VARUN

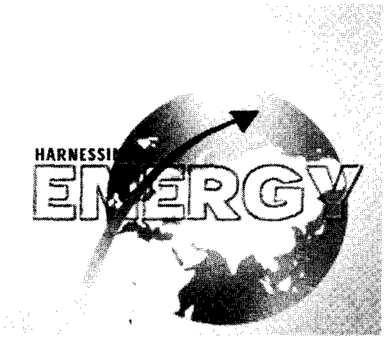
33rd annual report
2003-2004

VARUN SHIPPING COMPANY LIMITED

HARNESSING ENERGY

Energy – the force that manifests itself in our areas of activity as well as our performance. The owner of the largest LPG fleet in the country, we have unleashed the power of Energy to emerge as one of the leading shipping companies in India.

A dazzling reservoir of Energy fosters our growth, giving us an edge in terms of being faster and being better. Energy gives us the power to consolidate our growth in the hydrocarbon sector and the insight to make valuable investments. Energy - the source of our invincible purpose to deliver consistent returns to shareholders.



Set in sea blue surroundings, the cover image encapsulates the fact that Varun is a dynamic and energetic company. Depiction of the globe showing regions such as India and Asia is purposeful. Varun is an Indian company and the world is the area of Varun's operations.

The arrow pointing upwards denotes the fast paced growth that Varun is charting on the global front. The continuous energy lines around the globe depict Varun's relentless energy that constantly propels it to greater success.

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	
COMPANY SECRETARY	Ms. Manali Parekh	
BANKERS	Bank of India State Bank of India Bank of Baroda UTI Bank Limited	
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 increased the Company's equity to Rs. 725.23 million.

2004

The Company acquired its fifth LPG carrier, as a result the Company now owns the largest LPG fleet in the country i.e. 65% of the total LPG tonnage operating under Indian flag.

Directors' Report

Your Directors have pleasure in presenting the Thirty-third Annual Report together with the audited statements of account of the Company for the year ended 31st March, 2004.

(Figures in millions of Rupees)

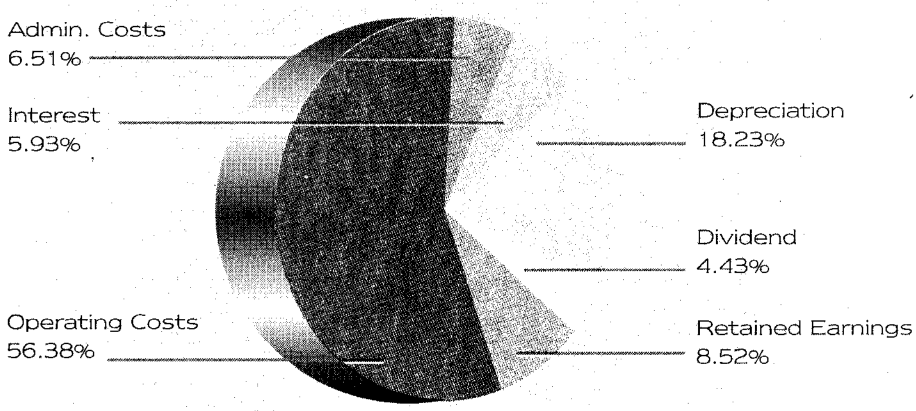
	Current Year ended 31.03.2004	Previous Year ended 31.03.2003
PROFIT BEFORE TAX	**381.10**	123.63
Less : Provision for Taxation		
Current Tax	**23.04**	9.80
PROFIT AFTER TAX	**358.06**	113.83
Less : Transferred to Reserve under Section 33AC of the Income-tax Act, 1961	**390.00**	87.20
Add : Transferred from Reserve under Section 33AC of the Income-tax Act, 1961 (utilized) account.	**87.20**	180.00
Add : Transferred from Debenture Redemption Reserve	**22.80**	—
Add : Surplus brought forward from previous year	**78.41**	0.96
Amount available for appropriation	**156.47**	207.59

Out of the amount of Rs.156.47 million available for appropriation, your Directors propose to transfer an amount of Rs.6.00 million to General Reserve. The Directors recommend payment of final dividend of Rs.0.60 per equity share for the year ended 31st March, 2004 which together with interim dividend of Rs.1.00 per equity share declared and paid earlier for the year ended 31st March, 2004 will absorb Rs.116.04 million and Rs.14.87 million towards dividend tax. During the year, an amount of Rs.40 million being 1/3rd amount on 12,00,000 Cumulative Redeemable Preference Shares of the face value of Rs.100 each was redeemed. The Directors also recommend dividend of Rs. 14.33 million on cumulative redeemable preference share capital of Rs.120 million, which dividend has already been paid as interim dividend during the year and on which dividend tax of Rs.1.83 million has been paid. After the above appropriations, your Directors propose to carry forward a balance of Rs. 3.40 million in the Profit and Loss Account.

Income from operations was Rs. 2928.72 million compared to Rs. 2302.57 million for the year ended 31st March, 2003. Net profit after tax was Rs. 358.06 million for the year ended 31st March, 2004 as against Rs.113.83 million during the preceding year.

During the year under review, the Company acquired its fifth LPG carrier, Maharshi Shivatreya, in March, 2004 which has a cargo carrying capacity of 24,050 cbm. This acquisition has further strengthened company's position in the LPG sector, making it the largest owner of LPG fleet in the country with 65 per cent of total LPG tonnage presently operating under Indian flag. The Company during the year also sold one of its vessels viz. MV Matru Kripa.

DISTRIBUTION OF REVENUE
(Rs. 2944 Million)



We are happy to state that Government in its interim budget has proposed to introduce long pending tonnage tax system which will certainly go a long way in improving the fortunes of Indian shipping industry.

As you are aware, the Company's activities are diversified into transportation of petroleum products, LPG, chemicals, dry bulk cargoes and offshore services. In effect, the Company is a truly composite marine transportation company with in-house strengths of technical and commercial management, manning, financial and legal services.

The positive economic trend in most of the major world economies led by China, continues to hold out better prospects for world seaborne trade and therefore for the shipping industry. Further, certain niche markets are offering excellent growth opportunities. Keeping in mind the above, the Company is planning to acquire additional tonnage in the hydrocarbon sector.

In order to part finance the Company's vessel acquisition plans, the Company proposes to issue 3,62,61,591 equity shares of Rs.10 each at a premium of approximately Rs.8 to Rs.11 per equity share on a Rights basis to its shareholders, in the ratio of one equity share for every two equity shares held.

The Company is also exploring the possibility of issuing Singapore Depository Receipts and listing the same on the Singapore Exchange Securities Trading Limited.

Management Discussion and Analysis :

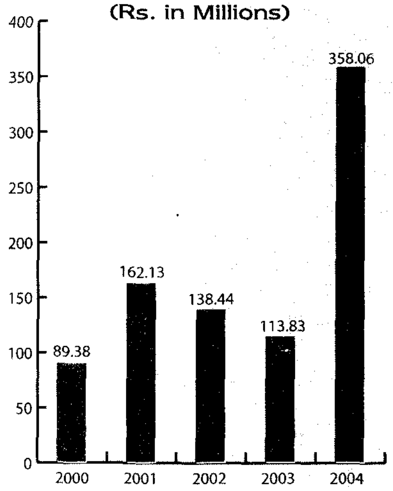
(a) Industry Structure and Development :

The international commodity shipping industry comprises of mainly vessels operating in wet, dry bulk, gas and chemical transport sectors. The Company has a diverse mix of vessels in above sectors and in offshore services in order to maintain positive and consistent returns to its shareholders.

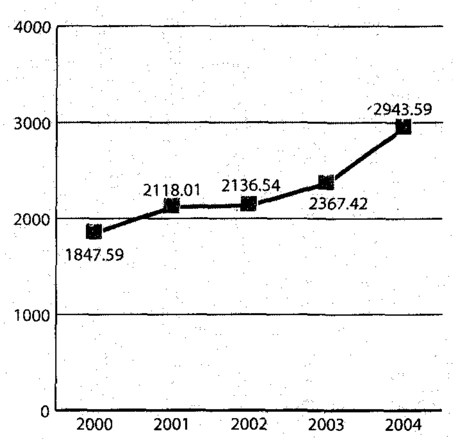
In a world concerned with issues relating to a clean and pollution free environment, LPG, which is used for heating and cooking, both for residential and industrial purposes is amongst the most preferred fuels. According to Drewry Shipping Consultants Limited from 1991 to 2001 global LPG consumption saw a 3.3 per cent CAGR with 199.33 million tonnes consumed in 2001 as compared to 143.57 million tonnes consumed in 1991. The US is the largest single consumer of LPG accounting for 24.8 per cent of the total global consumption. Within Asia, Japan, Korea, India and China are amongst the primary importers of LPG, with India importing over one million tonnes of LPG per annum.

The crude oil and product trade business is driven by world regional trade activities, refinery capacity/operations and the availability of tankers. World oil consumption for 2002 witnessed a growth of 0.60 percent to 77.02 m bpd from 76.60 m bpd for 2001. The key drivers for demand growth in 2003 were numerous, including a sharper than normal winter, higher natural gas prices in the US leading to fuel switching and Japanese fuel switching away from nuclear power station to oil fired power stations. Moving into 2004, the world economic recovery is expected to push oil demand further and as such overall demand for oil in 2004 is expected to rise by 2 per cent to 79.64 m bpd. India continues to be a major importer of crude oil as the country produces approximately 33 MMT of oil compared to the current demand of approximately 122 MMT. On the product side, Indian refining capacities are expected to increase, allowing producers to export surplus stocks of Naptha, SKO, FO and HSD.

PROFIT AFTER TAX
(Rs. in Millions)



TOTAL INCOME
(Rs. in Millions)



The Dry Bulk trade, comprising of cargoes like iron ore, steel, coal, grain, cement, fertilizers, etc., witnessed a booming market in the latter half of 2003. The growth in industrial output in Asia has been one of the major factors, contributing to strengthening of demand in this sector. While the iron ore trade is up by 9 per cent in 2003, the coal trade was also very positive in 2003. The trade in finished steel products remained one of the key drivers of demand in the handy sector. Global steel production totalled 621 mt during January-August, 2003, marking an increase of 7 per cent against the corresponding period in 2002. Chinese demand for steel making raw materials is likely to remain buoyant as construction activity and domestic demand for consumer goods continues to be strong.

On the offshore side, the global market remained fairly firm due to the increased focus on oil and gas exploration. In India, ONGC, Reliance Industries Limited, Cairn Energy India Private Limited, British Gas and other majors have aggressive exploration plans and projects which has helped support higher utilization of offshore servicing vessels resulting in improved charter rates.

(b) Opportunities and Threats :

The basic challenge of Indian shipping companies continues to be the replacement of ageing tonnage. On an average, over 25 per cent of India's crude oil and product tanker fleet is aged 20 years and above and over 40 per cent of the dry bulk carrier fleet is aged 20 years and above. However, safety considerations and stricter tonnage regulations will be accelerating the scrapping of older tonnage which will partly offset the additions to the existing capacity. The International Maritime Organization (IMO) is already committed to phasing out of single hull tankers. The new regulation prohibits transport of heavy oil grades in single hull oil tankers to ensure that the transportation of the most polluting products is done on the safest ships.

So far, due to the lack of an encouraging and competitive fiscal environment, the Indian shipping industry had to remain fairly stagnant in terms of overall growth. However, in view of the government's recent proposal in the interim budget for the introduction of tonnage tax, the future of the Indian shipping industry appears to be very promising.

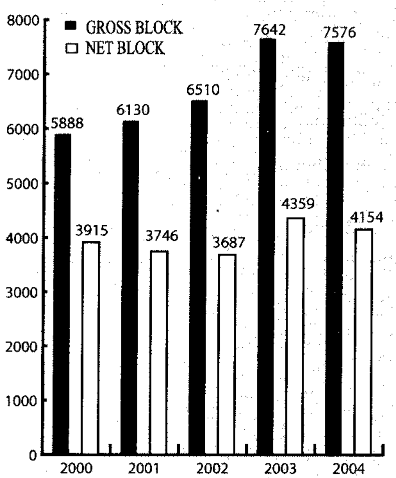
(c) Segment-wise Performance :

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

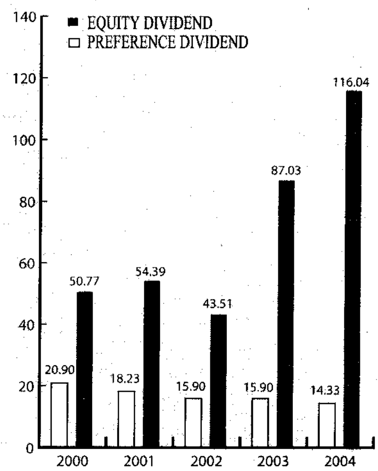
The Company has the advantage in the LPG market by being the largest player in the LPG sector in India. Varun has a fleet of 5 ships in the LPG trade and offers strong support to its customers both in terms of number of vessels and a choice of parcel sizes. The Company's vessels have the advantage of being able to carry ammonia as a substitute to LPG, thereby ensuring employment even during the seasonal slowdowns within the LPG trade. Major charterers such as Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, Reliance Industries Limited and Exmar (Belgium) support the Company's LPG business.

In the oil and product sector, the company has 5 vessels employed in the international and coastal trade.

GROSS AND NET BLOCK
(Rs. in Millions)



DIVIDEND
(Rs. in Millions)



In the dry bulk sector, the Company owns one handymax bulk carrier which continues to be deployed on pool basis with the Klaveness Bulkhandling Pool, Norway.

As regards the offshore sector, the Company through its wholly owned subsidiary, VSC International Pte. Ltd. (Singapore), owns two offshore vessels, which are deployed with ONGC on long term contracts. The Company is already enjoying the benefits of improved rates as the contract for these ships have been executed very recently.

(d) Outlook :

With the significant increase in the freight rates worldwide, the future of the shipping industry appears to be very encouraging and positive.

Global LPG trade is expected to enter a period of sustained growth in the future with the increase in supply and exports from the Middle East. China and India will continue to dominate the Asian region in terms of volume and growth mainly due to increase in their domestic LPG usage. The LPG import requirements for India are slated to increase due to the limitations of existing domestic supply.

As regards the oil and product sector, the Economist Intelligence Unit has forecast an annual average GDP growth of 5.5 per cent for Asia and Australasia for the period 2003-07(Ex Japan), driven by strong performance in China and India. The growth in the South East Asian region is expected to average 4.5 per cent per year during the period 2003-07. The recoveries in these economies will spur inter/intra-regional trade in Asia, sustaining the demand in product tankers.

With the development of Indian economy, Indian demand for petroleum products is expected to increase at a CAGR of 4.21 per cent during the period 2001-02 to 2006-07. Correspondingly, the supply is also expected to increase at a higher CAGR of 6.3 per cent due to commissioning of new refinery capacities and shift in consumption patterns. Petroleum product tankers are also utilized in India for movement of cargo from regions where they are surplus to the regions where they are deficit and for export of surplus stocks.

The overall market fundamentals for the dry bulk market continue to remain healthy. The total bulk fleet is projected to grow by approximately 3.2 per cent in 2004, whereas the global dry-bulk trade is forecasted to grow around 3.4 per cent. With China continuing to import dry commodities to cater to its domestic growth, the bulk carrier outlook remains positive.

The outlook for the offshore industry continues to look positive due to the high investment planned both in India and overseas, towards oil exploration and extraction.

(e) Risks and Concerns :

Shipping is truly a global industry that is subject to various uncertainties and adversities including amendment in Government policies and regulations, intense global competition, maritime hazards, wars, piracy and port state controls. The Company endeavours to identify and neutralize some of these risks by diversifying its marine assets, insuring against various commercial and accident oriented risks appropriately, implementing international ship management practices, hedging its freight rates through long term contracts and pool arrangements. The Indian National Shipowners Association (INSA) is actively engaged with the Government to work out long term sustainable policies that would foster the continued growth and expansion of Indian shipping industry.

(f) Internal Control Systems and their adequacy :

The Company has proper and effective internal control systems commensurate with its size of operations in order to ensure that all systems and procedures are functioning satisfactorily and all policies are being duly complied with as required.

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, accounting standards and regulatory guidelines.

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

23,050 equity shares arising on conversion of 14 per cent Unsecured Fully Convertible Debentures (FCDs) were forfeited, out of which forefeiture of 6,050 equity shares was annulled and the remaining 17,000 equity shares were re-issued, during the year.

During the year, Rs.40 million i.e. 1/3rd amount on 12,00,000 Cumulative Redeemable Preference Shares of Rs.100 each was redeemed.

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 78 shore staff and 505 floating staff employees as on 31st March, 2004. The committed shore based staff provides its prompt and efficient support to the floating staff on a continuous basis, which helps to maintain effective performance and operational efficiency at all times. 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, 2004 was Rs. 2975.46 million and the foreign exchange used was Rs. 2019.03 million.

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, 2004 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. Dilip D. Khatau and Dr. A.K. Bhattacharya retire by rotation and being eligible, offer themselves for re-appointment. Separate resolutions are being proposed for their re-appointment.

During the year, nomination of Mrs. Nitya Kalyani as a Director on the Board of the Company was withdrawn by ICICI Bank Limited, consequent to the repayment of loans by the Company to the bank. The Directors place on record their appreciation for the valuable contribution made by her in the deliberations at the Board meetings held during her tenure as a Director of the company.

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.

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 sustained 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, April 15, 2004.