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30th annual report
2000 - 2001



VARUN SHIPPING COMPANY LIMITED

Growth. Globalisation. Ground Reality.

Varun Shipping - one of India's major shipping companies - is on course towards new world economies. Having anchored its strong position in the industry, Varun has built on its present capabilities. Resulting in further growth, greater stakeholder value and an impressive global presence. Also, Varun's diversified fleet, high profitability and the visionary management team have fuelled the company's journey towards this year's record performance.

Varun Shipping - a company that has clearly outlined its future strategy. And in keeping with its pioneering spirit, it has successfully placed a Rights Issue.

The course for Varun has been mapped.

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Towards defined goals.

Towards new horizons.

....to trade globally

....supported by an impressive diversified fleet

....fulfilling transportation requirements worldwide

....facilitating trade and development

Notice

NOTICE is hereby given that the Thirtieth Annual General Meeting of the Company will be held at Patkar Hall, SNDT Women's University, 1, Nathibai Thackersey Marg, New Marine Lines, Mumbai 400 020, on Wednesday, 18th July, 2001 at 11.00 a.m. to transact the following business :

Ordinary Business :

1. To consider, approve and adopt the audited Balance Sheet as at 31st March, 2001, Profit and Loss Account for the year ended on that date and the Report of the Directors and Auditors thereon.
2. To declare dividend on preference and equity shares.
3. To appoint a Director in place of Mr. Dilip D. Khatau who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Dr. A. K. Bhattacharya who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

Special Business :

6. To consider and if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution :-
 "RESOLVED THAT in supersession of the resolution passed at the 25th Annual General Meeting held on 25th September, 1996 and pursuant to the provisions of Section 293(1)(e) and other applicable provisions, if any, of the Companies Act, 1956, ("the Act") the Board of Directors of the Company be and is hereby authorised to contribute to charitable and other funds not directly relating to the business of the Company or the welfare of its employees, any amounts, the aggregate of which in any financial year will not exceed Rs. 30,00,000 (Rupees thirty lakhs only) or five per cent of its average net profits during the three financial years immediately preceding as determined in accordance with the provisions of Sections 349 and 350 of the Act, whichever is greater.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to do all such acts, deeds, matters and things as may be considered necessary, appropriate or desirable to give effect to this resolution."

7. To consider and if thought fit, to pass, with or without modification, the following resolution as a Special Resolution :-
 "RESOLVED THAT pursuant to the provisions of Section 31 and all other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be altered in the following manner :

Insert the following heading and Article as Article 60A after Article 60 of the Articles of Association :

NOMINATION :

60A - Notwithstanding anything to the contrary contained in these Articles, every holder of shares or debentures of the Company may, at any time, nominate, in the manner prescribed in the applicable Rules/Regulations framed by the Government or any other concerned authorities, a person to whom his/her shares or debentures shall vest in the event of his/her death and the provisions of Sections 109A and 109B of the Companies Act, 1956 shall apply in respect of such nomination.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to do all such acts, deeds, matters and things as may be considered necessary, appropriate or desirable to give effect to this resolution."

8. To consider and if thought fit, to pass, with or without modification, the following resolution as a Special Resolution :
 "RESOLVED THAT pursuant to Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) and subject to the provisions of the Memorandum and Articles of Association of the Company, the Listing Agreements entered into by the Company with the Stock Exchanges and Guidelines for preferential issues issued by the Securities and Exchange Board of India (SEBI), under Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 and other applicable Regulations and/or Guidelines, if any, of SEBI, and subject to the requisite approvals or consents, if any, of the Central Government, Reserve Bank of India, Banks and Financial Institutions and any other appropriate authorities under any other applicable laws, rules and regulations for the time being and from time to time in force and further subject to such terms, conditions, stipulations and modifications as may be prescribed, imposed or suggested by any of them while granting such approvals which the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any Committee thereof for the time being and from time to time, to which all or any of the powers hereby conferred on the Board by this Resolution may have been delegated) be and is hereby authorised to accept and subject to such conditions and modifications as may be considered appropriate by the Board of the Company, consent of the Company be and is hereby accorded to the Board (with powers to delegate all or any of the powers hereby conferred to any Committee thereof) to create, issue/offer and allot at its sole discretion upto 36,26,159 Optionally Fully Convertible Warrants (OFCWs) of Rs. 13.70 each with currency not exceeding 18 months from the date of issue/allotment of the said OFCWs or such currency as may be permitted under the applicable SEBI Guidelines as amended from time to time, each such OFCW entitling the holder thereof to exercise its option to apply for and be issued and allotted one fully paid Equity Share of the face value of Rs.10 each in the Company at any time upto a period not exceeding eighteen months from the date of issue and allotment of such OFCW or such further period as may be permitted under the applicable SEBI Guidelines as amended from time to time, which option may be exercised in one or more tranches, on preferential allotment basis, to Concord Holdings Private Limited, which is a promoter group company, of an amount not exceeding Rs.4,96,78,378 (Rupees Four crores ninety six lacs seventy eight thousand



three hundred seventy eight only) in the aggregate and on such other terms and conditions as the Board may, from time to time, determine in one or more series, whether on the same terms and conditions or with varying terms and conditions and whether at any one time or from time to time, as may be deemed appropriate by the Board and to finalise all matters incidental thereto.

RESOLVED FURTHER THAT the said OFCWs and the Equity Shares to be issued and allotted upon conversion thereof on the exercise of the said option by the holder thereof, shall be subject to lock-in of a total period of three years from the date of allotment of the OFCWs or such reduced period as may be permitted under the applicable SEBI Guidelines as amended from time to time, but may be transferred amongst promoter/promoter groups, subject to continuation of lock-in in the hands of transferees for the remaining period and compliance of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, if applicable.

RESOLVED FURTHER THAT the Equity Shares of the face value of Rs. 10 each to be issued and allotted upon conversion of the said OFCWs shall be issued at a price of Rs. 13.70 per share (i.e. Rs. 10 on capital account and Rs. 3.70 on premium account) which price is calculated in accordance with the Guidelines for Preferential Issues issued by SEBI under Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000, with 18th June, 2001 being the relevant date i.e. the date thirty days prior to the date of Annual General Meeting of the Company where the proposed issue is to be considered, on the basis of which price of the resultant Equity Shares is calculated.

RESOLVED FURTHER THAT an amount of Rs. 1.37 per OFCW shall be payable on the date of allotment thereof, which shall be adjusted against the price payable subsequently for acquiring the Equity Shares by exercising the option for conversion with the balance amount being payable at the time of conversion, and the said amount be forfeited, in case the option to acquire Equity Shares is not exercised.

RESOLVED FURTHER THAT in the event of the Board deciding at any time and from time to time to issue and allot, either prior to the issue of OFCWs as aforesaid or prior to the allotment of Equity Shares upon the exercise of option for conversion of the said OFCWs, any Equity Shares to the Members of the Company, either on the basis of Rights Issue, Bonus Issue and/or any other financial instrument, which could be converted into or exchanged with equity shares at a later date, Convertible Debentures or other securities resulting in increase in the issued capital of the Company by way of Rights Issue, the Board shall reserve and set aside an adequate number of Equity Shares/Convertible Debentures/Securities/financial instruments to be offered, issued and allotted to the holders of the OFCWs herein offered and further that in the event of the issue of Bonus Shares, the Board be and is hereby authorised to capitalise and transfer such sum out of the amount standing to the credit of the Share Premium account and/or General Reserve/Free Reserves as may be determined to be required to be applied for allotment of new equity shares of Rs. 10 each as fully paid Bonus Shares to the holders of the OFCWs, which on a date hereafter to be fixed by the Board shall be the holder of Equity Shares of Rs. 10 each of the Company.

RESOLVED FURTHER THAT for the purpose of creating, issuing/offering and allotting the OFCWs as aforesaid and/or Equity Shares and the like as aforesaid, the Board be and is hereby authorised to do and perform all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary, desirable or appropriate to give effect to this resolution in all respects and in particular, to settle any questions, difficulties or doubts that may arise with regard to the offering, issuing, allotting and utilising the issue proceeds of the OFCWs as it may, in its absolute discretion, deem fit and proper."

By Order of the Board of Directors

MANALI PAREKH
Company Secretary

Mumbai, June 19, 2001

NOTES :

- (a) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.
The instrument appointing a proxy and the Power of Attorney, if any, under which it is signed in order to be effective should be deposited at the Registered Office of the Company not less than 48 hours before the time of holding the aforesaid meeting as provided by Article 120 of the Articles of Association of the Company.
- (b) The Explanatory Statement as required by Section 173(2) of the Companies Act, 1956 in respect of business under Item Nos. 6 to 8 set out above, is annexed hereto.
- (c) The Register of Members and Share Transfer Books will remain closed from Friday, the July 6, 2001 to Wednesday, the July 18, 2001 (both days inclusive).
- (d) Members are requested to notify the Registrars and Transfer Agents of the Company, M/s. MCS Limited, at Sri Venkatesh Bhavan, Plot No. 27, Road No. 11, MIDC Area, Andheri (East), Mumbai - 400 093, or the Company at its Registered Office of any change in addresses quoting their Folio Number/s. In respect of shares held in electronic form, instructions regarding change in address be furnished to their Depository Participant.
- (e) Dividend, if any, declared at the meeting will be payable to those members whose names appear in the Company's Register of Members on July 18, 2001. In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by National Securities Depository Limited and Central Depository Services (India) Limited for this purpose.



- (f) (i) With a view to providing protection against fraudulent encashment of dividend warrants, the members were requested in the past to provide their bank account numbers, names of the banks and addresses of the branches to enable the Company to incorporate the said details in the dividend warrants. Those members who have not yet provided such information are again requested to provide these details quoting their folio numbers to reach the Company latest by July 6, 2001 to enable the Company to incorporate this information in the dividend warrants for the final dividend. Members will appreciate that the Company will not be responsible for any loss arising out of such fraudulent encashment of dividend warrants.
- (ii) Members holding shares in electronic form may please note that their bank details as furnished by the respective Depositories to the Company will be printed on the dividend warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such members for change/deletion in such bank details. Such members may therefore give instructions regarding bank accounts to their Depository Participants only.
- (g) Consequent upon amendment in Section 205A of the Companies Act, 1956 and introduction of Section 205C in the Companies Act, 1956, the amount of dividend remaining unclaimed for a period of seven years shall be transferred to the Investor Education and Protection Fund.
- (h) The equity shares of the Company are now being traded in compulsory demat mode. IDBI Bank Limited is offering a special scheme to the shareholders of the Company for converting their physical shareholding into demat mode. The said scheme, which is valid until 30th September, 2001, offers benefits like no annual charge for maintenance of demat account for the first year, no demat charges and no demat mailing charges for company's shares. The shareholders who may be interested in the scheme may contact any of the branches of IDBI Bank Limited. Please note that it is not mandatory to open demat account with IDBI Bank Limited and the shareholders are free to open demat account with any other depository participant of their choice nor is it mandatory to convert the physical shareholding into demat holding. The transaction under the above scheme will be directly between the IDBI Bank Limited and the Shareholder and the Company does not guarantee the quality or accuracy of the services and disclaims all costs, liabilities, losses and damages, if any, arising out of the demat process and the special scheme.

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.

Item No. 6

At the 25th Annual General Meeting held on 25th September, 1996, the shareholders had authorised the Board of Directors to contribute to charitable and other funds not directly relating to the business of the Company or the welfare of its employees, any amount the aggregate of which, in any financial year will not exceed Rs.10 lakhs. In view of increasing demands for donations for deserving causes, shareholders' approval is sought for increasing the limit to Rs. 30 lakhs or five per cent of its average net profits during the three financial years immediately preceding as determined in accordance with the provisions of Sections 349 and 350 of the Companies Act, 1956, whichever is greater.

The Directors therefore recommend the passing of the Ordinary Resolution as set out in Item No. 6 of the accompanying Notice.

None of the Directors may be considered as concerned or interested in this Resolution.

Item No. 7

As per the provisions of Sections 109A and 109B of the Companies Act, 1956 as inserted by the Companies (Amendment) Act, 1999 every holder of shares or debentures of the Company may at any time, nominate in the manner prescribed in the applicable Rules/Regulations framed by the Government or any other concerned authorities, a person to whom his/her shares or debentures of the Company shall vest in the event of his/her death. It is, therefore, proposed to insert a new Article 60A in the Articles of Association of the Company to bring them in line with the said provisions.

The Directors therefore recommend the passing of the Special Resolution as set out in Item No. 7 of the accompanying Notice.

None of the Directors may be considered as concerned or interested in this Resolution.

Item No.8

In order to meet additional financial requirements for the Company's expansion plans and working capital, the Company proposes to issue 36,26,159 Optionally Fully Convertible Warrants (OFCWs) of Rs. 13.70 each aggregating to Rs. 4,96,78,378 on a preferential basis to Concord Holdings Private Limited, which is a company of the promoter group. The holding of the OFCWs by the promoter group company shall enable the Company to have expeditious access to the additional funds that may be required to meet any contingencies which may arise in the implementation of the expansion projects, which the Company proposes to undertake out of the proceeds of the recently concluded Rights Issue and its internal accruals.

The Equity Shares to be allotted upon exercise of the option for conversion attached to OFCWs will be of the face value of Rs.10 each and will be issued at a premium of Rs. 3.70 per share, which price is arrived at in accordance with the Guidelines for preferential issues issued by Securities and Exchange Board of India (SEBI), under Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000.



VARUN SHIPPING COMPANY LIMITED

An amount of Rs. 1.37 per OFCW equivalent to 10 per cent of the price fixed for conversion thereof in accordance with the Guidelines for preferential issues issued by SEBI, will be payable by Concord Holdings Private Limited on the date of allotment. This amount will be adjusted against the price payable subsequently for acquiring the Equity Shares upon exercise of the option for converting the said OFCWs into Equity Shares and in case the option to acquire Equity Shares is not exercised, the said amount will be forfeited.

The shareholding pattern before and after the above offer and in case the option to convert the said OFCWs into Equity Shares is exercised by the holders of OFCWs, shall be as under :

| Category | Shareholding Pattern before and after the issue of OFCWs | | Shareholding Pattern post conversion of OFCWs to be allotted to Concord Holdings Pvt. Ltd. | |
|---------------------------|--|------------|--|------------|
| | No. of Equity Shares | Percentage | No. of Equity Shares | Percentage |
| 1. Promoter Group | 13254562 | 36.55 | 16880721 | 42.32 |
| 2. Directors & Relatives | 366492 | 1.01 | 366492 | 0.92 |
| 3. Financial Institutions | 6388750 | 17.62 | 6388750 | 16.02 |
| 4. Insurance Companies | 226980 | 0.63 | 226980 | 0.57 |
| 5. Nationalised Banks | 10400 | 0.03 | 10400 | 0.03 |
| 6. Mutual Funds | 8480 | 0.02 | 8480 | 0.02 |
| 7. Non-Residents | 587375 | 1.62 | 587375 | 1.47 |
| 8. Residents | 15418552 | 42.52 | 15418552 | 38.65 |
| Total | 36261591 | 100.00 | 39887750 | 100.00 |

The aforementioned shareholding pattern may change from time to time depending upon the transfer of shares by the existing shareholders and will also change on the conversion of 14 per cent Unsecured Fully Convertible Debentures issued by the Company into Equity Shares, on 11th June, 2002.

None of the promoters/promoter group companies other than Concord Holdings Private Limited as mentioned above and none of the directors/key management persons would be subscribing to the preferential issue of OFCWs authorised by this resolution.

There will be no change in the Board of Directors nor will there be any change in the control over the Company, consequent to the issue of OFCWs, as aforesaid. The voting rights would change according to the change in the shareholding pattern of the Company, as indicated above.

The percentage of post preferential issue capital that may be held by Concord Holdings Private Limited will be 10.89 per cent and after the option to convert the OFCWs into Equity Shares is exercised, will be 18.99 per cent. The percentage of capital held by Concord Holdings Private Limited will change in case the option to convert the OFCWs into equity shares is exercised after the 14 per cent Unsecured Fully Convertible Debentures issued by the Company on rights basis are converted into Equity Shares. The percentages mentioned above may also change depending upon the number of shares which may be acquired/sold by Concord Holdings Private Limited.

The said OFCWs shall be issued and allotted within a period of three months from the date of passing the Special Resolution stated at Item No. 8 or such other extended period as may be permitted under the applicable SEBI Guidelines as amended from time to time.

The said OFCWs and the Equity Shares arising on conversion thereof to be allotted to Concord Holdings Private Limited on a preferential basis shall be subject to a total lock-in period of three years from the date of their allotment or such reduced period as may be permitted under the applicable SEBI Guidelines, as amended from time to time.

A copy of the Auditors' Certificate certifying that the issue of OFCWs is being made in accordance with the requirements contained in the Guidelines for preferential issues under Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 will be available for inspection by the members of the Company at its Registered Office between 11.00 a.m. and 1.00 p.m. on any working day of the Company and will also be laid before the Annual General Meeting.

The Directors therefore recommend the passing of the Special Resolution as set out in item No. 8 of the accompanying notice.

None of the Directors except Mr. Dilip D. Khatau, Mr. Yudhishtir D. Khatau and Mrs. Rina D. Khatau, may be considered as concerned or interested in this Resolution.

By Order of the Board of Directors

MANALI PAREKH

Company Secretary

Mumbai, June 19, 2001



Varun Shipping Company Limited

BOARD OF DIRECTORS

| | |
|--------------------------|--------------------------------------|
| Mr. Dilip D. Khatau | Chairman |
| Mr. Arun Mehta | Vice Chairman & Managing Director |
| Mr. Yudhishtir D. Khatau | Managing Director |
| Mrs. Rina D. Khatau | |
| Mr. R.K. Rath | Nominee of ICICI Ltd. |
| Mr. C.M. Maniar | |
| Mr. Praveen Singh | |
| Dr. A.K. Bhattacharya | |
| Mr. Bansi S. Mehta | |

COMPANY SECRETARY

Ms. Manali Parekh

BANKERS

State Bank of India
Bank of Baroda

AUDITORS

Messrs Sorab S. Engineer & Co.,
Chartered Accountants,
Ismail Building,
Dr. D. Naoroji Road,
Mumbai 400 001.

REGISTERED OFFICE

Laxmi Building,
6, Shoorji Vallabhdas Marg,
Ballard Estate,
Mumbai 400 001.

REGISTRARS & SHARE TRANSFER AGENTS

MCS Ltd.,
Sri Venkatesh Bhavan,
Plot No. 27, Road No. 11, MIDC Area,
Andheri (East),
Mumbai 400 093.



VARUN SHIPPING COMPANY LIMITED

Corporate Landmarks

1973

The Company commenced operations with the acquisition of one product tanker.

1983-84

The Company's first diversification programme-entered into support services for oil exploration with the acquisition of Anchor Handling and Towing Supply Vessels (AHTS)

1986

The Company's shares were listed on the Stock Exchanges and a Public Issue of Rs. 17.50 million raising Company's equity capital to Rs. 33.50 million.

1988

Public Issue of Rs. 55.22 million raising the Company's equity capital to Rs.88.71 million.

1991

Rights cum Public Issue of fully convertible debentures, which on conversion increased the Company's equity to Rs. 349.33 million.

1993

Second diversification programme-acquisition of two modern geared bulk carriers for dry cargo movement.

1995

The Company received ISO 9002 certification from DNV for shore Based Ship Management Services.



1995

The Company promoted a wholly owned subsidiary company in Singapore,
VSC International Pte Ltd.

1996

The Company acquired its first LPG carrier making it the first private sector Indian company to commercially operate LPG carriers and followed it up with acquisition of another LPG carrier.

1997

The Company's commitment to maritime safety was recognised by The Commandant of the United States Coast Guard by awarding for the seventh time the AMVER Certificate of Merit to one of the Company's vessels.

1998

The Company has obtained the Document of Compliance from the Director General of Shipping and the applicable ships have been issued their respective Safety Management Certificates.

1998

The Company acquired its third LPG carrier, as a result the Company now owns the largest LPG fleet in the country i.e. 55% of the total commercial LPG tonnage operating under Indian flag.

1999

Set up Varun Maritime school which has now received ISO 9002 certification.

2001

Rights Issue of fully convertible debentures aggregating to Rs. 362.61 million which on conversion in 2002 will increase the company's equity to Rs. 725.23 million.



VARUN SHIPPING COMPANY LIMITED

Directors' Report

Your Directors have pleasure in presenting the Thirtieth Annual Report together with the audited statements of account of the Company for the year ended 31st March, 2001.

(Figures in million of Rupees)

| | Current Year ended 31.03.2001 | Previous Year ended 31.03.2000 |
|---|-------------------------------------|--------------------------------------|
| PROFIT BEFORE TAX | 177.03 | 100.72 |
| Less : Provision for Taxation | 14.90 | 11.34 |
| PROFIT AFTER TAX | 162.13 | 89.38 |
| Less : Transferred to Reserve under section 33AC of the Income-tax Act, 1961 | 85.00 | — |
| Add : Surplus brought forward from previous year | 87.42 | 80.89 |
| Add : Debenture Redemption Reserve written back | — | 42.80 |
| Add : General Reserve written back | — | 140.00 |
| Amount available for appropriation | 164.55 | 353.07 |

Out of the amount of Rs.164.55 million available for appropriation, your Directors propose to transfer an amount of Rs. 25 million to Capital Redemption Reserve, Rs. 20 million to General Reserve and Rs. 7.60 million to Debenture Redemption Reserve. Considering the performance of your Company, the Directors recommend an increased payment of dividend of Rs.1.50 per equity share for the year ended 31st March, 2001 which will absorb Rs. 54.39 million and Rs. 5.55 million towards dividend tax thereon. The Directors also recommend dividend on the redeemable preference share capital of Rs.136.67 million amounting to Rs.18.23 million which has been paid as interim dividend during the year and on which dividend tax of Rs.4.12 million has also been paid. Preference shares aggregating to Rs.16.67 million were redeemed during the year. After the above appropriations, your Directors propose to carry forward a balance of Rs. 29.66 million in the Profit and Loss account.

Income from operations has improved from Rs.1838.84 million to Rs. 2113.93 million for the year ended 31st March, 2001. Net profit after tax has improved by 81.39 per cent from Rs.89.38 million in the previous year to Rs.162.13 million for the year ended 31st March, 2001. The marked improvement in profitability is primarily due to significant increase in freight rates in the product tanker and LPG segments. Bulk carrier freight rates have also shown an upward trend during the year under review. With the recovery of South East Asian economy, demand for shipping has increased sharply giving an impetus to freight rates in all sectors of shipping. After the "Erica" accident, there has been an overwhelming focus on "safe" ship with charterers and classification societies insisting on improved quality tonnage. Shipowners with high quality vessels are therefore witnessing

DISTRIBUTION OF REVENUE (Rs. 2118 Million)

