

AN ISO 9001 : 2000 COMPANY

# WESTERN INDIA SHIPYARD LIMITED

India's Largest Composite Shiprepair Facility in Private Sector



*14th Annual Report*  
*2005-2006*

Report Junction.com



## WESTERN INDIA SHIPYARD LIMITED



<b>Board of Directors</b>	:	Rear Admiral R. K. Whig , — (Nominee of ICICI Bank Ltd) Chairman Shri. P. Nagaraju — (Nominee of IDBI) Shri. V. Prakash — (Nominee of ICICI Bank Ltd) Shri. S. P. Reddy — (Nominee of Bank of India) Shri. I. D. Agarwal — (Nominee of UTI Asset Management Co. Pvt. Ltd.) Shri. S. V. Kshirsagar (Nominee of Western India Trustee & Executor Co. Ltd, Debenture Trustees  Shri. P. B. Gadgil. Cdr. S. Shekhar Singh (Retd) — Managing Director
<b>Company Secretary</b>	:	Shri. J. C. F. Sequeira
<b>Dy. Company Secretary</b>	:	Shri. Kailash Dagar
<b>Statutory Auditors</b>	:	M/s. V. V. Kale & Co, Chartered Accountants, New Delhi.
<b>Internal Auditors</b>	:	M/s. M. P. Chitale & Co, Chartered Accountants, Mumbai.
<b>Financial Institutions &amp; Banks</b>	:	Industrial Development Bank of India Industrial Investment Bank of India ICICI Bank Limited Bank of India State Bank of India UTI Bank Limited Janata Sahakari Bank Limited Syndicate Bank UTI Asset Management Co. Pvt. Ltd.
<b>Debenture Trustees</b>	:	Western India Trustee and Executor Company Limited 161/C, Mittal Court, Nariman Point, Mumbai – 400021
<b>Registrars &amp; Share Transfer Agent</b>	:	Intime Spectrum Registry Ltd. C – 13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (W) Mumbai – 400 078
<b>Senior Management Team</b>	:	Shri. J. K. Roy – Sr. Vice President (Operations) Shri A. J. Anthony – Sr. Vice President (Business Dev.) Shri T. B. Ananthanarayanan, Chief Financial Officer Shri B. Eremita – G.M (Comm.) Shri R. Gallyot – G. M. (FDD) Shri S. Engineer – G. M. (Production) Shri Anil Kumar – DGM (HRD & Pers.) Shri G. Sahoo - AGM (Accounts)
<b>Registered Office, Share Department &amp; Shiprepair Yard</b>	:	P. B. No. 21, Mormugao Harbour, Mormugao, Goa – 403 803.





## DIRECTORS' REPORT

**Dear Members,**

Your Directors have great pleasure in presenting their 14<sup>th</sup> Annual Report on the business and operations of your Company together with the Audited Accounts for the year ended March 31, 2006.

### FINANCIAL HIGHLIGHTS

Particulars	31.03.2006	31.3. 2005
	(Rs. In Lacs)	(Rs. In Lacs)
Total Income	4506.29	4203.16
Operating Expenses	3680.81	3906.68
Profit/(Loss) before Interest & Depreciation	825.49	296.48
Interest	1378.69	1502.40
Profit / (Loss) before Depreciation	(553.20)	(1205.92)
Depreciation	902.60	897.61
Provision for Taxation	7.12	—
Net Profit / (Loss) for the year	(1462.92)	(2103.53)
Prior period and extraordinary adjustments	(984.71)	(659.64)
Net Profit / (Loss) for the year	(2447.66)	(2763.18)

### DIVIDEND

In view of the losses for the year, your Directors are unable to recommend any dividend to the shareholders.

### ECONOMIC SCENARIO

The economic scenario for 2005-06 continues to be vibrant with heavy investment continuing to be allocated by the Government of India into the infrastructure for development of highways, ports and airports. The infrastructure industries like electricity, coal, cement, steel and crude petroleum products continue to grow in a robust manner. The inflation rate is about 5.44% in June, 2006 with the whole sale and consumer price indices constant. The Union Budget for 2006-07 has been positive with the limit on savings raised to Rs. 1 lakh to encourage small savings.

As regards the Shiprepair Industry, this sector being in the manufacturing sector continues to be eligible for customs and central excise duty exemptions, etc. These benefits and concessions enable to Company to maintain low cost of operations and to be competitive as compared to the older and cheaper foreign repair yards. However, the Goa Value Added Tax Act introduced by the State Government from 1.04.2005 has replaced the local sales tax and ended the sales tax holiday. This is expected to increase the input costs and prices on raw materials. During the year the rates of interest have risen but the cost of debt has remained constant thanks mainly to the restructuring of debt by the Financial Institutions and Banks under the CDR system announced by the Reserve Bank of India.

During the year, your Company's floating dry dock (FDD) had to undergo mandatory repairs for the first time in its history for a period of about 4 months involving an expenditure of about Rs. 450 lacs. The FDD has to be repaired in two phases i.e. above water level repair has been completed in house and for below water level repair, Classification Society has given time up to March 2008. The Indian Register of Shipping, the Classification Society, has since issued the class certificate to the dock till the year 2010.

### SHIPBUILDING

During the period the FDD was undergoing repairs, a large construction order from PMC Projects India Pvt. Limited for building a Jack Up barge valued at Rs. 19 crore was undertaken. The order is in an advanced stage of completion at the

**WESTERN INDIA SHIPYARD LIMITED**

slipway in the yard, which was specially commissioned during the year. With the construction of the Jack Up barge your Company entered into a new business segment. The construction of the Jack Up barge will be completed during current financial year.

**YEAR IN RETROSPECT**

Shut down of the floating dry dock for the first time, for mandatory 10 year special survey resulted in loss of business. The floating dry dock operated has since been repaired and is back in operation. Sales turnover of Rs. 4506 as lacs compared to Rs. 4203 lacs in 2004-05, representing increase of 7.2% was achieved.

**STATUS OF RESTRUCTURING:**

Corporate debt restructuring (CDR) approved under the CDR system of the Reserve Bank of India by the members namely, ICICI Bank Limited, Stressed Assets Stabilization Fund (IDBI), Industrial Investment Bank of India, Bank of India and State Bank of India is proceeding smoothly as follows:-

Your Company has issued 5,50,64,500 Zero Coupon Optionally Fully Convertible debentures (ZCOFCDs) Series II with face value of Rs. 10/- each fully paid up aggregating to Rs. 55.06 crore to ICICI Bank Ltd., Stressed Assets Stabilization Fund (IDBI), Industrial Investment Bank of India, Bank of India and State Bank of India, for restructuring your Company's debt. As per the terms of the said CDR restructuring package, the equity shares issued on conversion shall be subject to the 80% write down condition, i.e. from Rs. 10/- per share to Rs. 2/- per share fully paid up.

Of these, 4,35,64,500 ZCOFCDs (Series II) of the face value of Rs. 10/- each fully paid up will be converted into 4,35,64,500 equity shares of the face value of Rs. 10/- each fully paid up aggregating to Rs. 43.56 crore under the terms of the restructuring packages. This being a preferential issue, requires the approval of the shareholders by special resolution as per the SEBI (Depositor & Investor Protection) Guidelines, 2000. In the coming years, issuing such equity shares would reduce the debt burden as well as loss to the extent of interest.

**Reduction of share capital**

Under the terms of the CDR package, your Company is required to reduce the Issued & Paid up share capital of Rs. 59,31,99,400/- consisting of 5,93,19,940 equity shares of Rs. 10/- each fully paid up to the CDR members namely, ICICI Bank Limited, Stressed Assets Stabilization Fund (IDBI), Industrial Investment Bank of India, Bank of India and State Bank of India on conversion of the ZCOFCDs (series II) of the face value of Rs. 10/- each fully paid up. These equity shares have to be written down from a face value of Rs. 10/- per share fully paid up to Rs. 2/- per share fully paid up without any refund of capital. The Issued and Paid up capital to be reduced consists of:

- (a) Rs. 15,75,54,400/- consisting of 1,57,55,440 equity shares of the face value of Rs. 10/- each fully paid up issued and allotted to ICICI Bank and other large debenture holders, in exercise of the conversion options on 1,57,55,440 – ZCOFCDs (series – II) and
- (b) Rs. 43,56,45,000/- consisting of 4,35,64,500 equity shares of the face value of Rs. 10/- each fully paid up proposed to be issued and allotted to ICICI Bank Limited, Stressed Assets Stabilization Fund (IDBI), Industrial Investment Bank of India, Bank of India and State Bank of India. Options for conversion of 2,47,24,200 ZCOFCDs (series II) of the face value of Rs. 10/- each fully paid up held by some CDR Members into 2,47,24,200 equity shares of the face value of Rs. 10/- each fully paid up aggregating to Rs. 24.72 crore have already been received.

Approval of the shareholders by way of a special resolution u/s. 100 of the Companies Act, 1956 is being sought.

**Restructuring of debentures:**

You will be pleased to note that your Company has restructured and rescheduled the debenture capital in the year 2000-01 with the approval of ICICI Bank Limited, UTI Asset Management Company Limited and other major debenture holders under the terms of the restructuring packages. Your Company has also obtained the approval of the remaining holders of 8,46,100 – 12% secured non-convertible redeemable debentures (NCDs) of the face value of Rs. 60/- each fully paid up pursuant to a scheme of arrangement entered with small debenture holders. This scheme was duly



confirmed by the High Court of Bombay, Goa Bench at Panaji, vide an order dated 23.06.2006 u/s. 391 of the Companies Act, 1956. The said scheme is being circulated to the concerned debenture holders to enable them to exercise the option. The Company will make the necessary provisions on the basis of the options received. The restructuring of debt will have a favourable impact on financial results of the Company and improve liquidity in the long run.

### ***YEAR IN PROSPECT:***

There is a good market for Ship repairs as the average age of the Indian fleet is 15 years. Government policy towards ship repairs continues to remain encouraging with license free and duty free imports. We are trying to improve its competitive edge by cost cutting, improving quality, productivity and faster turnaround. Being on the west coast due to its proximity to international shipping routes, we have an edge. Being an ISO 9001 : 2000 quality shiprepair yard with certification from BVQI (Bureau Veritas Quality International), and an International customer base, we look forward to better performance.

The Ship repair business continues to be the main focus keeping with the heavy investment in fixed assets and its large work force. The scenario for the Ship building Industry is equally good due to full order book position of the foreign yards. This is likely to prevail up 2010. We thank our esteemed clients, Ship and Rig owners for their continued patronage and support.

### **CORPORATE GOVERNANCE REPORT & MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT**

In terms of Clause 49 of the Listing Agreement with the Stock Exchanges, the Corporate Governance report and the Management Discussion and Analysis Statement is attached.

### **DIRECTORS' RESPONSIBILITY STATEMENT**

Pursuant to the requirement under Section 217 (2A) of the Companies Act, 1956 and based on the representations received from the operating management, the Directors hereby confirm that:

- (a) in the preparation of the Annual Accounts for the year ended 31<sup>st</sup> March 2006, the applicable Accounting Standards have been followed and there are no material departures;
- (b) they have selected such accounting policies in consultation with the statutory auditors 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 loss of the Company for the financial year;
- (c) they have taken proper and sufficient care to the best of their knowledge and belief for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956. They confirm that there are adequate systems and controls for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) they have prepared the Annual Accounts on a going concern basis.

### **DIRECTORS**

During the year, Smt. Prabha S. Agarwal, representing Bank of India and Shri. V. G. Pathak representing Western India Executor & Trustee Co. Limited, Debenture Trustees resigned as nominee Directors. Shri. S. P. Reddy and Shri. S. V. Kshirsagar joined the Board in place Smt. Prabha S. Agarwal and Shri V. G. Pathak respectively as nominee Directors. Shri S. Ramlingam, representing Industrial Investment Bank of India also resigned as nominee Director during the current year. The Board places on record the appreciation of services rendered by Smt. Agarwal, Shri Pathak and Shri S. Ramalingam during their tenure on the Board. Mr. P. B. Gadgil, Director, retires by rotation and being eligible, has offered himself for re-appointment.

Cdr. S. Shekhar Singh, Managing Director was appointed by the Shareholders for a term of one (1) year and his term of office came to an end on 15.07.2006. The Board has re-appointed him for a further term of office of one (1) year.

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**Statement of Particulars of employees pursuant to the provisions of section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March, 2006.**

Cdr. S. Shekhar Singh, Managing Director of the Company aged about 56 years, is Post Graduate in Science and Master Degree in Maths. He joined the Company on 24/12/1992 after premature retirement from Indian Navy after 20 years service. He drew all inclusive salary of Rs. 32.63 Lacs during the year 2005-06.

**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO**

Details of energy conservation and research and development activities undertaken by the Company along with the information required in accordance with the provisions of Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is set out in the annexure to this report.

**AUDITORS**

M/s. V. V. Kale & Co., Chartered Accountants, who are the statutory auditors of the Company hold office in accordance with the provisions of the Companies Act, 1956 upto the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment.

**ACKNOWLEDGEMENTS**

The Directors thank the customers, vendors, investors, business associates and Financial Institutions and Banks for their support to the Company.

The Directors also thank the Government of India, Ministry of Shipping, concerned State Government, Mormugao Port Trust, local Government Agencies and the Classification Societies for their cooperation and support.

The Directors place on record their appreciation of the contribution made by every employee of the Company.

For & on behalf of the Board of Directors

Place : Mormugao, Goa  
Date : 12<sup>th</sup> day of August, 2006

Sd/-  
R. K. Whig  
Chairman



## **Annexure to the Directors' Report**

*Particulars pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.*

### **A) Conservation of Energy**

- (a) Energy conservation measures continued during the year :
  - Maintaining correct Power Factor to reduce low power factor charges.
  - Conduct of regular awareness programs among employees.
  - Generating air pressures only when needed by installation of constant pressure systems on compressors, mainly in blasting and painting facilities.
  - Minimized idle running of equipment like pumps, lights and drilling machines.
  - Preventive maintenance of compressors to attain maximum efficiency and preventive maintenance.
  - Using mix of welding generators with rectifiers to improve the quality of the welding.
  - Using environmental friendly green gas generators for gas cutting operations.
  - Saving energy by drawing low voltage on the lighting circuit.
- (b) Additional investments and proposals for reduction of consumption of energy:
  - Nil
- (c) Impact of measures at (a) and (b) above for reduction of energy consumption & consequent impact on the cost of production of goods.
  - The measures taken have resulted in substantial savings in the cost of production.

### **B) Technology Absorption**

1. Research and Development (R & D) :  
Specific areas in which R & D carried out by the Company
  - Development of new processes / methods/ procedures in existing systems for Shiprepair and material handling.
  - Testing and certification of products both in-house and through accredited Certification agencies to conform to international standards.
  - Customization of imported software to meet the in-house requirements of Ship repair services in the Indian environment.
  - Fabrication of typical tools, jigs and fixtures to improve the existing standard for cost effective and faster results.
  - Training of contractors to conform to ISO-9001:2000 standards.
2. Benefits derived as a result of above R & D:
  - Import substitutions.
  - Cost reductions / better utilization of material and energy.
  - System Standardization and upgradation.
  - Improvement in Quality and Customer Service, including Customer Satisfaction.
  - Minimizing environment pollution.
  - Faster delivery and turnaround time for vessels.
  - Improved customer presentations.
3. Future Plan of Action
  - Improvement of systems and shiprepair /Rig repair methodology.
  - Introduction of new products and processes for better results.
  - Improving interaction with Research agencies involved with Shiprepair and Rig repair technology.

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4. Expenditure on R & D

The use of fully integrated software covering areas of production and manpower planning, co-ordination, commercial costing, personnel, inventory and Accounts Management using a customized software are a strategic part of the Company's capital expenditure.

Technology Absorption, Adaptation and Innovation :

## 1. Efforts in brief made towards Technology Absorption, adaptation and innovation :

- Use of trained and experienced personnel from technical institutions/ Shipbuilding Institutions, for keeping them abreast of the changing technologies and methodology of Ship repair and ship building.
- Participation in national and international conferences, seminars and exhibition.
- Imparting Training to Direct / Indirect / Contractor Staff employed for ship repairs.
- Technology absorption through interaction with experts.
- Feedback Analysis from customers.

## 2. Benefits derived as a result of the above efforts

Eg. Product improvements & Cost reduction.

- Improvement in existing systems, Quality Assurance, Safety and Customer Satisfaction.
- Cost reduction in production.

Information regarding Technology imported during the last five years.

<u>Technology imported</u>	<u>Year of Import</u>	<u>Status</u>
• Nil	N.A	N.A

C) Foreign Exchange Earnings And Outgo :

During the year ended 31.3.2006, the Company's repair income received in foreign exchange is Rs. 319.49 lacs as against an expenditure in foreign exchange equivalent to Rs 112.23 lacs during the same period. The details of the same are placed in the notes to the accounts.

For & on behalf of the Board of Directors

Place : Mormugao, Goa  
Date : 12<sup>th</sup> day of August, 2006

Sd/-  
R. K. Whig  
Chairman





## MANAGEMENT DISCUSSION AND ANALYSIS

### I. Industry Structure and Developments :

Ship repair units are manufacturing units as per the provisions of the Factories Act and rules thereunder. The manufacturing process involves the continuous replacement of various ship parts to enhance the life, value and operating performance of the vessel. The Ship repair units are therefore, dependent on the Shipping Industry and the non-shipping sectors like dredgers, Naval & Coast Guard vessels, ONGC rigs, Offshore Support Vessels, Port craft, etc.

In India, the major shipyards are the Public sector yards like Mazgaon Docks, Hindustan Shipyard Limited, Cochin Shipyard Limited and Goa Shipyard Limited. There are about 9 private sector shiprepair yards of which WISL is the largest and most modern. Indian shipyards are competitive due to low labor costs, availability of skilled work force and duty free imports. With the growing requirements of strict environmental, pollution control and safety standards and regulations, ship repair units are generally busy.

The Company has composite facilities, which is well positioned with regard to its location and proximity to the major sea-lanes at Goa, It continues to maintain very high quality of its services with timely delivery and competitive prices. It continues to retain its strong position as a leading ISO 9001:2000 shiprepair yard with certification from BVQI (Bureau Veritas Quality International). This has helped the Company in building customer confidence and an international customer base.

### II. Opportunities and threats

Your Company continues to focus more on private sector and foreign ship owners and rig operators who are emerging as the front runners of growth. This segment also offers your Company better terms of payments. The public sector units are also cultivated, as they have a major share of the shipping fleet. This will help in gaining a larger market share and a better customer mix.

Though no rig repairs were undertaken during 2005-06, your Company sees a bright future in the Rig repair business. The Rig repair business brings with it an attendant clientele in the form of offshore supply vessels, which support the rigs. Your Company has emerged as one of the leading Rig repairers in India having repaired 3 rigs at Goa. As rig repair involves a separate resource planning facility and technology, your Company has undertaken a long-term diversification strategy and is confident of bagging at least two rigs each year. Your Company expects the prospects for rig repair business to be bright with long term growth in oil production and exploration.

However, the Company is exposed to the threat of intense competition in the Shiprepair business from international players from China, Colombo and Dubai. Your Company is equipped to meet this challenge through excellence in quality, international network of agents, interaction with ship owners, etc.

#### **Future plan of action:**

During the year, your Company has taken up shipbuilding activities with the construction of a jack up barge. This will utilize the slipway and common resources like manpower, utilities and will also spread the overheads resulting in lower operational costs.

### III. Internal control systems and their adequacy

The Company has adequate internal control systems for its business processes, monitoring the efficiency of operations, financial reporting, compliance with applicable laws and regulations etc. The audits are conducted on quarterly basis to review the adequacy and effectiveness of internal controls and suggest improvements for strengthening them. The Company has an Audit Committee to regularly review the internal audit reports and the follow-up actions. The internal control plans are made with regard to risk perception, evaluation of the business process risks and risk mitigation measures.

## WESTERN INDIA SHIPYARD LIMITED

**IV. Financial**

By the end of the financial year ended March 31, 2006, the Company has received the restructuring packages from ICICI Bank Limited, Stressed Assets Stabilization Fund, Industrial Investment Bank of India, Bank of India and State Bank of India. The rehabilitation packages, including that of the UTI Asset Management Co. Ltd., are expected to have a favorable impact on the working of the Company in the long run by increasing, liquidity, postponement of repayment schedules for debts and reduction of interest outflow.

**V. Material developments in human resources / industrial relations front.**

The Company has well defined appraisal system to assess and reward its employees. There are ongoing programs for training in safety, production and quality control methods. The Industrial relations are harmonious and cordial.

**CAUTIONARY STATEMENT**

Certain statements made in this Management Discussion & Analysis Report relating to the Company's objectives, projections, expectations, estimates, etc. may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results may differ from such expectations, whether express or implied. Several factors that could make a difference to the Company's operations include working capital and raw material availability, prices, demand and supply patterns, Company's price tariffs, changes in Government regulations, tax regime, economic developments within India and the countries in which the Company has clients, competition, rehabilitation measures, climatic conditions, natural calamities, etc. over which the Company does not have any control.

For & on behalf of the Board of Directors

Place : Mormugao, Goa  
Date : 12<sup>th</sup> day of August, 2006

Sd/-  
R. K. Whig  
Chairman

**PERFORMANCE INDICATORS**