VARUN

32nd annual report
2002-2003

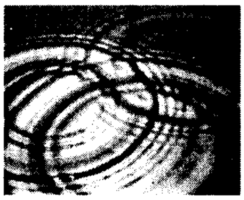
VARUN SHIPPING COMPANY LIMITED

Varun — Conscious of our environment and focussed on our customers

Varun is committed to being an environment friendly company, which is reflected in its Quality Policy. While operating its fleet worldwide, Varun endeavours to maintain a clean, healthy and pollution free environment at all times.

Coupled with its concern for environment conservation, Varun also maintains a sharp focus on maximizing end user satisfaction, with an eye on generating greater value for its customers, stakeholders and the economy at large.

Varun firmly believes in delivering enhanced value, not merely products, for the benefit of all concerned.



Clear water ripples signify continuous growth and expansion. The image also reflects a clean, healthy and pollution free environment, which we desire our future generations to inherit.

It is towards this vision that Varun implements an environment conservation policy, which aims to preserve the various elements of nature, in their original pristine form.

Varun Shipping Company Limited

BOARD OF DIRECTORS	Mr. Dilip D. Khatau	Chairman
	Mr. Arun Mehta	Vice Chairman & Managing Director
	Mr. Yudhishthir 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 Kalyani	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, 381, 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.	

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.

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.

2002

The Company acquired its fourth LPG carrier, as a result the Company now owns the largest LPG fleet in the country i.e. 61% of the total commercial LPG tonnage operating under Indian flag.

Directors' Report

Your Directors have pleasure in presenting the Thirty-second Annual Report together with the audited statements of account of the Company for the year ended 31st March, 2003.

(Figures in millions of Rupees)

		Current Year ended 31.03.2003	Previous Year ended 31.03.2002
PROFIT BEFORE TAX		**123.63**	151.67
Less : Provision for Taxation			
Current Tax	**Rs. 9.80**		
Deferred Tax	**Rs. —**	**9.80**	13.22
PROFIT AFTER TAX		**113.83**	138.45
Less : Transferred to Reserve under Section 33AC of the Income-tax Act, 1961		**87.20**	95.00
Add : Transferred from Reserve under Section 33AC of the Income-tax Act, 1956 (utilized) account.		**180.00**	—
Add : Surplus brought forward from previous year		**0.96**	29.66
Amount available for appropriation		**207.59**	73.11

Out of the amount of Rs.207.59 million available for appropriation, your Directors propose to transfer an amount of Rs.7.50 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, 2003 which will absorb Rs.87.03 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, 2003. After the above appropriations, your Directors propose to carry forward a balance of Rs.78.41 million in the Profit and Loss Account.

Income from operations was Rs.2302.57 million compared to Rs.2127.50 million for the year ended 31st March, 2002. Net profit after tax was Rs.113.83 million for the year ended 31st March, 2003 as against Rs.138.45 million during the preceding year.

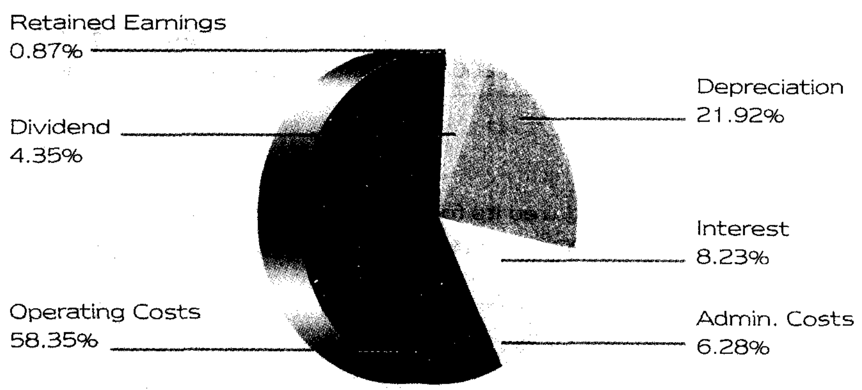
It is disappointing to note that inspite of repeated pleas made by the shipping industry and the positive recommendation of Rakesh Mohan Committee, the optional tonnage tax system has not been introduced by the Government so far to place the Indian fiscal regime on par with fiscal regime prevalent in other maritime countries the world over. Government has recently announced that vessels acquired by utilizing reserves created under Section 33AC of the Income-tax Act, 1961, may now need to be owned for a minimum period of three years instead of the earlier requirement of eight years.

Management Discussion and Analysis :

(a) Industry Structure and Development :

The international commodity shipping industry comprises mainly of vessels operating in the wet, dry bulk, gas and chemical transport sectors. The Company operates in all the abovementioned sectors and in addition operates offshore supply vessels. International shipping scenario for the wet sector i.e. crude and product tankers, has witnessed a continued high level of ordering, with the order book as high as 17 per cent of the existing world fleet. Independently viewed, the heavy supply side would appear gloomy for shipping freight rates in the long term. However, stricter maritime legislation will phase out older tonnage. Final supply position will evolve gradually as ship owners either cut back on fresh orders or enhance their positions depending on their perception of the phase out of older tonnage. As there are fewer owners in the LPG sector, the order book is better balanced at 11 per cent. However, in this sector, the phase out of old vessels still continues to be a matter of economics and vessel quality rather than maritime regulations per-se. The dry side i.e. Dry Bulk carriers finally appears to have a better run, with the orderbook in the handymax sector within a respectful level of 9.8 per cent of existing world fleet. While order positions are easier to monitor, demand trends and spurts are more difficult to predict in a global context. Unforeseen strikes, wars and acts of nature can play havoc with conventional demand levels and it is precisely these unknowns that affect freight rates. However one could say that freight rates and utilisation of

DISTRIBUTION OF REVENUE
(Rs. 2367 Million)



vessels will be significantly better for well maintained, internationally acceptable tonnage.

Turning to the home front, Indian shipowners continue to have an opportunity to cater to India related trades, particularly in the crude oil sector. Unlike a number of developed shipping nations, Indian shipping companies have the advantage of a strong domestic trade driven by the large, growing economic base of the nation. The Indian shipping industry has adequate management and fleet personnel talent to own and operate vessels in virtually every sector including crude-oil, petroleum products, easy chemicals, gases, dry bulk, container and off-shore. India therefore has the potential to emerge as a leading maritime nation both in terms of vessel ownership as also marine services such as construction and repair, ship-management, manning etc.

The Indian maritime sector has been built predominantly on the strength of the oil industry with leading companies focussing on the transport of hydrocarbons i.e. crude and petroleum products. In the dry bulk sector, the transport of coal and iron ore encouraged owners to invest in suitable tonnage. In recent times, enhanced domestic refining capacity has adversely affected the import of refined petroleum products but has enhanced the import of crude oil. Therefore Indian shipping industry has a surplus capacity in terms of petroleum product tankers and is compelled to trade them overseas. On the other hand, there is a shortage of Indian owned crude oil tankers and a significant portion of crude oil import is being done on foreign flag ships. The industry needs to make large investments in order to cater to this emerging trade. On the dry side, a significant portion of trade is controlled by the private sector that is free to import cargo on either C.I.F or F.O.B basis. Price competitiveness is fast becoming the primary factor for determining whether Indian or foreign vessels will get Indian cargoes. It is therefore essential that the shipping industry be given a conducive fiscal environment within which to develop and expand.

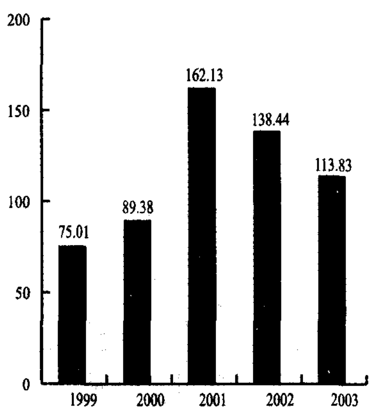
(b) Opportunities and Threats :

Shipping continues to offer an unparalleled international business opportunity for those corporates that are prepared to deal with international demands and challenges. As a core sector, maritime transport continues to provide the most economical means of long distance transport. As developed countries face continuing high labour costs, emerging markets like India and China have an opportunity to play a significant role in vessel management and crewing. Growth in maritime trade is focussed around the Asian region as this region continues to be a primary player in terms of both world manufacturing and consumption. These factors augur well for the growth of the industry in Asia. The challenge lies in effectively replacing the ageing tonnage with modern environment-friendly "safe-ships". International companies with access to global capital markets have cheaper sources of capital making the cost of acquisitions cheaper. A number of countries encourage their domestic shipping companies by offering cargo support, making the huge investments less risky. If India has to continue to expand its declining tonnage profile these challenges will have to be addressed and resolved.

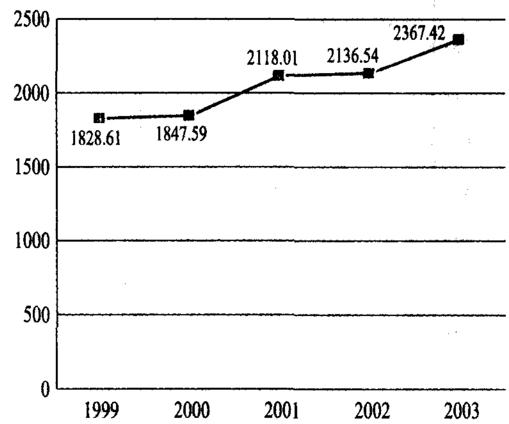
In terms of fleet development, India faces an unusual predicament, on the one hand trade growth is encouraging new acquisitions but on the other hand lack of a competitive fiscal environment is forcing Indian shipowners to acquire tonnage overseas rather than domestically. As Indian shipowners have to compete on the same price levels with their foreign counterparts, Indian shipping companies need to have the same low-tax, investor friendly regimes that foreign owners operate from. The Indian industry has made repeated presentation and appeals to the Government for level playing field so that the Indian fleet will be replaced with modern tonnage suitable to current trends required both internationally and in India.

Focussing on the Company, the management is highly focussed towards the twin objectives of growth and the enhanced utilization of the existing fleet. In terms of growth, the Company acquired its fourth LPG carrier in November 2002. This acquisition further strengthens the position of the Company in the LPG sector making it the largest owner of LPG tonnage in India. The Company now owns 61 per cent of Indian LPG tonnage in terms of DWT. It is a tribute to the quality of the management that this high technology vessel will operate under an international charter in global waters for the next 3 to 5 years. The Company continues to focus on the hydrocarbon sector and is exploring innovative ways of strengthening its existing fleet. The Company has maintained a team of highly qualified and experienced professionals to manage its fleet and utilizes international alliances such as pool-partnerships, commercial managers etc. to maximize the global presence of its fleet. The Company's fleet of bulk carriers and medium sized product tankers were deployed internationally for major part of the year. The management continues to overcome the challenges of competing globally and coping with continuously changing regulations of trade.

PROFIT AFTER TAX
(Rs. in Millions)



TOTAL INCOME
(Rs. in Millions)



(c) Segment-wise Performance :

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

The Company continued to operate 3 of its LPG carriers on Indian trades in both gas and ammonia sectors and the fourth LPG carrier acquired by the Company in November, 2002 continued to operate globally under an international charter. The Company faces certain periods of low utilization during the summer months, as the import of LPG is seasonal. International and domestic competition continues to be severe in this sector, moderating the freight rates achieved. The management is well equipped to operate these vessels globally.

The Company continues to operate two of its 7000 DWT product/ chemical carriers on the Indian coastal trade. The Company sold the 1980 built, 7000 DWT MT Vayudoot in August, 2002. The three larger product tankers (29000-37000 DWT) were deployed internationally for a greater part of the last financial year as the Indian product trade declined due to enhanced domestic refining capacity. The management is actively working to find economical ways to further enhance its global presence in this sector.

Freight rates and utilization in the product tanker and LPG sectors picked up significantly during the second half of the year under review. International markets were primarily driven by the Venezuelan oil sector strikes, the disruption of Nigerian crude supplies, increased demand due to winter seasonality and the Gulf war.

The two handymax bulk carriers continued to perform well under Klaveness Pool arrangement. These vessels traded internationally for a major portion of the year. Freight rates in this sector firmed up since the second half of the year under review.

The two Offshore supply vessels continued to perform well under the BG Exploration and Production India Ltd's contracts during the year. Following the increased price levels of crude oil, off-shore exploration and allied activities have increased in recent times. This has led to firming up of freight rates in this sector.

(d) Outlook :

As mentioned earlier, the international need for shipping continues to grow. As global trade barriers fall, users of commodities will source the cheapest product world-wide for their manufacturing and consumption processes. Due to this fundamental requirement, shipping has a continuous international demand. What remains uncertain is the demand and supply at a given point of time, and this balance determines freight rates for the service. The sectors that the company operates in namely, medium sized LPG carriers, product tankers, handymax bulk carriers and offshore supply vessels, are amongst the "work-horses" of the global maritime industry. These types of vessels are generally considered to be in the lower zone of freight rate fluctuation and less prone to volatile freight rate movements as compared to the larger sized crude and dry bulk carriers. These vessels are also utilized by a wider customer profile thereby making them relatively easier to market on a global basis. As such the management is optimistic of the long term outlook of the Industry but remains cautious about the impacts of over supply on the product trades and the domestic fiscal environment.

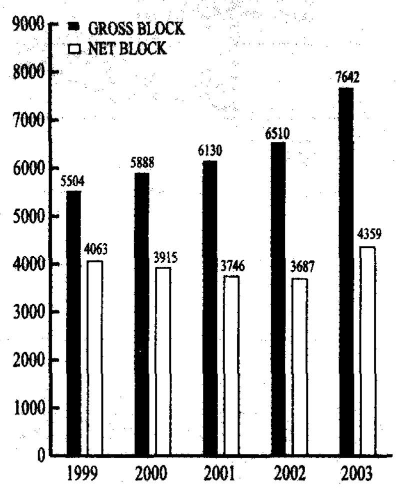
(e) Risks and Concerns :

Shipping industry is truly a global industry that is prone to fluctuations in demand and supply, intense competition, maritime hazards, and man-made uncertainties such as wars and piracy. Individual companies are also prone to risks of regulations, port state controls and specific government policy. The Company attempts to identify, isolate and neutralize some of these risks by diversifying its marine assets, hedging its freight rates through long term contracts and pool arrangements. A highly competent team of professionals aim to minimise these risks by identifying suitable tonnage, implementing international practices of ship and shore-based management, as also insuring certain risks with hull and machinery underwriters and Protection and Indemnity (P&I) clubs. The Indian National Shipowners Association (I.N.S.A) is also actively engaged with the Government to work out policies that would foster the continued growth of Indian shipping.

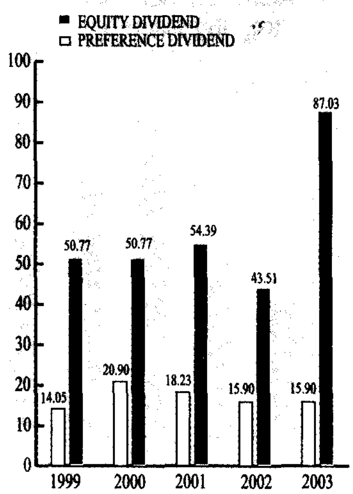
(f) Internal Control Systems and their adequacy :

The Company has proper and effective internal control systems commensurate with its size of operations. Most of the systems are computerized and internal audit and checks are carried out regularly in order to ensure that all systems are functioning satisfactorily.

GROSS AND NET BLOCK
(Rs. in Millions)



DIVIDEND
(Rs. in Millions)



The Audit Committee of the Board of Directors regularly reviews the effectiveness of the internal control systems in order to ensure due and proper implementation of and due compliance with various applicable laws and regulations.

(g) Discussions on financial performance with respect to operational performance :

3,62,61,591 – 14% Unsecured Fully Convertible Debentures (FCDs) issued by the Company on Rights basis were as per the terms of the issue converted into equity shares on 11th June, 2002 and the equity share capital of the Company now stands increased to 7,25,23,182 equity shares of Rs.10 each. 36,26,159 Optionally Fully Convertible Warrants (OFCWs) which were issued on a preferential basis lapsed during the year and the amount of Rs.1.37 paid per OFCW aggregating to Rs.49.67 lakhs was forfeited.

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 relations between the employees and the Company remained cordial throughout the year. The company had 84 shore staff and 411 floating staff employees as on 31st March, 2003. The committed shore based staff provides support and guidance to the floating staff on a continuous basis, which is reflected in high safety levels and operational efficiency. The Company continues to focus on the safety, training and development of the employees.

Total foreign exchange earned and saved including deemed earnings of the Company for the year ended 31st March, 2003 was Rs.2062.72 million and the foreign exchange used was Rs.1601.18 million.

In order to provide better liquidity to the Company's equity shares for the small investors spread across the country, the Company has effective 1st April, 2003 also listed its equity shares on The National Stock Exchange of India Limited.

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, 2003 as also the statement under the said Section are attached to the Balance Sheet of the Company. Consolidated accounts prepared in accordance with the accounting standards issued by the Institute of Chartered Accountants of India, are also attached.

As required by the Listing Agreement with Stock Exchanges, a Report on Corporate Governance together with the certificate from the Auditors of the Company regarding compliance with Corporate Governance is attached to this report.

Mr. Praveen Singh and Mr. Bansi S. Mehta 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. Arun Mehta, Vice Chairman & Managing Director expires on 2nd October, 2003. Your Directors propose to re-appoint Mr. Arun Mehta as Vice Chairman & Managing Director for a further period of five years commencing from 3rd October, 2003. During Mr. Mehta's tenure, the Company has made significant progress both in terms of performance and profitability and consequently, your Directors feel that his continued association will be beneficial and in the interest of the Company and therefore an ordinary resolution for his re-appointment is proposed for your consideration.

By a resolution passed at the Twenty Seventh Annual General Meeting of the Company held on 8th September, 1998, the shareholders had approved the payment of commission to non-executive Directors of the Company, which was effective for a period of five years, upto 31st March, 2003. As it is proposed to continue the payment of the said commission, a Special Resolution for the same is proposed for your consideration.

In order to provide for the possibility of raising capital in future, your Directors propose to increase the authorized share capital of the Company by increasing authorized equity share capital from 10,00,00,000 equity shares of Rs.10 each aggregating to Rs.1000 million to 30,00,00,000 equity shares of Rs.10 each aggregating to Rs.3000 million. Further, to part finance the expansion plans of the Company, the Company proposes to raise funds by way of equity, preference or any other type of instrument upto an amount of Rs.6000 million and it will also become necessary to increase the borrowing powers of the Board of Directors from present level of Rs.10000 million to Rs.30000 million and the power to create mortgages, charges, liens, hypothecation, etc., from Rs.10000 million to Rs.30000 million. Necessary ordinary and special resolutions are being proposed in this behalf 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 financial institutions and banks for their continued support to the Company. Your Directors also thank the shareholders of the Company for their understanding and co-operation at every stage of operation of the Company. 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 28, 2003.

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 22.8.2002	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	6	Present	6	Nil	Nil
Mr. Arun Mehta	Executive	6	Present	2	Nil	Nil
Mr. Yudhishthir D. Khatau	Promoter Executive	6	Present	6	Nil	Nil
Mrs. Rina D. Khatau	Promoter Non-Executive	4	Present	3	Nil	Nil
Mr. C.M. Maniar	Independent Non-Executive	5	Present	18	8	Nil
Mr. Praveen Singh	Independent Non-Executive	6	Present	1	Nil	Nil
Dr. A.K. Bhattacharya	Independent Non-Executive	6	Present	4	Nil	Nil
Mr. Bansi S. Mehta	Independent Non-Executive	5	Present	15	10	5
Mrs. Nitya Kalyani **	Nominee Director Independent Non-Executive	4	Present	2	Nil	Nil

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

** *Representing ICICI Bank Limited as Lender.*

During the financial year ended 31st March, 2003, six Board Meetings were held. These Board Meetings were held on 14th May, 2002, 31st July, 2002, 22nd August, 2002, 31st October, 2002, 20th January, 2003 and 21st March, 2003.

The last Annual General Meeting of the Company was held on 22nd August, 2002.

3. AUDIT COMMITTEE

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

i) 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.

ii) 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.

iii) Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.

iv) Reviewing with management the annual financial statements before submission to the Board.

v) Reviewing with the management, external and internal auditors, the adequacy of internal control systems.

vi) 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.

vii) Discussions with internal auditors on any significant findings and follow up thereon.

viii) 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.

ix) 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.

x) Reviewing the Company's financial and risk management policies.

xi) 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.

The Audit Committee comprises of three independent non-executive Directors namely Mr. Praveen Singh, Dr. A.K. Bhattacharya and Mr. C.M. Maniar. Mr. Praveen Singh is the Chairperson of the Audit Committee.