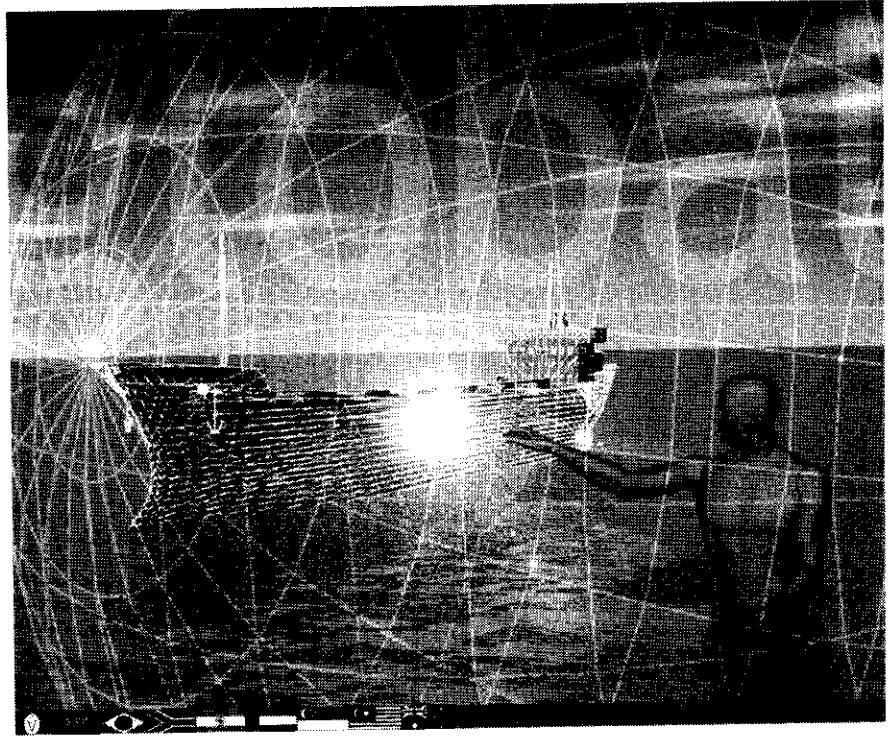


# VARUN



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31st annual report  
2001-2002

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***VARUN SHIPPING COMPANY LIMITED***

## Varun - Facilitating Global Trade and Development

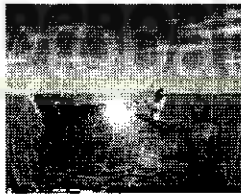
Shipping is a truly international industry and Varun endeavours to facilitate global trade and development by positioning itself as a high quality, focused company in this dynamic and challenging environment.

Driven by an unrelenting focus on international markets, Varun capitalizes on emerging business opportunities. The company is moving full steam ahead.

Fuelling this growth is the company's ability to operate its diversified fleet at par with the best.

Fostering an environment of international quality business practices, empowering its people and exploiting its technical know-how to the maximum enables Varun to consistently generate greater value for the economy at large, the company and its customers.

Artwork on cover by  
-Saaket Sethi, Architect



"A picture is a story.  
This picture is the story of man, God of sea and the  
power of maritime transport.  
This is the story of Varun Shipping.

Blue skies and clear water represent a commitment to  
safety.

Flags and words reiterate a global corporate profile.  
Computer generated models demonstrate the use of  
latest technology. Value creation is echoed in the nexus  
of man, nature and that which is man-made.

The graphic treatment is intended to reflect the  
excitement of the 21st century; and an even more  
positive outlook for the future of Varun Shipping."

*Saaket Sethi*

# 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. C. M. Maniar	
Mr. Praveen Singh	
Dr. A. K. Bhattacharya	
Mr. Bansi S. Mehta	
Mrs. Nitya Kaiyani	Nominee of ICICI Bank Ltd.

## 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 & 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.

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## 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.

# 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 Thirty-first Annual Report together with the audited statements of account of the Company for the year ended 31st March, 2002.

(Figures in millions of Rupees)			
		Current Year ended 31.03.2002	Previous Year ended 31.03.2001
<b>PROFIT BEFORE TAX</b>		<b>151.67</b>	<b>177.03</b>
Less: Provision for Taxation			
Current Tax	Rs. 12.32	13.22	14.90
Deferred Tax	Rs. 0.90		
<b>PROFIT AFTER TAX</b>		<b>138.45</b>	<b>162.13</b>
Less: Transferred to Reserve under Section 33AC of the Income-tax Act, 1961		95.00	85.00
Add: Surplus brought forward from previous year		29.66	87.42
Amount available for appropriation		<b>73.11</b>	<b>164.55</b>

Out of the amount of Rs.73.11 million available for appropriation, your Directors propose to transfer an amount of Rs.3.50 million to General Reserve and Rs.7.60 million to Debenture Redemption Reserve. The Directors recommend payment of dividend of Rs.1.20 per equity share for the year ended 31st March, 2002 which will absorb Rs.43.51 million. The Directors also confirm dividend payment of Rs.15.90 million on redeemable preference share capital of Rs.120 million, which dividend has already been paid out as interim dividend before 31st March, 2002 and on which dividend tax of Rs.1.62 million has also been paid. After the above appropriations, your Directors propose to carry forward a balance of Rs.0.96 million in the Profit and Loss Account.

Income from operations was Rs.2127.50 million compared to Rs.2113.92 million for the year ended 31st March, 2002. Net profit after tax came to Rs.138.45 million for the year ended 31st March, 2002 as against Rs.162.13 million during the preceding year.

Turning to the Indian fiscal regime, as it applies to shipping, the industry's demand for introduction of tonnage tax system, in line with global practice, as an alternate to the existing income-tax system has not been considered favourably by the Government. However, the existing exemption under Section 33AC of the Income-tax Act, 1961 has been enhanced whereby the amounts lying to the credit of general reserve and share premium accounts shall also be included in computing the maximum benefit of exemption available under this Section. Taxable profits transferred to the 33AC reserve are exempt from Minimum Alternate Tax (MAT).

## Management Discussion and Analysis :

### (a) Industry Structure and Development :

As on 1st January, 2002, the primary constituents of the Indian fleet in terms of Gross Registered Tonnage (GRT) were crude and product tankers and bulk carriers. The industry also owns and operates various other types of vessels such as LPG carriers, acid carriers, container ships, passenger vessels and offshore support and supply vessels. The principal commodities handled at major Indian ports of India were POL products, thermal and coking coal, iron ore and fertilizers, containers and other cargoes.

The size of the Indian industry is generally measured in terms of its GRT. The ninth plan target stands at 9 million GRT and as on 1st January, 2002, the Indian registered tonnage stood at 6.95 million GRT. The average age profile of the Indian fleet is approximately 17 years. For the year 2000, India ranked 18th in the top 20 maritime countries of the world based on total GRT registered under the flag.

## Report DISTRIBUTION OF REVENUE (Rs. 2137 Million)



**(b) Opportunities and Threats :**

Shipping is a truly international industry where competent shipowners have the opportunity to participate in global trade and development. The Indian shipping industry has a tremendous opportunity in positioning itself as one of the leading ship owning and operating nations in Asia. It is recognized universally that Indian sea-farers are amongst the most competent.

The Indian shipping industry has the existing benefit of a strong home trade. The total overseas sea borne trade of India has grown from 109.3 million tonnes in 1990-91 to 224.6 million tonnes in 1999-2000. Unfortunately, the share of this trade carried by Indian ships has declined from 35.5% to 31.5% in the same period. It is evident from these statistics that Indian shipping has a tremendous opportunity in terms of transport of national cargo. In 1999-2000, Indian shipping transported only 55% of the total POL/liquid cargo volume and 14.4% of dry bulk volume. As development reaches the far extremes of the Indian sub continent, the use and demand of LPG is bound to increase. This factor will drive the transportation requirement of LPG in the coming years. It is interesting to note that a growth of world sea borne trade of 5625 million tonnes for the year 2002 as compared to 5492 million tonnes for 2001 has been projected.

The primary challenge of Indian shipping companies remains to replace the ageing tonnage. Over 50% of India's crude oil tanker fleet is aged 15 years and above. Similarly over 75% of India's product tanker and bulk carrier fleets are aged 15 years and above. As on 1st January, 2002 over one-third of the Indian overseas fleet across all categories was aged 20 years and above. It is well-known that capital will only flow into the most competitive and investor-friendly economic regimes. The Indian government needs to recognise that globally shipping has developed in tax friendly jurisdictions, commonly termed as "flags of convenience". 87.8% of the world shipping enjoys negligible or zero tax liabilities by being based in tax friendly jurisdictions. Indian shipping companies are still liable to pay corporate tax and/or minimum alternate tax. In order to attract equity and financial capital to the shipping industry, the industry requires to be internationally competitive. The industry currently faces higher levels of crew cost due to the requirement of grossing up salaries to compensate for taxation of seafarers. Indian shipping companies also pay higher levels of interest compared to foreign counterparts due to the limitations of the country rating as also on account of withholding taxes which have been recently imposed on external commercial borrowings. These fiscal impediments act as threats to the growth and prosperity of an otherwise internationally competitive industry. The management of the Company along with Indian National Shipowners' Association continues its endeavour to persuade the Government to alter its existing policies so as to align the Indian shipping industry with the global fiscal environment.

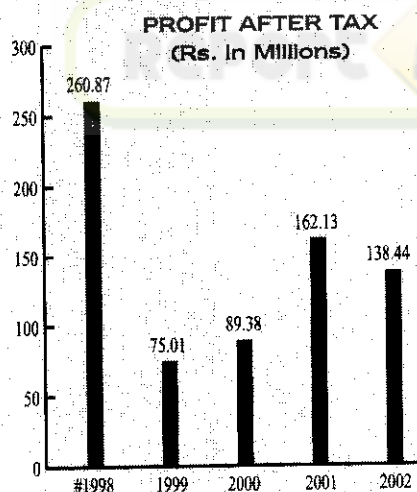
**(c) Segment-wise Performance :**

The Company is engaged only in shipping business and there are no separate reportable segments.

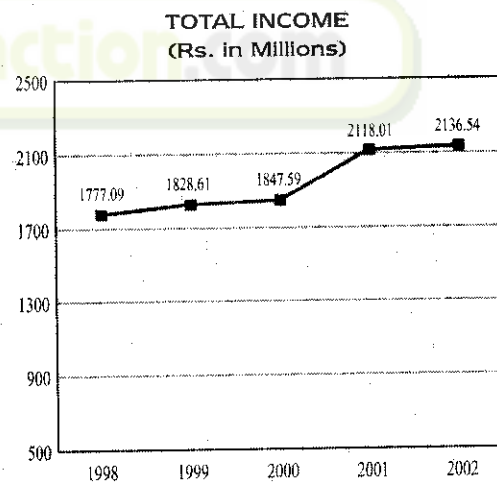
The Indian shipping industry has a current surplus of petroleum product tankers which continue to compete for the business on the coastal trade. As the international freight rates for petroleum product tankers fell during the second half of the year under review and the competition from domestic operators in this segment increased, the yield and profitability from the ships declined. The Company has initiated several steps to improve the revenues from this market by upgrading its tankers to meet global standards of operation.

The Company continues to dominate the Indian LPG market by owning approximately 55 percent of the total tonnage on the Indian registry. In the recent past the government has announced an increase in LPG prices, which has led to uncertainty in the demand of LPG causing a slowdown in imports of this product. Increased refining capacity in the country has reduced the total amount of LPG imported into the country leading to a drop in the import trade. This has been partly offset by increased coastal movements from refineries in the west to discharge ports in the east. The management is confident that these are temporary aberrations and the overall demand of LPG in the country will increase over time.

The Company has employed its 2 handymax bulk carriers internationally through the Klaveness bulk handling pool. As pool earnings are distributed to the shipowners based on vessel points, participating in the pool has permitted the



# Including profit on sale of ships



**VARUN SHIPPING COMPANY LIMITED**



Company to hedge the performance of individual vessels. The Company's anchor handling and supply vessels are currently employed on long-term time charters to BG Exploration & Production India Ltd.

**(d) Outlook :**

The outlook for Indian shipping is closely linked with the international shipping market. Both government and private sector charterers use international freight rates as the benchmark while determining the freight rates offered to Indian shipping.

On the wet side, the demand for crude oil and petroleum product tankers has worsened due to the overall economic downturn. During the second half of 2001 freight rates of crude oil tankers fell primarily due to a drop in oil demand and thereafter a reduction in OPEC output. In 2002 large net additions to fleet have compounded the over supply problem. Recovery of the shipping market depends primarily on the recovery in global economic conditions. The freight trade balance will also hinge on the new building order book. As shipyards become hungry for business and offer low rates for new buildings, owners are tempted to place orders at low rates. A number of ships will also be scrapped following the IMO guidelines of phasing out single hull crude oil and product tankers. Although predictions are always difficult, it appears that the current lull in freight rates is likely to continue in the near future.

The bulk carrier trade is primarily driven by the world movement of coal, grain and iron ore. As the demand for steel has dropped in most economies the consequent demand for coal and iron ore shipment has also worsened leading to recessed bulk carrier freight rates. An upturn in this sector would depend on an enhanced demand of base commodities.

The LPG market has proven to be less volatile than the tanker or bulk carrier market due to few new building orders being placed. As such, the supply of LPG carriers appears to be more balanced than the other sectors. There is however a downturn in freight rates due to an over supply into VLGC sectors, which were earlier benefiting from trading in clean petroleum products. As the freight rates in clean petroleum products declined, the yields on the VLGCs have followed leading to a cascading effect on smaller LPG carriers as well.

The primary opportunity for shipowners in these recessed markets, remains the acquisition of vessels at low prices. The management continues to search for opportunities to invest capital in good quality assets at these low rates.

**(e) Risks and Concerns :**

Like any other industry, the Company's business is also exposed to certain risks which provide areas of concern. Although a major portion of the freight earnings of the Company are dollar related and the value of ships in the international market is dollar based resulting in an in-built hedge against dollar-rupee fluctuation, the Company at times may still be vulnerable to the fluctuation in the foreign exchange rates. Further, shipping industry is cyclical in nature and therefore although the Company has a well diversified fleet of vessels which provides an in-built hedge against fluctuation, the market value of ships and their earnings may still be subject to fluctuations, at times. Also, although the Company operates in an internationally competitive environment, any future changes in the Government policies including any change in the international regulations due to progressive liberalization may have an adverse impact on the industry's performance.

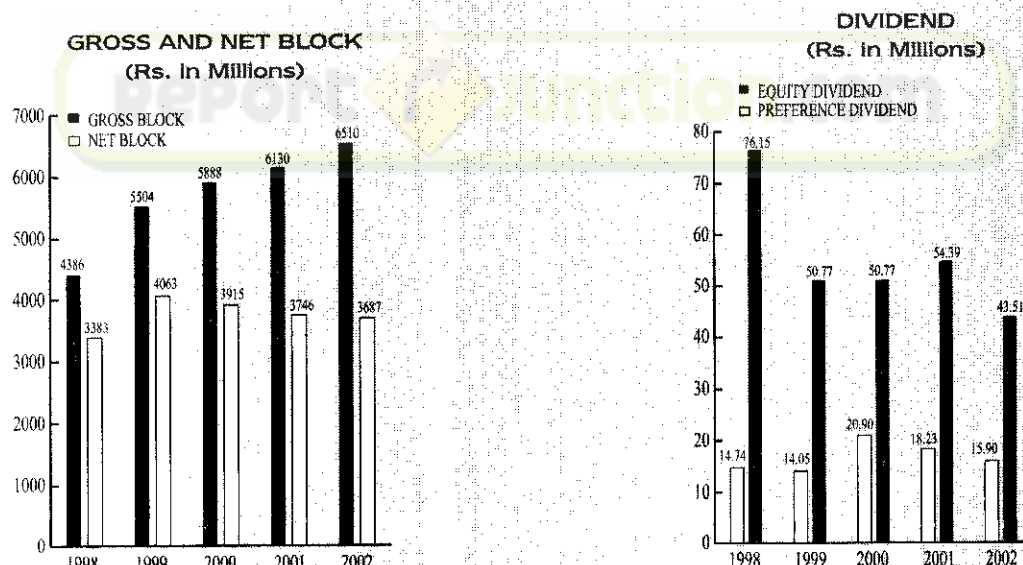
**(f) Internal Control Systems and their Adequacy :**

The Company has proper and adequate internal controls to ensure optimal use of Company's resources and protection thereof and all transactions are duly authorized, recorded and reported correctly. Most of the systems are computerized and regular internal audits and checks are carried out to ensure that all systems are functioning satisfactorily and are in place.

The Company has also constituted an Audit Committee headed by a non-executive Director to review the performance of audit function and to review the effectiveness of internal control systems and ensure due compliance with various applicable laws, accounting standards and regulatory guidelines.

**(g) Discussions on Financial Performance with respect to Operational Performance :**

The details of the financial performance of the Company have already been dealt with in the earlier part of the report.





**(h) Human Resources :**

The relation between the employees and the Company remained cordial throughout the year. The Company continues to focus on the safety, training and development of the employees.

The Company had 94 shore staff and 415 floating staff employees as on 31st March, 2002.

Although your Company has been actively examining various proposals for acquisition of ships, the Company has not finalized any proposal for acquisition, since it was waiting for prices of ships to weaken in the international market. In the meantime, the Company has acquired a vessel MT Hansdoet on Bareboat Charter cum Demise basis.

The Company's Rights issue of 36,261,591 Fully Convertible Debentures (FCDs) of Rs.10 each for cash at par aggregating Rs.362.61 million was fully subscribed and the said FCDs were allotted on 11th June, 2001. Each such FCD will stand compulsorily converted into one equity share on 11th June, 2002.

Further, 3,626,159 Optionally Fully Convertible Warrants of Rs.13.70 each aggregating to Rs.49.68 million were issued and allotted on 30th August, 2001 on a preferential basis to Concord Holdings Private Limited, which is a promoter group company.

Total foreign exchange earned and saved including deemed earnings of the Company for the year ended 31st March, 2002 was Rs.2060.83 million and the foreign exchange used was Rs.1097.27 million.

In terms of the Listing Agreement with the Stock Exchanges, the Company has constituted a Shareholders/Investors Grievance Committee comprising of Mr. Arun Mehta, Mr. Yudhishthir Khatau, Mr. C.M. Maniar and Mr. Praveen Singh to look into the redressal of shareholder and investor complaints.

As required under Section 217(2AA) of the Companies Act, 1956, your Directors confirm to the best of their knowledge and belief that :

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- ii) the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) the Directors have prepared the annual accounts on a going concern basis.

As required under Section 212 of the Companies Act, 1956, the audited statements of account along with the report of Directors and Auditors of VSC International Pte Ltd., Singapore, a wholly owned subsidiary of the Company, for the year ended 31st March, 2002 as also the statement under the said Section are attached to the Balance Sheet of the Company.

The Company has also attached consolidated accounts in accordance with accounting standards issued by The Institute of Chartered Accountants of India, which has become mandatory with effect from 1st April, 2001.

Pursuant to the provisions of the Listing Agreement with Stock Exchanges, a separate Report on Corporate Governance and the certificate from the Auditors of the Company regarding compliance with Corporate Governance is annexed which forms part of this report.

Consequent to the withdrawal of nomination of Mr. R.K. Rath by ICICI Limited effective 1st September, 2001, he ceased to be a Director of the Company. The Directors place on record their appreciation of the services rendered by Mr. Rath during the tenure of his directorship with the Company. Mrs. Nitya Kalyani was nominated as a Director in place of Mr. R.K. Rath by ICICI Limited effective 1st September, 2001.

Mrs. Rina D. Khatau and Mr. C.M. Maniar retire by rotation and being eligible, offer themselves for re-appointment. Separate resolutions are being proposed for their re-appointment.

You are requested to appoint Auditors of the Company and fix their remuneration. The retiring Auditors Messrs Sorab S. Engineer & Co. being eligible, offer themselves for re-appointment.

The term of office of Mr. Yudhishthir D. Khatau as Managing Director expires on 24th August, 2002. Your Directors propose to re-appoint Mr. Yudhishthir D. Khatau as Managing Director for a further period of five years commencing from 25th August, 2002. Since Mr. Khatau, during his tenure as Managing Director has made significant contribution to the growth and profitability of the Company, your Directors feel that his continued association will be beneficial to and in the interest of the Company and therefore an ordinary resolution for his re-appointment is proposed for your consideration.

As required by Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of the employees are set out in the Annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and the Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

Your Directors express their thanks to all the officers of the Ministry of Surface Transport, Directorate General of Shipping, Ministry of Petroleum and Oil Companies for the valuable help and co-operation extended by them to the Company. Your Directors also thank ICICI Limited, Industrial Development Bank of India and bankers of the Company for their continued support and ANZ Singapore Limited, Singapore for their assistance to the subsidiary of the Company. Your Directors also thank the shareholders of the Company for their confidence reposed in the Company and its management. Last but not the least, your Directors express their deep appreciation for the sincere and hard work put in by the floating as well as the shore based officers and staff of the Company.

On behalf of the Board of Directors  
**DILIP D. KHATAU**  
Chairman

Mumbai, May 14, 2002.



**VARUN SHIPPING COMPANY LIMITED**

# Corporate Governance Report

## 1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

Corporate Governance is the combination of voluntary practices and compliance with laws and regulations leading to effective control and management of the Company. The Company believes that good corporate governance contemplates that corporate actions balance the interest of all stakeholders and satisfy the tests of accountability, transparency and fair play. The Company believes that all its operations and actions must be directed towards enhancing overall shareholder value.

## 2. BOARD OF DIRECTORS

The Board of Directors consists of nine Directors.

The composition of the Board of Directors and other relevant details are given below:

Name of the Director	Category	No. of Board meetings attended	Attendance at the last Annual General Meeting held on 18.7.2001	No. of other Directorships *	No. of memberships of other Board Committees	No. of other Committees of which the Director is a Chairperson
Mr. Dilip D. Khatau	Promoter Non-Executive	8	Present	6	Nil	Nil
Mr. Arun Mehta	Executive	8	Present	2	Nil	Nil
Mr. Yudhishtir D. Khatau	Promoter Executive	7	Present	6	Nil	Nil
Mrs. Rina D. Khatau	Promoter Non-Executive	3	Present	4	Nil	Nil
Mr. R.K.Rath #	Nominee Director Independent Non-Executive	4	Present	2	Nil	Nil
Mrs. Nitya Kalyani #	Nominee Director Independent Non-Executive	Nil	N.A.	2	Nil	Nil
Mr. C.M.Manjar	Independent Non-Executive	7	Present	18	6	Nil
Mr. Praveen Singh	Independent Non-Executive	8	Present	1	Nil	Nil
Dr. A.K. Bhattacharya	Independent Non-Executive	8	Present	4	Nil	Nil
Mr. Bansil S. Menta	Independent Non-Executive	7	Present	16	10	5

\* Includes directorships in private limited companies, foreign companies and companies under Section 25 of the Companies Act, 1956 but excludes alternate directorships.

# Mr. R. K. Rath who was representing ICICI Limited as lender ceased to be a nominee director with effect from 1st September, 2001 and Mrs. Nitya Kalyani was appointed as nominee Director in his place with effect from 1st September, 2001.

During the financial year ended 31st March, 2002, eight Board Meetings were held. These Board Meetings were held on 9th April, 2001, 18th May, 2001, 18th July, 2001, 31st August, 2001, 22nd October, 2001, 24th November, 2001, 24th January, 2002 and 4th March, 2002.

The last Annual General Meeting of the Company was held on 18th July, 2001.

## 3. AUDIT COMMITTEE

The terms of reference of the Audit Committee are given below:

- To have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and to review the half-yearly and annual financial statements before submission to the Board and ensure compliance of internal control systems.
- To oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with management the annual financial statements before submission to the Board.
- Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
- Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discussions with internal auditors on any significant findings and follow up thereon.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- Discussions with external auditors before the audit commences, nature and scope of audit as well as to have post-audit discussion to ascertain any area of concern.
- Reviewing the Company's financial and risk management policies.
- To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors, if any.

