE	CHIEF OFFICER	560,280	2ND MATE FG	23/01/98	*	1	37	RATNAKAR SHIPPING CO. LTD.
				24/02/97	25/11/97	8	37	—
				30/03/98	*			
				07/09/96	24/05/97	8	31	—
				13/11/97	*			
				21/03/97	12/11/97	5	30	—
				03/05/97	13/11/97	5	28	—
				02/02/98	22/03/98			