Shipping Sector Investment Report

April 2004

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Highlights

- i-maritime had in its equity research report dated September 2000 predicted a boom time for shipping industry in the coming years and today this prediction stands vindicated. i-maritime continues to be bullish on this sector though it does not rule out minor aberrations in the upward march.

- The year 2003 was a year of records for the industry. The freight rates across all segments were at their all time highs mainly driven by disruptions in the supply chain which resulted in steep increase in ton-miles and accumulation of inventories, substantial jump in steel production (e.g China up by 21%, Japan up by 10% & India up by 5%) and growth in coal trade of over 9%.

- We expect the freight rates to be firm over the next 18-24 months on the back of strong growth in China & India and upcoming recovery in the USA and Japan.

- But the rising shipbuilding output which stands at 22.5 million cgt beating the previous record of 21.2 million cgt in 1977 and sustainability of the China GDP growth rate are main areas of concern.

Our Assessment of Shipping Sector

Company	Value Drivers
Shipping Corporation	Disinvestment
Great Eastern Shipping	Growth
Essar Shipping	Group unbundling / restructuring
Mercator Lines	Growth sustainability / Derisking
Varun Shipping	Management aggressiveness & diversification
Dredging Corporation	Government policy
Container Corporation	Removing bottlenecks

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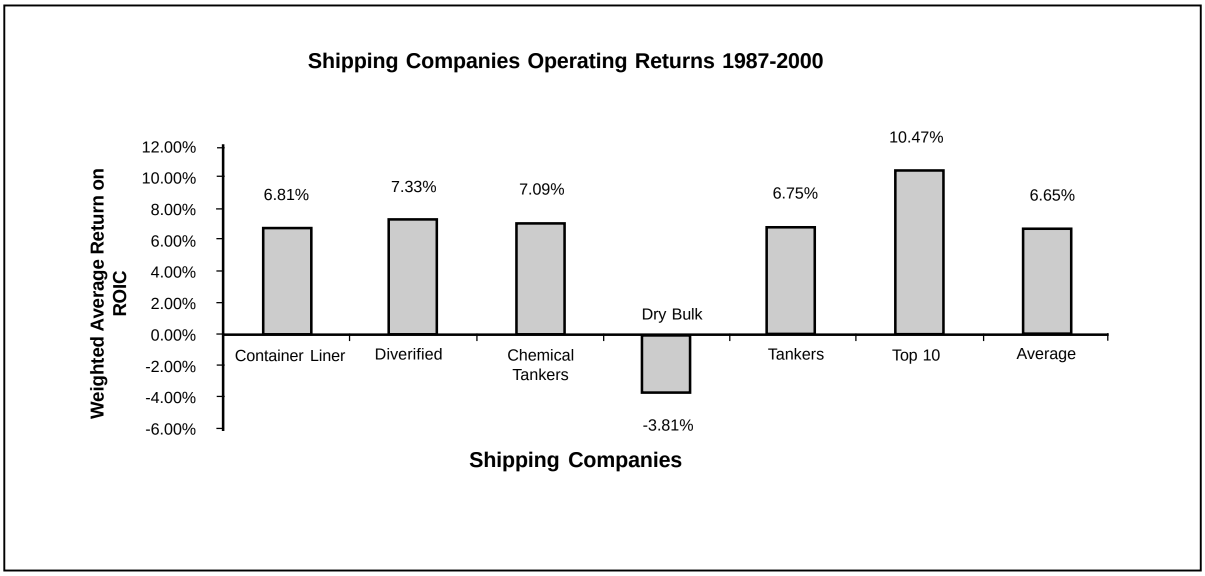
Background

Ships, as an asset class, are very capital intensive and a ship costs anywhere between US$ 5 million to US$ 80 million depending on the size and specifications. One LNG ship costs around US$ 150-170 million. Therefore, the biggest challenge for shipping companies is their ability to raise sufficient capital either by way of equity or debt and in this report we have examined briefly the financial markets vis-à-vis the shipping industry and major issues facing it, especially when it comes to tapping the equity markets.

Since ships are a very liquid asset and can be bought and sold very easily in the international markets, they are often financed through debts, which could be as high as 80-90% of the total cost. There are specialized ship financing institutions such as KfW, world's second-largest ship lender, HSH Nordbank AG, the world's largest ship mortgage lender, First Ship Lease of USA, the only leasing company exclusively focused on the maritime industry, Credit Agricole Indosuez of France to name a few.

Internationally, there are multiple financing structures and products available such as syndicated lending, insurance, enhanced financing, securitization, various leasing structures, mezzanine finance, KGs and other partnerships, high yield debt, etc. which can be used for financing acquisition of vessels. Germany is one of the leading financial centers for private equity and there are special purpose vehicles (SPVs) e.g. KGs, which raise finances from high networth individuals (HNIs) and invest in acquisition of ships which are then leased out to professional ship operators such as Frontline, V-Ships, etc for specified tenure of 10-12 years. The investors get an annual return on such investments and also a share in the profits as and when these ships are sold on expiry of the tenure.

From an investment point of view, the shipping companies can be broadly classified into two categories – niche companies and diversified companies. Niche companies focus on only one segment of the industry such as containers, dry bulk, tankers, etc. and examples of these are P&O Nedlyod of Europe (containers), Teekay of USA (tankers) and Golar LNG of UK (LNG). The diversified companies include MOL of Japan and A.P. Moeller of Denmark. A quick glance at the chart below indicates that the top 10 companies, which are typically diversified, have given a return of around 10% over the last 14 years followed by smaller diversified companies at 7.33%. On the other hand, the niche companies on an average have returned less than 7%.



Analysis of Shipping Stocks

We now analyse the price earnings multiples of some of the major shipping stocks listed at the NYSE and compare them with S&P 500. As we can see from the adjoining table, the P/E multiple of shipping companies is about 50-60% of the S&P 500.

Company	Price US $	Earnings* US $/Share	P/E*
S & P 500 (Index)	1143.94	-	18.9
Shipping Majors			
Gen Maritime	23.71	2.29	10.4
OMI Corp	10.32	1.31	7.9
Stelmar Shipping	26.95	3.28	8.2
Teekay Shipping	64.34	7.16	9.0

* Based on earnings forecast for FY04

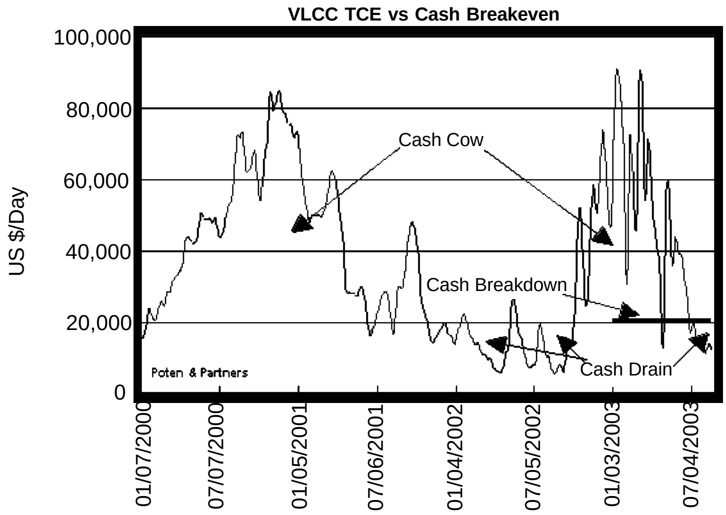
Looking at the P/E multiples, one might assume that the return to shareholders is low. But a comparison of last 3 years CAGR of four listed shipping companies vis-à-vis S&P 500 indicates to the contrary.

International Shipping Companies-Share Price (US $/Share)					
Year	S & P 500	General Maritime Shipping	OMI	Stelmar Shipping	Teekay Shipping
February-04	1144.94	21.3	10.81	28.72	66.67
June-01	1224.42	14.60	5.61	17.40	40.02
CAGR	**-2.48%**	**15.19%**	**27.85%**	**20.65%**	**21.06%**

We examine below some of the major reasons for this lack of interest on part of investment community.

1. Choppy revenue streams

The reason for this is the volatility in freight rates, which is driven by the mismatch in demand and supply for vessels. A shipping company makes money when the freight rates are more than the break-even costs of operating the ship and this is as high as US$ 20,000/day per VLCCs and US$ 13,000/day for container lines (including the cost of capital).



The above chart shows that VLCCs have been extremely productive cash cows for most of the period since 2000. In 2000 there were 49 weeks above cash breakeven and 39 weeks in 2001. 2002 was clearly not a kind year for VLCC owners with only 15 weeks above cash breakeven.

The table below highlights the degree of volatility in earnings for Teekay Shipping, which is considered one of the world's largest and professionally managed tanker companies with around 150 tankers and transporting about 10% of the world crude cargo.

(US $ mn)

	1998	1999	2001
	Average Market	Low Market	High Market
Net Income	71	(20)	337
Actual EPS	1.96	(0.61)	8.31

2. Poor Analysts and Investor following

This is perhaps the result of readily available debt financing for asset acquisition and owners need not rely on equity capital for the purpose. As a result, there is scarcity of information for investors to take informed decisions and very little efforts are made to educate the investors on the business dynamics of shipping industry.

Moreover, there are few opportunities for equity investments given the fragmented nature of the industry. This is most pronounced in the tanker industry where there are around 600 companies which own the 3,500 strong tanker fleet. The top 10 tanker companies own just about 10% of the total world tonnage.

However, in the Indian context, things are different as most of the prominent shipping companies are listed. The reason for this is perhaps the absence of asset-based financing and hence the need to rely on traditional balance sheet financing, which calls for appropriate mix of debt & equity. Of the top 12 domestic shipping companies, six of them are listed and account for almost 90% of the capacity.

Top 12 Shipping Companies in Indian Shipping Industry*

No	Company	No of Vessels Owned	dwt('000T)	Break up of Fleet	Listing
1	Shipping Corporation of India	92	4,304	54% Crude Tankers, 24% Dry Bulk & 22 % Others	Listed
2	Great Eastern Shipping	69	2,403	59% Crude Tankers, 28% Product Tankers, 13% Others	Listed
3	Essar Shipping	34	1,352	68% Crude Tankers, 28% Dry Bulk, 4% Others	Listed
4	Mercator Lines	18	462	99% Crude Tankers	Listed
5	Surendra Overseas	6	310	100% Bulk Carriers	Unlisted
6	Varun Shipping	12	255	39% LPG Tankers, 38% Product Tankers, 16% Dry Bulk Carriers, 7% Others	Listed
7	Sanmar	6	267	44% Bulk Carriers, 56% Product Tankers	Unlisted
8	Radiant	8	205	100% Bulk Carriers	Unlisted
9	West Asia Maritime	4	205	100% Bulk Carriers	Unlisted
10	Chowgule Steamship	7	193	100% Bulk Carriers	Listed
11	Tolani	4	156	100% Bulk Carriers	De-listed
12	Shreyas	7	73	100% Containers	Listed
	Total	**267**	**10,185**		

* as on 31st December 2003

In the following section, we examine the performance of the domestic shipping companies in terms of returns to investors and in comparison to their global peers.

Indian Shipping Stocks – an analysis

The stocks of all domestic shipping companies have been racing upwards and have reached their all time highs. In fact, three out of the five prominent shipping stocks have outpaced the sensex in terms of CAGR over the last 8 years as can be seen from the table below.

(Price/share in Rs.)

Year	Sensex	SCI	GE	Essar	Mercator	Varun
2003	5838.96	180.65	153.60	26.65	257.25	28.15
1995	3114.08	30.00	47.00	60.00	35.00	35.00
CAGR	**8.17%**	**25.16%**	**15.95%**	**-9.65%**	**28.32%**	**-2.69%**

What are the reasons? We have a look at the possible major factors influencing them.

Galloping charter rates

We have compared the financial performance of the above shipping companies for the first three quarters of FY04 and FY03 to evaluate the impact of the recent surge in charter rates on the total income and profits. As shipping companies have high operating and financial leverage ratios, even a small increase in the top line translates into a large increase in the PBDIT. Further, the falling interest rates have enabled most domestic shipping companies to reduce their borrowing costs and as a result, PBDT has risen even more sharply and is as high as 3.5 X revenue increase like in case of Essar Shipping. Mercator Lines is an exception because of its aggressive expansion in the last one year and consequent rise in depreciation and interest costs.

Particulars	SCI	GE	Essar	Mercator	Varun
Total Income	23.57%	27.72%	10.91%	259.45%	14.62%
PBDIT	51.87%	33.53%	19.27%	243.76%	24.85%
PBDT	50.37%	35.12%	36.99%	230.69%	35.46%

As a corollary, a small fall in freight rates could cause a significant decline in the profits.

Tonnage Tax – a Step in the Right Direction

Shipping being a strategic industry is given a preferential treatment by most governments across the world. More than 90% of world tonnage is on a low taxation regime of 2%-3% while Indian shipping companies have to pay normal corporate tax rates. Though there is a special rebate under section 33 AC, which has reduced the effective tax rate to around 7-15% of the profits (depending on the extent of amounts transferred to special reserves), it is still not felt sufficient by the industry. TERI came out with a study on Indian Shipping and came to some staggering statistics on the potential of Indian Shipping Industry. The report shows that about Rs. 5135 crore can be added to the GDP of the country by 2027 by replacing the corporate tax regime with the tonnage tax regime. On the other hand the report predicts a 30% decline in the tonnage under Indian flag if GOI continues with the corporate tax regime. So the government is considering introduction of tonnage tax regime on lines of European countries.

In this regard, the Rakesh Mohan Committee formed by the government has recommended a tax regime in which Indian companies would pay tax based on the notional profit method calculated on the basis of "Net Registered Tonnage" (NRT), i.e., the actual cargo carrying tonnage. The committee has suggested tax rates, which would bring Indian companies tax on par with other global shipping companies. The initial rates proposed are as follows:

- Rs. 40 for NRT between 100 and 1,000
- Rs. 30 for NRT between 1001 and 10,000
- Rs. 25 for NRT between 10,001 and 25,000
- Rs. 15 for NRT above 25,001.

The rates are per day /100 NRT.

The companies would be required to transfer 20 % of their annual profits to a special reserve, which will have to be used for acquisition of ships within eight years. Also the companies opting for this new tax regime should be locked in for a period of 10 years.

We have analyzed the implications of the proposed tonnage tax to assess the extent to which the major domestic shipping companies are likely to be benefited vis-à-vis the existing tax regime.

Tax liability under tonnage tax and U/S 33 AC - a comparison

(Rs. mn)

Company Name	Shipping Corporation	Great Eastern	Essar Shipping	Varun	Mercator	Total
Estimated PBT for FY04	5,536.80	3,810.20	1,044.00	263.53	383.11	11,037.64
Apprx. tax liability under current regime	804.40	282.20	109.00	20.26	47.19	1263.05
Tax under current regime to PBT	14.53%	7.41%	10.44%	7.69%	12.32%	11.44%
Tonnage Tax liability	139.21	67.76	34.61	9.57	13.44	264.60
Tonnage Tax to PBT	2.51%	1.78%	3.32%	3.63%	3.51%	2.40%
Tax paid in 2002-03	-860.00	290.00	-15.00	10.00	16.00	N.A
PBT for 2002-03	1,888.00	2,458.00	618.00	124.00	70.75	5,158.75
Tax paid to PBT	N.A	11.88%	N.A	8.06%	22.61%	N.A

Please note that the estimates given above are only illustrative and the committee recommendations have not yet been accepted by the government and may undergo some changes when introduced in its final form.

Note

1) Tax liability under current regime is estimated on basis of latest available quarterly results
2) Estimated PBT for FY04 is by i-maritime research and arrived by annualising the latest available quarterly results
3) NRT estimate source - Company management & Register of Ships 2002

Some cause for concern

The recent decision of Transchart, the government arm, which arranged for contracts on behalf of the oil PSUs, to allow Indian Oil Corporation (IOC) the right to buy crude on C&F basis has caused some concern amongst the domestic shipping companies. So far Indian shipping companies have had the first right of refusal for transporting of crude for the public sector oil companies and more than 50% of IOC imports were handled by the Indian fleet. This development will allow the crude suppliers to deliver crude at Indian shores by making their own shipping arrangement thereby forcing domestic companies to compete with the foreign companies for these supplies. However, since Indian flag vessels normally get berthing priority and enjoy lower port charges, they may still be in advantageous position vis-à-vis foreign flag vessels.

Comparison of Global Peers vs Domestic Shipping Companies

	52-Week Range High	Low	Market Cap US $ mn.	Price/EPS *
Global Peers	US $			
Teekay	69.75	36.20	2,560	7.20
Frontline	35.89	9.75	2,080	4.70
OMI	11.38	4.38	850	7.10
Genmar	23.98	7.20	747	6.60
Domestic Companies	Rupees			
Shipping Corporation	202.70	50.20	844	8.20
Great Eastern Shipping	175.15	35.75	523	7.42
Essar Shipping	33.25	4.80	136	7.80
Varun Shipping	33.40	9.00	38	7.03
Mercator Lines	302.25	19.00	31	4.40

* As on March 15, 2004. Projected EPS for FY 04 are estimates of i-maritime Research Division based on latest quarterly results

From the table, it seems that the domestic companies are at par with their global peers and the upside from the current levels would largely be driven by the ability of the companies to grow aggressively through asset acquisitions as any further surge in charter rates may not happen in near future.

Conclusion

The shipping industry is a very cyclical industry and timing of entry into and exit from a shipping stock is most important. Our observation is that shipping companies across the globe will continue to do well for at least the next 1-2 years but much will depend on the speed and extent of recovery of developed economies such as USA, Japan and Germany, sustainability of high growth rate of Chinese economy and supply pressure exerted by new tonnage expected to join the world fleet over the next two years.

In the following sections, we briefly look at the developments in the global economy which has close linkages with the fortunes of the shipping industry and also examine the various segments of the industry to provide our readers with a perspective on its business dynamics and some insight on its future prospects.

We believe that Indian Shipping is once again showing growth potential with favourable tax regime in the form of tonnage tax, with global buyoyance in freight rates an with the ability of Indian Shipping Companies to raise the required capital for ship acquisition by a prudent mix of debt an equity. However, the current tonnage increase is taking place at the peak of the business cycle.

A brief write-up on each of the major domestic players is provided in the Annexure. We have also provided a brief write-up on two other companies whose fortunes are linked to the shipping sector – Container Corporation of India Limited and Dredging Corporation of India Limited.

Economic Outlook

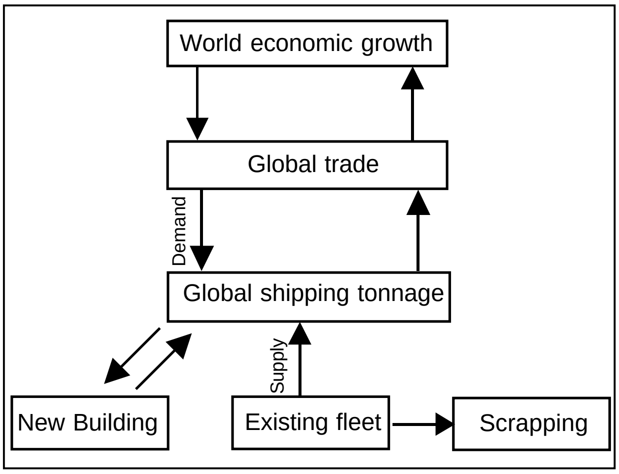
Global Economic Growth Forecasts

(%)

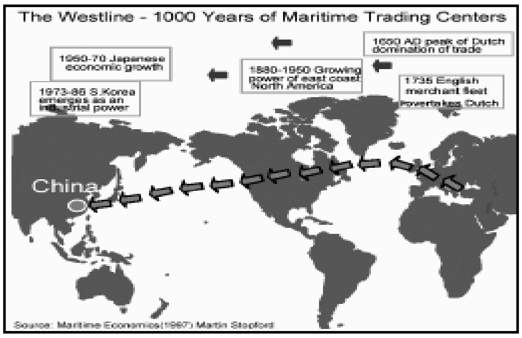
	2001	2002	2003 (Forecasts)	2004 (Forecasts)
World Output	2.4	3.0	3.2	4.1
Advanced Economies	1.0	1.8	1.8	2.9
: USA	0.3	2.4	2.6	3.9
: Japan	0.4	0.2	2.0	1.4
: EU Area	1.5	0.9	0.5	1.9
Developing Countries	4.1	4.6	5.0	5.6
: China	7.5	8.0	7.5	7.5
: India	4.2	4.7	5.6	5.9

Source: IMF

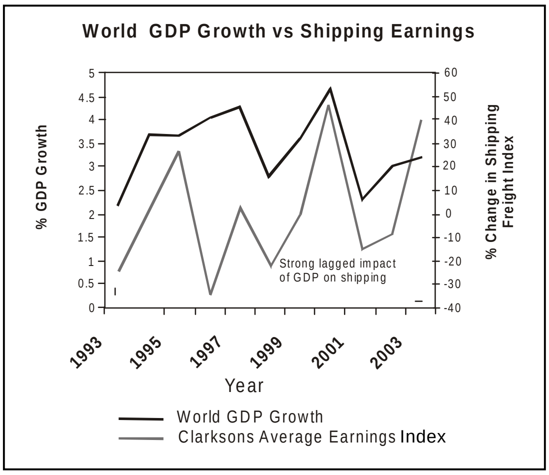
Relationship between Economy,Trade & Shipping



The Westline reached China in 2003



(Source : Clarksons)



(Source : Clarksons)

- According to World Economic Outlook released by IMF, the Global Economy is showing signs of recovery. According to this report developing countries are coming out of their sluggish growth. USA too after reeling under terrorist attacks and corporate scandals and bankruptcies is poised for recovery.

- Worldwide prices of commodities are increasing because of weakening of US dollar and increase in demand for commodities from Industries. Economist's commodity price index has risen by 16% in dollar term in last one year and a significant part of this rise is due to increase in demand of commodities. This points towards industrial recovery, which is a positive sign.

- World output growth in 2003 was 3.2% and is forecasted to grow by 4.1% in 2004.

- Momentum of growth in developing countries in 2003 was 5.0% up from 4.6% in the year 2002 and is expected to accelerate to 5.6% in 2004.

- But there is a looming danger, which may spoil the party, and it is uncertainty regarding US economy. Since 1995 almost 60% of the global growth in world output has come from USA and this has been due to rising spending. But its mounting current account deficit that is now over 5% of GDP and rise in unemployment may reverse this trend and this may affect the global economy adversely.

- As per Martin Stopford, MD Clarksons, China has helped the global Shipping Industry to achieve some of its best trading results for a century. Almost every sector of the Shipping Business is booming and Clarksea Index has surged to an all time high of US $ 31,984.

- According to estimates of CMIE Indian economy is expected to grow by more than 8% in fiscal year 2003-04 on the back of excellent monsoon and resurgence in manufacturing sector. In the first nine months of the current fiscal year 2004, the index of industrial production (IIP) recorded a higher growth of 6.3 per cent compared to 5.5 per cent registered in the same period of the previous year. The manufacturing sector recorded a higher growth of 6.8 per cent as against 5.6 per cent in the comparable period of 2002-03.

- However, the performance of core sector continued to cause some concern as the growth rate declined to 3.9 per cent during April-October 2003-04 from 6.5 per cent during the same period in 2002-03.

- India is experiencing a boom in exim trade. India's exports during the period April- December of current fiscal year of 2004 has increased by 13.48% to US $ 42.4 bn. over the same period in the previous year, while its imports has grown more sharply by 24.86% to US $ 55.1 bn for the same period.

Shipping Markets

Impact of Environmental Issues

	Post "Erika"	Post "Prestige"
Age	By **2015**, vessels older than 23 years i.e. category I vessels to be banned in European waters.	By **2010**, category I vessels to be banned in all waters.
Hull	By **2015**, all single hull vessels to be banned	From October 23 **2003**, all single hull vessels are banned in European waters

(Source : i-maritime)

Crude oil supply by sea

(mn bpd)

	2002	2003E	2004F
Long Haul			
Gulf OPEC#	17.6	19	18.9
% Change	*-6.60%*	*7.60%*	*-0.10%*
Non OPEC	2	2	2.1
% Change	*2.80%*	*-0.80%*	*0.90%*
Long Haul % change	*-4.10%*	*12.60%*	*-6.70%*
Short Haul			
Non Gulf OPEC	7.5	8.3	8.2
Europe	6.6	6.5	6.5
Others	38.3	38.4	41.3
Short Haul % change	*1.40%*	*3.70%*	*2.40%*
Total	**76.5**	**79.4**	**81.5**
Total % change	***-0.40%***	***3.90%***	***2.60%***

N. B.
1. Long haul = exports over 5,000 miles from their main markets.
2. # Long haul Gulf OPEC excludes short haul Iraqi exports.
3. Total includes NGLs and processing gains

(Source: Clarksons)

Tanker freight rates

(US $/day)

Rates	2003	Last six months		2002	2001
		High	Low		
Aframax	33,772	52,453	16,505	18,954	30,759
Suezmax	36,373	59,942	15,829	18,647	30,420
VLCC	48,992	83,080	19,433	22,030	36,017

(Source: Clarksons)

Forecasted world tanker fleet

(mn dwt)

Fleet	2002	2003E	2004F
Aframax	125.2	126.2	129.3
Suezmax	42.1	44.4	44.8
U/VLCC	22.0	22.0	22.0
Total	**296.0**	**308.3**	**318.7**

(Source: Clarksons)

Tankers

- Environmental issues have been responsible for the evolution of stringent rules & norms governing tanker shipping, which have enormous impact on world shipping operations.
- 'Prestige' accident imposed heavy regulation on tankers **and resulted into IMO banning of all single hull tankers more than 25 years old by 2005**. European union already has banned all single hull vessels from entering into their territory, and this is likely to be followed by all the developed countries.
- Currently 46% of the world tanker fleet, which stands at 136 mn. dwt, is single hulled.
- The tanker freight rates have significantly increased in 2003 mainly on account of increased oil trade, especially in the long haul route by over 12.0% over 2002, due to increased crude imports of around 3.4% over 2002.
- The oil supply by sea in year 2004 is likely to grow at around 2.6%. However, the oil supply over long haul is forecasted to register a negative growth of around 7 % in 2004 on account of
  - Lower demand from European Union. Oil demand is mainly from the transportation sector, which is increasingly switching to natural gas and this is acting as constraining factor for demand growth.
  - Reducing oil imports by North America, which is the biggest oil importer in the world, as Canada is expected to start sand oil production and will supply it to North America through established pipeline network by means of bilateral trade agreement.
- Further the crude imports are likely to grow only at 1.7% in 2004 down from 3.4% a year earlier while the net fleet tonnage is likely to increase by more than 3%.
- Therefore, while rates are likely to be stable over next five - six months, it may soften a bit in subsequent period. However young double hull fleets are likely to enjoy premium rate over the older single hull fleets especially in the European region.
- In the Indian context, there are certain positive and negative developments
  - On the positive side, many foreign vessel owners are disposing their single hull vessels and this provides opportunity for Indian companies to acquire them at very attractive prices.
  - On the negatives side, recently IOC has been given freedom to buy crude on C & F basis, which means that the suppliers may use their own vessels to transport crude to India. This could force Indian fleet owners, especially SCI, to redeploy their tanker fleet in international cross – trades, which is a very competitive and could affect their margins.

Dry Bulk

World Seaborne Trade of Bulk Commodities

(mn tonnes)

Commodity	2002	2003E	2004F
Iron Ore	474	515	561
Coal	547	592	602
Grains	268	267	265
Bauxite/Alumina	54	54	54
Phosphate Rock	26	26	27
5 Major Bulks	1,369	1,454	1,510
Minor Bulks	705	721	738
Total Bulk	**2,074**	**2,176**	**2,248**
Other Dry Bulk	1,523	1,569	1,616
Total Dry Bulk	**3,597**	**3,744**	**3,864**
% Change	2.22%	4.09%	3.21%

(Source: Clarksons')

Dry bulk freight rates

(US $/day)

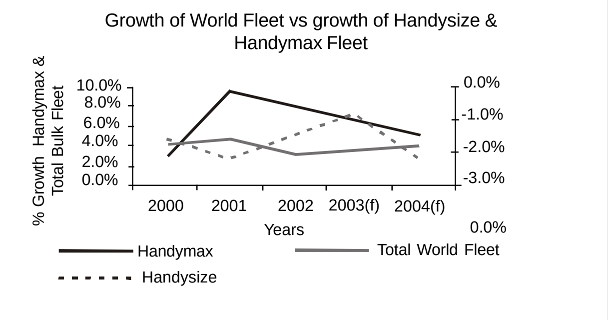
Rates	2003	2003		2002	2001
	Avg.	High	Low	Avg.	Avg.
Capesize	26,421	65,928	15,670	14,674	11,600
Panamax	13,122	36,035	9,406	8,881	8,977
Handymax	12,883	22,313	9,275	7,536	8,141
Handysize	9,043	13,625	7,660	6,747	6,807

(All rates are 1 year T/C rates for ships not older than 10 years as on December end 2003) (Source: Clarksons')

World bulk fleet composition age-wise

Age in years	Handy-size	Handy-max	Pana-max	Cape-max	Total Bulk
0 - 4	7.6	16.1	22.9	23.8	**70.4**
5 - 9	9.6	16.8	20.9	28.0	**75.3**
10 - 14	3.4	4.8	7.8	18.4	**34.4**
15 - 19	17.4	11.2	9.5	15.0	**53.1**
20 +	34.4	7.5	14.3	11.7	**67.9**
Total	72.4	56.4	75.4	96.9	**301.1**

(As on October 2003, in mn dwt) (Source: Clarksons')



- Currently (March, 2004) dry bulk freight rates are on a record high with Capesize rates up by 231%, Panamax rates up by 262%, Handymax rates up by 232% and Handysize rates up by 159% since March 2003. Major reason behind this being the increase in world sea borne trade especially in the bulk commodities, which grew by around 4% in 2003 and congestion in ports situated in China & Hong Kong.

- Total dry bulk fleet in 2003 grew by 2.5% over previous year to 303.5-mn dwt and is projected to grow by around 3.2% in 2004. The global dry bulk trade is projected to grow by an equivalent percentage.

- Global fleet of Handymax and Handysize vessels are expected to grow by +6% and –1% respectively in 2004 from their level of 54.1mn dwt and 72.5 mn in 2003. Panamax and Capesize vessels are forecasted to grow by around 5% in 2004 from their current level of 75.8-mn dwt and 99.3-mn dwt respectively in 2003.

- Almost 43% of total world bulk fleet in terms of dwt consists of Handy ships (Handymax & Handysize). Reasons behind it are their versatility, their being preferred ships for coastal movements, and lower drafts requirements.

- The trade in finished steel product, a major driver of demand in the Handymax sector has increased on the back of strong demand from China which increased to 40 million tonnes in 2003 from 25 million tonnes in 2002. This trade is likely to remain firm in 2004.

- Trade in other minor bulks, another major driver of demand in the Handymax and Handysize ships is growing steadily in last few years and is supposed to maintain its 2% growth rate in 2004.

- As the number of Handysize ships are declining consistently and Handymax ships are forecasted to grow at the moderate rate, we expect the current freight rate in this segment to continue.

- Freight rates of Panamax and Capesize vessels are also likely to continue to benefit from continuing expansion of Chinese economy on account of its increased demand of iron ore, thermal and coking coal, and a surge of recovery in US and Japanese economy.

- The only looming danger for charter rates is the reduced scrapping of Handy ships, which will increase supply of these vessels and the complete reopening of nuclear power plants in Japan by early 2004, which might adversely affect the freight rates.

	Capesize	Panamax	Handymax & Handysize
Major Drivers	Trade in Iron Ore. Coal, Salt, Grain	Iron ore, Coal, Grain, Bauxite, Phosphate	Grain, coal, steel Products, cement, potash, rice, sugar, gympsun, Forest products, Scrap, NFM cres, Vehicles
Major Import Export Region	EU 15, Japan, China, S Korea, USA, Australia, Brazil, India, South Africa	EU 15, Japan, China, S. Korea, Australia, Brazil, India, South Africa, USA	EU 15, China, S Korea, USA, Japan India

(Source: Clarksons)

Gas

- Gas market can be broadly classified into LPG, Ammonia and LNG. They are briefly described below.

LPG & Ammonia

- LPG gas carriers are used to carry LPG, i.e. Propane and Butane and other gases like Ammonia, and Ethane.

- World LPG fleet, which is summarized in the adjacent table, indicates that large part of the fleet is older than 20 years or more. Though economic life of LPG carrier is 30 years, looking at the tanker regulation and characteristics of cargos transported through LPG carriers, one might see similar norms imposed on LPG carriers if any accident occurs.

- World LPG demand is envisaged to be 250 mn tons for 2005, up from 232 mn tons in 2003, with major growth driven by Asia's growing consumption.

- Worldwide trade for Ammonia is increasing mainly on account of American imports, which has increased by 25 % in first three quarters of 2003, from 4.2 mn MT to 5.3 mn MT mainly on account of increased capacity utilization of ammonia plants, and falling natural gas production in USA.

- Indian import for LPG, which has decreased over the period despite increased consumption, stood at 5 % of consumption for 2002 – 03. Ammonia import for the year 2002 - 2003 stands at 1.3 mn tons against almost 9.2 mn tons of production.

- The downward trend in this market is likely to continue in future. At present, Indian fleet has only 7 LPG carriers, and most of them operate on Indian trade. Looking at scenario of Indian trade domestic operators may be required to re-deploy their ships in international trade.

- Freight rates have been steady since last six months. And these are expected to hover at the same level for next six or eight months with a marginal increase.

LNG

- While 19th and 20th Centuries belonged to coal and crude, 21st Century belongs to the cheapest energy resource, natural gas

- 119 countries have signed Kyoto Protocol on pollution control and as per this protocol it is essential for the signing countries to switch to an eco friendly fuel. Natural gas is the preferred choice over all the fuels.

- According to International Energy Association (IEA), world natural gas consumption is expected to grow at a CAGR of 2.8% over the next 20 years, highest growth rate in energy consumption.

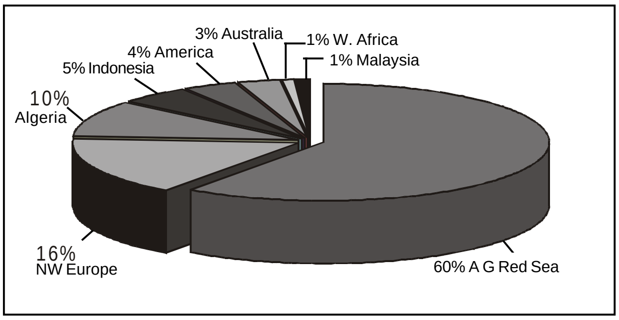
- UK's step to adopt clean fuel, has envisaged 50% of power generation through natural gas from current level of 39%. It is expected that 50% of gas demand by 2010 will be met through imports.

LPG Fleet Status

Size cbm	20+ yrs	15-19 yrs	10-14 yrs	5-9 yrs	0-4 yrs	Total
<10000	311	62	134	127	101	735
10- 20000	23	9	14	7	6	59
20 - 40000	11	5	14	13	13	56
40 - 60000	16		4		1	21
>60000	38	7	28	8	24	105
Total	**399**	**83**	**194**	**155**	**145**	**976**
Capacity '000 cbm	5114	1023	3417	1604	2873	14031

(Source : Clarksons)

Major exporters of seaborne LPG



Indian Imports of LPG

Year	Import ('000 mt)
1997-98	1200
1998-99	1173
99-2000	566
2000-01	390
2001 - 02	164
2002 - 03	127

(Source: www.indialpg.com)

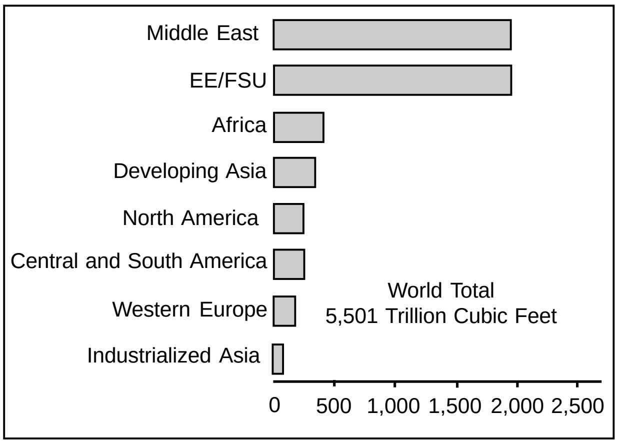
Gas carrier freight rates

(US $/day)

	Last six months		2002	2001
	High	Low		
LPG gas carriers				
-54000m^3	23,333	22,666	19,125	25,330
-24000m^3	17,000	16,000	15,700	18,600

(Source: Clarksons)

World natural gas reserves as on January 2003



(Source: International Energy Association release)

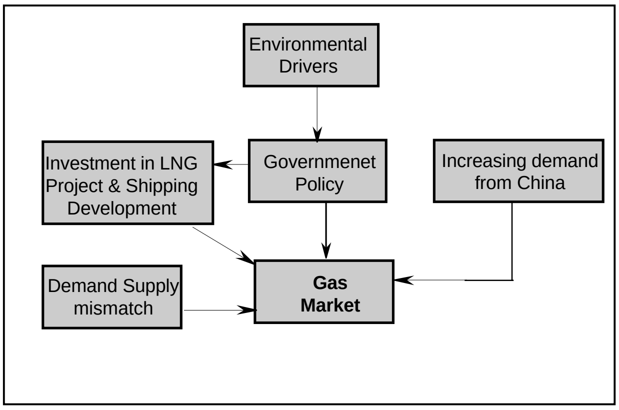
Export - Import of Natural Gas for year 2002

(bn cu.m)

Exporting countries		Importing Countries	
Indonesia	34.33	Japan	72.74
Algeria	26.88	South Korea	24.06
Malaysia	20.52	Spain	12.26
Qatar	18.59	France	11.54
Australia	10.03	Taiwan	7.00
Oman	7.96	USA	6.48
Nigeria	7.84	Italy	5.70
Others	23.84	Others	10.21
Total	**149.99**	**Total**	**149.99**

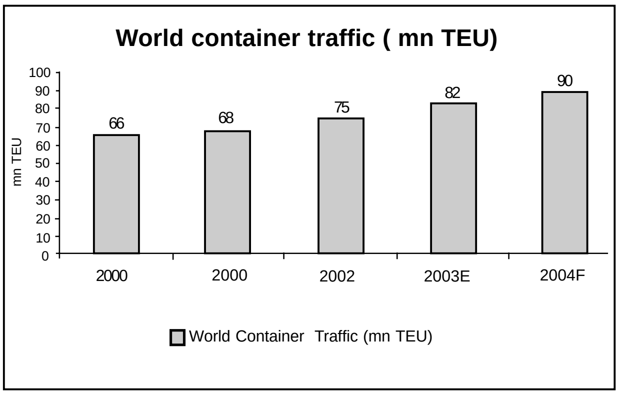
* India's import of LNG is only 0.04 mn MT or 0.052 bn cu.m
(Source: International Energy Association release)

Market dynamics of gas industry



- Despite USA stepping out of Kyoto protocol, department of energy has envisaged demand for natural gas to grow at 2.15% CAGR up to 2025 from existing 22 trillion cubic feet in the year 2003.
- World LNG fleet stands at 147 vessels with 20 additional ships expected to join the fleet by 2004 and are expected to touch 200 by 2006.
- LNG shipbuilding cost is also coming down from $ 260 mn in early 90's to $150 mn in 2003 and is expected to move further down.
- In case of LNG freight market, spot market is negligible at around 5 – 7% of total trade as all the vessels are project financed rather than balance sheet financed and hence, often chartered for long period of around 20 years time.
- However, in the recent past older generation vessels, which have completed their contracts, have started offering their capacity in spot market. On an average freight rate enjoyed by ship owners is around $ 65000 - 75000 per day.
- The Government of India has recently in its new LNG policy made it mandatory for fertilizer companies to switch to gas based technology, which will be a big demand driver. As per IEA, the Indian market is expected to grow by a CAGR around 6.3% over the next 20 years.
- There are no Indian owned LNG vessels due to the prohibitive cost. However SCI has 34% stake along with two Japanese companies in two LNG vessels contracted for twenty years by Petronet.

Containers



(Source : Clarksons')

World cellular fleet structure

	Jan-01	Jan-03	Jan-04	Jan-07F
Fleet Size (mn TEU)	4.91	6.08	6.63	8.99
Share in % of Ships :				
> 4 000 TEU	28.30	36.80	39.50	49.20
< 4 000 TEU	71.70	63.20	60.50	50.80

(Source:brs-paris)

Container activity

(million TEU lifts)

Region	2002	2003E	2004F
Europe	57	60	63
Asia	132	149	166
N. America	33	36	38
Others	41	43	46
Total mn TEU lifts	263	288	313
Total Containerised Trade (mnTEU)	75	82	90
% Growth (y-o-y)	10.1%	9.3%	9.8%

(Source : Clarksons')

Emerging trends

- The main logistic function of container is to create opportunities to exploit economies of scale and enable vessels and vehicles to operate independently by decoupling them at terminals. This has been a major driving force behind changing seaports into logistics and distribution platforms and intermodal nodes in international supply chains networks.

- A major development of increasing containerization is the integration of shipping lines and port operators. International shipping companies like Maersk Sealand, P&O, Evergreen, Cosco etc. have entered into ports operations and have set terminals across the globe. Reasons behind it are firstly that unlike bulkers and tankers, containerization involves end- to- end service and thus engages entire logistics chain. Secondly, containerization is highly capital intensive business while revenue generation in containerization is a retail activity, which makes it oligopolistic in nature leaving chances for few to be profitable as they need high volume of business to justify their investments. We expect this trend to become stronger in coming years.

- Another trend is inclusion of new and bigger ships in the fleet by the shipping companies. This is leading to ships calling at fewer ports due to increased draft requirement, specialized equipments required for handling larger ships and exploiting economies of scale. So the burden will be on roadways and railways to distribute containerized cargo to and from hinterland, placing strain on their infrastructure. This is more acute for railways since it is preferred mode for long haul as it is cheaper compared to roadways.

World scenario

- During the last decade average growth in global container activity stood at 9.2% in terms of port throughput, thus making it the highest growing market among all seaborne cargo trade segment. Total world container trade is estimated to be 80-million TEU in 2003 almost up by 10% from 73-millionn TEU in 2002.

- Out of total estimated container throughput of 275 million TEU in 2003, share of Asian ports has been rising consistently over the years and it now accounts for over 50% of total container throughput. This increase is mainly due to large volume of container traffic handled by ports in South East Asian countries and ports situated in China, which account for around three- fourth of container traffic of Asia.

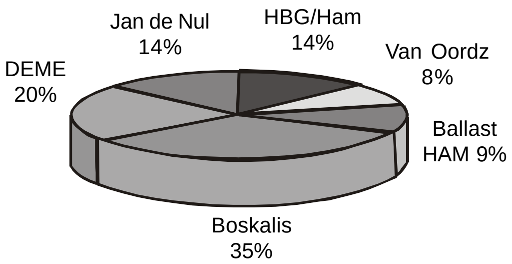
Indian scenario

- Internationally container traffic has direct correlation with total world trade as 75%-80% of world's total cargo is containerisable, while in India only 48% of such cargo are containerized. This share is likely to go up and be at par with global norms due to benefits of safe, secure and speedy transportation of containerized cargo and alignment with global standards. In last decade container traffic handled by major Indian ports has shown CAGR of over 15% and this growth rate is expected to continue in the coming years.

- Current container handling capacity of Indian ports is around 3.5 million TEUs and it is proposed to be double in next 5 years to 7 million TEUs. This means a growth of around 15% y-o-y. We estimate an investment of around Rs. 7,000 crores to achieve the desired target. Around 40% of this outlay will be on supporting infrastructure like roadways, railways, CFS etc.

Dredging

Market Shares of major Companies in Unprotected World Market



(Source : International Energy Association release)

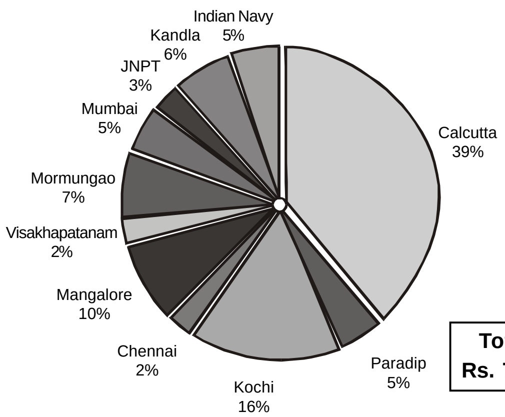
Highlights of Global Players

(mn Euros)

	Jan de Nul	Boskalis	Ballast HAM	Van Oordz
Turnover	634	1124	629	338
ROCE	10.00%	20.30%	15.80%	16.30%
Net Profit	52	82.1	51	10.8
NPM	8.20%	7.30%	8.10%	3.20%

for 2002 calendar year (Source : i-maritime)

Total maintenance dredging at various Ports



Total Rs. 7 bn

(Source : i-maritime)

- Dredging is an activity to maintain the desired draft required for a vessel to enter any Port. In many countries it is construed as more as a construction activity rather than a shipping activity. This is the reason why many benefits available to shipping industry are not available to the dredging industry including the benefit of tonnage tax available to shipping companies in many countries across the globe.
- This industry is highly capital intensive due to the huge investments in dredgers.
- Number of Projects coming up in Gulf namely "**Palm I & II**", and "**The World**", which require enormous investment and dredging activity, have attracted attention of industry and investor community.
- World's dredging industry is approximately estimated at $ 7bn. Worldwide, this is highly protected in most of countries including USA and this market can be roughly estimated at 50 %. The balance 50 % is with the leading six European dredging companies mainly from Belgium and Netherlands.
- Overall growth in Europe has been marginal but Singapore and Hong Kong witnessed high growth in dredging operations, which is expected to continue in future.
- There are 7 Indian dredging companies operating in India and the major ones are Dredging Corporation of India (DCI), Maldar, Dharti, & Jaisu. Of these DCI is the largest one with fleet of 10 THSD & 2 CSD with revenue of Rs. 5,200 mn.
- In India, East coast requires more dredging as seabed in this region is shallow compared with Western region
- New "Sagar Mala" project, announced by Government of India (GOI), with total investment of Rs. 1,000 bn. has reserved almost Rs. 30 bn for capital dredging activity.
- According to 10th Plan, capital dredging requirement for the period 2002-07 is envisaged at 144 mn cu.m against 37 mn cu.m in 9th Plan and the maintenance dredging requirement of Indian Ports is envisaged at 94mn Cu.m for 2003-04 in 10th Plan against 84 mn Cu.m for 2002-03.

New Dredging Policy

To give boost to the dredging industry and infuse competition in this sector GOI announced a new dredging policy on 19 January 2004. The new policy will be applicable to both maintenance and capital dredging and will be applicable for 3 years starting from April 1, 2004. According to this policy:

- All major ports other than KoPT would invite bids for dredging and DCI and domestic dredging companies would have the right of first refusal vis-à-vis the foreign companies, if their rate is within 10% of the lowest technically qualified offer. In case the lowest bidder is a domestic private dredger, DCI would have no right of first refusal and the contract would straight away go to the domestic company.
- While the maintenance dredging requirements of Kolkata Port Trust (KoPT) would continue to be with DCI till 31st March 2007.
- Dredging contracts already entered into by Major Ports with DCI would continue till the validity of those contracts and after that the new policy guidelines would be applicable.
- DG Shipping would also be requested to frame suitable guidelines to ensure that permission to charter foreign dredging vessels to minor ports/ private ports in India is given only if competitive bidding process has been followed for awarding the contract and the Indian shipping companies have been given the full opportunity to participate in the tender process.

Company Profile

SCI : Key Statistics as on March 31, 2003	
Book value (Rs.)	81.9
P/E	10.7
Debt-equity ratio	0.3
Dividend payout	0.3
Dividend per Share	0.0
No of share outstanding (mn)	282.3
Share Price* (Rs.)	127.2
Market Cap* (Rs. mn)	35,894

* as on March 31, 2004

Distribution of equity shareholding*

Category	% of Share holding
Promoter's Holding	80.12
Mutual Funds and UTI	5.40
Banks,Financial Institutions, Insurance Companies	3.67
FIIS	6.69
Private Corporate Bodies	1.61
Indian Public	2.35
NRIs/OCBs	0.16
Grand Total	**100**

(Source : BSE)
* as on December 31, 2003

Fleet profile

Type of Vessels	No. of Vessels Owned	dwt
Liner & Passenger Service Vessels	7	133,258
Bulk Carrier & Tanker Division Vessels		
Dry Bulk Carriers	22	938,734
Combination Carriers	1	123,465
Tanker (Crude Oil Carriers)	31	2,804,896
Tankers (Product Carriers)	11	417,208
Phosphoric Acid/Chemical Carriers	3	99,174
LPG/Ammonia Carriers	2	35,202
Total B&T Vessels	**70**	**4,418,679**
Technical & Offshore Vessels	10	17,912
Total Fleet	**87**	**4,569,849**

The above does not include:
Vessels on Lease - 1
Vessels under management - 42

(Source : Company)

Shipping Corporation of India

Corporate profile

- The largest shipping company in India with a fleet of 88 vessels (4.6 million dwt). It has all kinds of vessels – its fleet includes ten different types of vessels i.e. dry cargo vessels, cellular container vessels, bulk carriers, crude carriers, product carriers, combination carriers, LPG/ammonia carriers, phosphoric acid/chemical carriers, offshore supply vessels and passenger-cum-cargo vessels.
- The company and Japan-based Mitsui OSK Lines (Mitsui) won the $400 million Petronet LNG contract to build and operate two LNG carriers. One of them is operational and the other one is expected in December 2004.
- The SCI is a joint venture partner in the following companies; viz:- Irano Hind Shipping Company and Petronet LNG project.
- The privatization of SCI has been postponed indefinitely thus adding to to the uncertainty of its future.

Performance review

- During the quarter ending on December 31, 2003, total revenue of SCI rose by 23.35% to Rs 7575.7 million from Rs. 6141.6 million for the same period last year, while its PAT rose by 74.80% to Rs 1332.3 million from Rs 762.2 million for the same period last year and if we take into account the negative interest provision in the December quarter of 2002, the PAT has increased in the quarter ending December 2003 by 93% compared to the same period previous year. This increase is due to the strong performance of the bulk segment and a modest rise of 9.27% in total expenditure to Rs 5226.3 million from Rs 4783.1 million for the corresponding quarter last year.
- However, the performance could have been much better had it not been forced to keep on hold its expansion plans due to the privatization plans thus losing out on the opportunity to capitalize on the booming freight markets.

Prognosis

- SCI is rapidly emerging as a specialist in energy transportation, having forayed into the sophisticated field of LNG transportation.
- Encouraged by the success of the mainline container services on the UK/Continent route, SCI is planning to place higher capacity vessels on the route.
- However, SCI's future prospects depends upgradation of its ageing fleet where the average age is around 17 years. The government's decision to allow SCI to go ahead with its acquisition plans bodes well for the company.
- SCI board has now approved a fleet acquisition plan of around Rs. 8 bn ($180 mn) and the company is working on projects to order at least two 170,000 dwt capesize bulkers and a pair of 55,000 dwt product – carriers.

Summarised financial performance (Rs. mn)

	3rd Q 04	3rd Q 03	% change	Nine months FY 04	Nine months FY 03	% Change	FY 03	FY 02	% Change
Revenue	**7,576**	**6,142**	**23.3%**	**22,731**	**17,469**	**30.1%**	**24,465**	**28,959**	**-15.5%**
Total Expenditure	5,226	4,783	9.3%	16,098	14,614	10.2%	19,862	22,316	-11.0%
PBDIT	2,350	1,358	73.0%	6,633	3,680	80.2%	4,573	6,644	-31.2%
Interest (net)	117	(72)	NA	255	207	23.2%	138	226	-38.9%
Depreciation	722	615	17.4%	2,099	1,867	12.4%	2,578	2,652	-2.8%
PBT	1,511	815	85.4%	4,279	1,606	166.4%	1,888	3,690	-48.8%
Tax	44	40	11.0%	200	120	66.7%	1,274	(860)	NA
PAT	**1,332**	**762**	**74.8%**	**3,699**	**1,473**	**151.1%**	**2,748**	**2,416**	**13.7%**

Great Eastern Shipping

GE Shipping :Key Statistics as on March 31, 2003	
Book value (Rs.)	61.1
P/E	7.9
Debt-equity ratio	0.8
Dividend payout (%)	40.0
Dividend per Share (%)	69.0
No of share outstanding (mn)	190.3
Tonnage under command (mn DWT)	2.5
Share Price* (Rs.)	126.9
Market Cap* (Rs. mn)	24,159

* as on March 31, 2004

Distribution of equity shareholding*

Category	% of Share holding
Promoter's Holding	24.55
Mutual Funds and UTI	8.40
Banks,Financial Institutions, Insurance Companies	13.89
FIIS	2.93
Private Corporate Bodies	9.79
Indian Public	38.60
NRIs/OCBs	0.67
GDR	1.17
Grand Total	**100**

(Source : BSE)
* as on December 31, 2003

Fleet profile

Type of Vessels	No. of Vessels Owned	dwt
Shipping Division		
Dry Bulk Carriers	9	275,391
Crude Oil Tankers	12	1,482,980
Product Tankers	16	682,562
LPG Carriers	1	28,400
Total Tankers	29	2,193,942
Total Shipping Division	**38**	**2,469,333**
Offshore Division	31	
Total Fleet	**69**	**2,469,333**

(Source : Company)

Corporate profile

- It is the largest shipping company in the private sector with a fleet of 69 vessels and has two major businesses- shipping and offshore.
- The shipping division has 38 vessels aggregating 2.5 million dwt and the offshore division has 31 vessels.
- The shipping division accounts for around 70% of the revenues & profits and has a mix of oil & gas carriers (around 90% in dwt terms) and dry bulk carriers (around 10% in dwt terms).
- The offshore business offers drilling, marine logistics, harbour tugs and construction barge and accounts for about 25% of the revenues & profits.

Performance review

- The company's total income during the third quarter increased by 48.3% to Rs 3544.9 million from Rs. 2389.6 million for the same period previous year.
- The total expenditure of the company during the same quarter increased by 22.6% to Rs. 1745.8 million as compared to Rs 1424.2 million due to sharp increase in direct operating expenditure which rose by 47.5% as compared to the same period previous year.
- As a result, the net profit rose by more than 130% to Rs 1100.1 million from Rs 477.4 million.

Prognosis

- The company has a proven and successful policy of fleet diversification supported by a well-judged mix of period and spot charters. It has balanced the volatile shipping business with a strong offshore services business, which with its high ROCE of more than 25% lends stability to the revenues and earnings.
- The strong freight markets, especially in the dry bulk segment coupled with the ambitious expansion programme for both the shipping and offshore services division and aided by a professional and experienced management should augur well for the company in the coming years.
- The company has also divested its commodity & real estate business which should also help in greater focus on its shipping and offshore business.

Summarised financial performance

(Rs. mn)

	3rd Q 04	3rd Q 03	% change	Nine months FY 04	Nine months FY 03	% Change	FY 03	FY 02	% Change
Revenue	**3,545**	**2,390**	**48.3%**	**9,475**	**7,276**	**30.2%**	**10,156**	**11,954**	**-15.0%**
Total Expenditure	1,746	1,424	22.6%	4,723	4,204	12.3%	5,629	6,903	-18.5%
PBDIT*	1,799	965	86.4%	4,752	3,072	54.7%	4,528	5,051	-10.4%
Interest	116	100	16.2%	324	301	7.7%	390	503	-22.5%
Depreciation	531	390	36.2%	1,407	1,283	9.6%	1,680	2,020	-16.8%
PBT	1,152	475	142.3%	3,021	1,488	103.0%	2,458	2,528	-2.8%
Tax	52	(2)	NA	197	149	32.3%	292	453	-35.5%
PAT	**1,100**	**477**	**130.4%**	**2,864**	**1,339**	**113.9%**	**2,165**	**2,075**	**4.3%**

* including gain on sale of ships, other assets & investments

Essar Shipping

Essar : Key Statistics as on March 31, 2003	
Book value (Rs.)	34.9
P/E	11.0
Debt-equity ratio	0.5
No of share outstanding (mn)	301.0
Tonnage under command (mn DWT)	1.4
Share Price* (Rs.)	18.8
Market Cap* (Rs. mn)	5,659

* as on March 31, 2004

Distribution of equity shareholding*

Category	% of Share holding
Promoter's Holding	66.77
Mutual Funds and UTI	0.75
Banks,Financial Institutions, Insurance Companies	5.16
FIIS	0.62
Private Corporate Bodies	4.25
Indian Public	21.37
NRIs/OCBs	1.07
Shares in Transit - CDSL/NSDL	0.01
Grand Total	**100**

(Source : BSE)
* as on December 31, 2003

Fleet Profile

Type of Vessels	No. of Vessels Owned	dwt
Dry Bulk Carriers	6	396,906
Mini Bulk Carrier	11	24,200
Crude Oil Carriers	6	919,080
Product Carriers	3	45,824
Tugs	4	1,600
Dumb Barges	2	2,000
Total Fleet	**32**	**1,389,610**

(Source : Company)

Corporate profile

- Essar Shipping is a part of the Essar group and owns one of the youngest fleets in the Indian shipping industry. It is the third largest Indian shipping company having 32 vessels with an aggregate capacity of 1.35 mn. Dwt.
- The company's main focus is the tanker business with around 70% tonnage, and the dry bulk segment has about 25% tonnage.
- The company has the following subsidiaries viz. Vadinar Oil Terminal Limited, Essar International Limited and Essar Sisco Ship Management Company Limited. It also invested around Rs. 3.3 billions for approximately 4% stake in the Essar group companies viz. Essar Steel and Essar Oil, which has now been written off.
- Thus, while the company per se is considered to be one of the best Indian shipping companies, it suffered on account of problems in the other group companies. The company is yet to receive around Rs. 60 billions from Essar Steel, which the management is confident of recovering shortly.

Performance review

- The company's total income during the third quarter ending on December 2003 was Rs 1484.7 million as against Rs 1228.5 million for corresponding period of last fiscal, representing an increase of 20.9%.
- The expenditure of the company during the same quarter increased marginally by 1.9% to Rs. 789 million as compared to Rs 774.1 million for corresponding period of last fiscal.
- As a result, the net profit during the quarter soared to Rs 368.4 million, as against Rs 163.6 million recorded in the third quarter of last fiscal registering an increase of 125%.

Prognosis

- The problems of the company seem to be getting resolved. ABB Lummus agreed to pick up around 30 per cent stake in the company and corporate debt restructuring (CDR) package has been worked out for Essar Oil, Essar Steel and Vadinar Oil Terminal Limited, which will have a beneficial impact on the company's financial health.
- The company is planning to re-position itself as India's first sea-logistic company. For this, ESL has restructured its existing businesses by splitting it up into two groups - Energy Transportation Group and Integrated Coastal Transport Group. While the former provides sea transportation management services to the global energy industry, the latter provides supply chain management services for the sea transportation of bulk cargo and refined products.
- Given the strong freight markets and comfortable leverage position of less than 0.5, the company is well placed to build capacity and further leverage its position in the Indian shipping industry.

Summarised Financial Performance

(Rs. mn)

	3rd Q 04	3rd Q 03	% change	Nine months FY 04	Nine months FY 03	% Change	FY 03	FY 02	% Change
Revenue	**1,485**	**1,229**	**20.9%**	**4,211**	**3,337**	**26.2%**	**4,891**	**4,910**	**-0.4%**
Total Expenditure	789	774	1.9%	2,390	2,167	10.3%	2,959	2,878	2.8%
PBDIT	696	454	53.1%	1,822	1,171	55.7%	2,003	2,084	-3.9%
Interest	151	129	16.5%	418	412	1.6%	646	513	25.7%
Depreciation	163	168	-3.4%	500	500	0.0%	669	735	-9.0%
PBT	383	157	143.9%	903	259	249.3%	618	784	-21.1%
Tax	14	(7)	NA	21	(9)	NA	15	(940)	NA
PAT	**368**	**164**	**125.2%**	**882**	**268**	**229.3%**	**633**	**1,724**	**-63.3%**

Mercator Lines Limited (MLL)

Mercator : Key Statistics as on March 31, 2003	
Book value (Rs.)	63.5
P/E	6.4
Debt-equity ratio	0.1
Dividend payout (%)	25.1
Dividend per Share (%)	22.0
No of share outstanding (mn)	5.5
Tonnage under command (mn DWT)	0.5
Share Price* (Rs.)	258.3
Market Cap* (Rs.mn)	1,420

* as on March 31, 2004

Comparision of latest quarters' Profit & EPS

	Profit (Rs. mn)	EPS (Rs.)
Q3, 2003-04	13.9	25.32
Q2, 2003-04	84.1	15.21
Q3, 2002-03	17.2	3.13
Q2, 2002-03	8.8	1.61

Distribution of equity shareholding*

Category	% of Share holding
Promoter's Holding	45.82
Mutual Funds and UTI	2.60
FIIS	4.53
Private Corporate Bodies	10.18
Indian Public	33.22
NRIs/OCBs	1.41
Non - Promoter Directors & their Relatives	0.26
Clearing Members	1.98
Grand Total	**100**

(Source : BSE)
* as on December 31, 2003

Fleet profile

Type of Vessels	No. of Vessels Owned	dwt
Tankers	8	455,157
Mini Tankers	2	3,000
Tank Barge	5	3,500
Motor Launch	1	25
Tug	1	5
Total Fleet	**17**	**461,687**

(Source : Company)

Corporate profile

- Mercator Lines Limited (MLL), which was incorporated in 1983, has two divisions viz. Lighterage and Shipping. The shipping division is currently focused on the coastal and international movement of petroleum products and other liquid cargo.
- The shipping business has grown almost 4 times in capacity terms in FY04 and the company has added 4 Aframax vessels during the year at a total cost of Rs. 1.5 billion. It now has a total of 8 tankers with a capacity of 4,50,000 dwt and all are deployed on long-term charter.
- Mercator Lines has also chartered two Aframax vessels for servicing the MRPL contract, which is to be executed over an eight-month period ending March 04.
- The Lighterage operations are carried out at Mumbai Port and the company has a dominant market share of about 65%. It handles bulk liquids like petroleum products, edible oils and specialty chemicals. It has five (5) self-propelled barges and two (2) mini-tankers, which are used for these operations.
- Of the two businesses, contribution of shipping to total revenue is 90% in FY 2003 while the rest is being contributed by the lighterage.

Performance review

- FY 2003 – 04 is proving to be an exceptional year for the company. It has surpassed Varun Shipping to become the fourth largest shipping company in India and its revenue for the nine month period ending on December 31, 2003 has shot up almost 3.5 times to Rs. 1468 million from Rs. 489 million during same period last year. Its net profit during the nine-month period ending on December 2003 rose by nearly 6 times to Rs 252 million as compared to Rs 43 million for the corresponding period previous year.
- The total income for the quarter ending on December 31, 2003 was Rs. 725.3 million, almost a 300% increase over the same quarter previous year, which stood at Rs. 183.2 million.
- The net profit, which was Rs. 139.3 million, has increased over 700% over the same quarter previous year, which stood at Rs. 17.2 million. The more than proportionate increase of net profits vis-à-vis revenues were due to the fact that depreciation increased by only 29%.

Prognosis

- The huge expenditure outlay on capacity expansion is likely to stretch the debt equity ratio to 1.8 from 1.1 at the end of FY 04. So the company might have to expand its equity base so as to be able to raise more debt to fund its expansion.
- The MRPL contract, which is estimated to fetch revenue of around Rs. 1.0 bn, will be again open for tender in March 2004. In case the company does not win this lucrative contract again, it may be a setback to its revenue and profits.
- The company is not well diversified as the other players such as SCI, Great Eastern or Varun and therefore vulnerable to any adverse developments in the tanker markets. Also, since all its tankers are single-hull, an eventual migration to double-hull vessels may also be a drain on the resources.

Summarised financial performance

(Rs. mn)

	3rd Q 04	3rd Q 03	% change	Nine months FY 04	Nine months FY 03	% Change	FY 03	FY 02	% Change
Revenue	**726**	**183**	**295.9%**	**1,468**	**489**	**200.4%**	**625**	**562**	**11.2%**
Total Expenditure	518	133	290.3%	1,031	350	194.8%	435	413	5.3%
PBDIT	208	50	311.3%	437	139	214.7%	190	149	27.5%
Interest	29	12	133.6%	64	32	101.7%	41	18	127.8%
Depreciation	27	21	29.2%	87	58	50.0%	78	43	81.4%
PBT	152	17	774.9%	287	50	476.9%	71	88	-19.3%
Tax	13	0	9127.0%	35	7	385.3%	16	13	23.1%
PAT	**139**	**17**	**708.4%**	**252**	**43**	**492.6%**	**55**	**75**	**-26.7%**

Varun Shipping

Varun : Key Statistics as on March 31, 2003	
Book value (Rs.)	27.3
P/E	12.9
Debt-equity ratio	1.5
Dividend payout (%)	86.0
Dividend per Share (%)	12.0
No of share outstanding (mn)	72.5
Average age of fleet (Years)	22.5
Tonnage under command (mn DWT)	0.3
Share Price* (Rs.)	22.7
Market Cap* (Rs mn)	1,646

* as on March 31, 2004

Distribution of equity shareholding*

Category	% of Share holding
Promoter's Holding	41.22
Mutual Funds and UTI	2.13
Banks,Financial Institutions,Insurance Companies	1.12
Private Corporate Bodies	9.74
Indian Public	44.47
NRIs/OCBs	1.32
Grand Total	**100**

(Source : BSE)
* as on December 31, 2003

Fleet profile

Type of Vessels	No. of Vessels Owned	dwt
Chemical carriers	2	14,650
Product carriers	3	97,240
LPG carriers	4	98,990
Dry bulk carrier	1	42,650
Supply vessels/AHTS	2	2,170
Total Fleet	**12**	**255,700**

(Source : Company)

Corporate Profile

- Varun Shipping is one of the leading private sector companies in India owning and operating 12 vessels and total tonnage capacity of 255,000 dwt in four sectors viz. the LPG, petroleum products/easy chemicals, dry bulk and offshore sector.
- Varun was the first Indian company to commercially operate LPG carriers in India and as on date owns 61 per cent of the total Indian LPG tonnage including the largest LPG carrier in India.
- Varun set up a subsidiary, viz. VSC International Pvt. Ltd in Singapore in 1995, which presently owns the two offshore supply vessels.
- Its vessels are mainly in the mid-sized segment which is less volatile compared to large-sized segment and moreover, significant part of the tonnage (36%) is in LPG mid-size segment which also is relatively stable business.

Performance Review

- The income from operations for the third quarter ended December 31, 2003 rose by 36% to Rs 729.0 million from Rs 536.2 million during the corresponding quarter of last year. The increase in revenues was mainly due to buoyant freight rates. However, the other income fell by almost 99% from Rs. 49.7 million to Rs. 0.7 million and the total expenses rose by 24.5% resulting in a 31% increase in operating profits.
- The net profit rose by a whooping 260% to Rs 100.4 million, compared to Rs 27.9 million for the same period in the previous fiscal aided by a fall in interest costs by almost 24% between the two periods from Rs. 52.7 million to Rs. 40.2 million and a 7.52% fall in depreciation from Rs. 142.3 million to Rs. 131.6 million.

Prognosis

- The company is benefiting from the huge surge in freight rates especially in the crude tanker and dry bulk segment as large part of fleet in these segments are deployed in the spot market.
- With most of the big size chemical plants in China set to start operations in the next 2 or 3 years, there will be a good demand for product tankers, which will also benefit the company. In India, import of phosphoric acid has started increasing which will further prop up the demand for such vessels in this area.
- The gas market segment is expected to remain stable.
- The company is planning to strengthen its position in the hydrocarbon sector by acquiring additional vessels and this could further boost its revenues & profits. But the large equity base which has been more or less fully leveraged could pose a challenge for financing of such acquisitions.

Summarised financial performance

(Rs. mn)

	3rd Q 04	3rd Q 03	% change	Nine months FY 04	Nine months FY 03	% Change	FY 03	FY 02	% Change
Revenue	**730**	**586**	**24.5%**	**2,098**	**1,597**	**31.4%**	**2,367**	**2,137**	**10.8%**
Total Expenditure	449	361	24.5%	1,367	1,013	35.0%	1,530	1,306	17.2%
PBDIT	281	225	24.5%	731	584	25.2%	837	831	0.7%
Interest	40	53	-23.7%	128	143	-10.5%	195	238	-18.1%
Depreciation	132	142	-7.5%	405	388	4.4%	519	441	17.7%
PBT	109	30	258.2%	198	53	274.8%	124	152	-18.4%
Tax	8	2	249.6%	15	4	265.9%	10	13	-23.1%
PAT	**100**	**28**	**259.0%**	**182**	**49**	**275.5%**	**114**	**138**	**-17.4%**

Dredging Corporation

DCI : Key Statistics as on March 31, 2003	
Book value (Rs.)	235.0
P/E	6.3
Debt-equity ratio	0.2
Dividend payout (%)	19.5
Dividend per Share (%)	112.8
No of share outstanding (mn)	28.0
Share Price* (Rs.)	509.9
Market Cap* (Rs. mn.)	14,277

* as on March 31, 2004

Distribution of equity shareholding*

Category	% of Share holding
Promoter's Holding	98.56
Mutual Funds and UTI	0.13
Banks,Financial Institutions, Insurance Companies	0.13
Private Corporate Bodies	0.11
Indian Public	1.04
NRIs/OCBs	0.01
Clearing Members	0.01
Grand Total	**100**

(Source : BSE) * as on December 31, 2003

Fleet profile

Trailing Suction	Maximum Dredging Depth (Meters)	Hopper Capacity (in cu.m)
DCI Dredge V	22.00	3,450
DCI Dredge VI	22.00	3,770
DCI Dredge VIII	25.00	6,500
DCI Dredge IX	25.00	4,500
DCI Dredge XI	25.00	4,500
DCI Dredge XII	20.00	4,500
DCI Dredge XIV	20.00	4,500
DCI Dredge XV	25.00	7,400
DCI Dredge XVI	25.00	7,400
DCI Dredge XVII	25.00	7,400
Total Hopper Capacity		**53,920**
Cutter Suction	**Maximum Dredging Depth (Meters)**	**Installed HP kw**
DCI Dredge VII	22.00	8,500
DCI Dredge Acquarious	25.00	17,300
Total Installed Horse Power		**25,800**

(Source : Company)

Corporate profile

- DCI is the largest dredging company in India with a fleet of 10 Trailor Suction Hopper Dredgers (TSHD), and 2 Cutter Suction Dredgers (CSD). The total dredging capacity is about 80-mn cu.m. making it the seventh largest dredging company in the world.
- DCI has arrangement with Indian ports for maintenance dredging work, which, amounts to Rs. 4.06 bn over the next two years.
- The company has reported more than 100% capacity utilization having dredged more than 81 mn cu.m. against its available capacity of 80 cu.m.
- DCI has mostly small capacity dredgers and is mainly focused on maintenance dredging. In fact, it seems that they have chartered out one of their CSDs to Dredging International due to lack of capital dredging contracts.
- It sold its inland water dredgers to Inland Water Authority of India (IWAI) sometime ago and as a result will need to invest in new dredgers if it is keen on tapping the opportunities arising from "Sagarmala Project" in dredging of inland waterways.

Performance review

- The company's total income during the third quarter ending December 31, 2003 increased by 16.5% to Rs 1525.3 million as against Rs 1309 million for the same period previous year. The net profit of the company increased by 98% to 476.9 million from Rs. 240.9 million for the same period previous year. The increase in PAT is much higher due to sharp decrease of 54.4% in tax to Rs 79.1 million from Rs 173.5 million for the same period previous year.
- The expenditure of the company for the quarter ending December 31, 2003 increased by 9.4% to Rs 825.2 million from Rs 754.4 million for the same period previous year, due to 39.5% increase in repairs and maintenance which rose to Rs 113.3 million and an increase of 17.8% increase in fuels & lubricants to Rs 357 million from Rs. 303 million for the same period previous year.

Prognosis

- DCI's revenue & profit have recorded CAGR of 16.9% and 30.1% respectively over last 5 years, but the operating costs are high compared to the Global-dredging giants. However, despite its high cost, DCI is earning very high net profit margins (NPM) of 26 – 28%, due to its dominant position in the domestic industry. On the other hand, all European companies are operating at 5 – 8% NPM.
- The new dredging policy would put pressure on DCI's margins as earlier the lower limit of 10% did not exist and moreover, most contracts were secured by it on nomination basis. DCI will now have to seriously implement cost control measures to maintain its margins.
- A strong thrust on upgradation of all major ports in India, including the dredging of channels, argurs well for DCI given its dominant position in the maintenance-dredging segment in Indian market. However, DCI will have to expand its fleet size, upgrade its technology substantially and take suitable measures to forge strategic alliances to enter the more lucrative capital dredging market.
- According to company's management, the projected revenue for the year 2004 is about Rs. 4.06 bn. from maintenance dredging and Rs. 300 mn from Capital dredging contracts. However, after the announcement of the new dredging policy, this may prove challenging to achieve.
- Nearly 57% revenue of DCI comes from KoPT and this high reliance on one client makes DCI vulnerable.

Summarised financial performance

(Rs. mn)

	3rd Q 04	3rd Q 03	% change	Nine months FY 04	Nine months FY 03	% Change	FY 03	FY 02	% Change
Revenue	**1,525**	**1,309**	**16.5%**	**3,902**	**3,506**	**11.3%**	**5,195**	**5,015**	**3.6%**
Total Expenditure	825	754	9.4%	2,203	1,956	12.6%	2,734	2,822	-3.1%
PBDIT	700	555	26.2%	1,699	1,550	9.6%	2,462	2,193	12.3%
Interest	10	17	-41.4%	31	53	-40.8%	70	130	-46.2%
Depreciation	134	123	9.0%	386	368	5.1%	502	417	20.4%
PBT	556	414	34.2%	1,282	1,130	13.4%	1,889	1,646	14.8%
Tax	79	174	-54.4%	137	479	-71.4%	271	485	-44.1%
PAT	**477**	**241**	**98.0%**	**1,145**	**651**	**76.0%**	**1,618**	**1,161**	**39.4%**

Container Corporation

Concor : Key Statistics as on March 31, 2003	
Book value (Rs.)	169.5
P/E	12.1
Total TEUs Handled	1,383,000
Debt-equity ratio	0.0
Dividend payout (%)	29.8
Dividend per Share (%)	124.1
No of share outstanding (Mn.)	64.9
Share Price* (Rs.)	715.6
Market Cap* (Rs. mn.)	46,183

* as on March 31, 2004

Distribution of equity shareholding*

Category	% of Share holding
Promoter's Holding	63.09
Mutual Funds and UTI	5.24
Banks,Financial Institutions, Insurance Companies	4.36
FIIS	24.44
Private Corporate Bodies	0.68
Indian Public	2.06
NRIs/OCBs	0.14
Grand Total	**100**

(Source : BSE) * as on December 31, 2003

Wagon profile

Particulars	FY 03	FY 04	2005E
Concor's High Speed Wagon	2,595	3,135	6,000
Old Concor Wagon	1,357	1,357	1,357
Old Railway Wagon	1,500	1,600	1,600
Total No. of Wagons	5,452	6,092	8,957

(Source : Concor)

Corporate profile

- Container Corporation of India (Concor) was promoted in March 1988 under Ministry of Railways, with the objective of developing modern multi- modal transport logistics infrastructure to support India's growing international trade as well as domestic containers cargo movement. Till early 1990s, it had the sole right from the Customs to move Exim containers from the hinterland to the ports. In early 1990s, the government liberalized the movement of Exim containers and setting up of customs bonded warehouses by private sector after necessary approvals.
- The company has a formidable network of 44 Exim container depots – including 28 rail linked ICDs with CFS, 6 road served ICDs with CFS, 5 Port Container Terminals and 2 Port- side container terminals. Apart from this, Concor has 33 Domestic Container Terminals (DCTs) across the country. It provides two types of services – container haulage and terminal services. The haulage charges are for carrying the containers and freight charges to IR while terminal charges are towards stuffing & de-stuffing of containers, loading & unloading of containers, documentation and clearing activities.
- About 75% of the revenues are from haulage charges and balance is from terminal charges. Its operating profit margins are around 35% and 18% for haulage and terminal operations respectively.
- The company has been able to grow its revenues at the rate of 33% CAGR over the last decade against an increase in export and import trade of around 16% (rupee terms) as a result of increasing containerization and increased inland penetration of containers from ports to ICDs.
- It has also increased its share of Exim TEUs handled as a percentage of total port container throughput from around 18% in FY94 to 31% in FY03 by wrestling market share from the road sector as being a railroad carrier, Concor is cheaper by almost 40%.

Performance review

- During the quarter ending December 2003, total income of the company increased by 21.54% to Rs 4645.8 million as against 3822.6 million for the same period previous year. The net profit of the company increased by 43.31% to Rs 986.8 million compared to Rs 688.6 million for the corresponding period previous year. The more than proportionate increase in net profit is mainly due to the decrease of 13.31% in taxes and an increase of 19.13% in its expenditure, which is less than the increase in income.

Prognosis

- Concor is attempting to grow from a predominantly rail container transportation company to a multi-modal logistics service provider**.** Towards this end, it is foraying into new projects like participating in port projects, providing door- to- door service, establishing cold chain projects for movements of fruits and vegetables and transporting containers on East and West coast by coastal shipping.
- But our concerns are:
  - Congestion on rail routes and unavailability of wagons
  - Over dependence on one entity i.e JNPT. Concor's 60% exim TEU business comes from JNPT, which handles over 50% of India's total container traffic and 80% of Concor's trains move to and from this port.
  - No control over its biggest component of expenditure, the haulage charges, which Concor pays to IR and which constitutes nearly three-fourth of its operating cost. As per internal estimates of the management, any increase in haulage charges exceeding 1-2% affects the bottom line of the company adversely.
- Notwithstanding the above, we expect Concor to grow at around 15% given the potential for containerization (only 48% of total containerisable cargo is containerized as compared to 75-80% in the West) and the GDP growth rate of 6-7% (typically containerization grows at twice the rate of GDP growth).

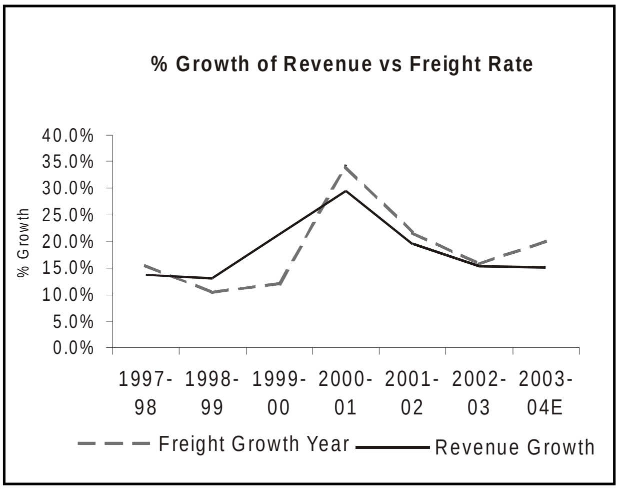
Summarised financial performance (Rs. mn)

	3rd Q 04	3rd Q 03	% change	Nine months FY 04	Nine months FY 03	% Change	FY 03	FY 02	% Change
Revenue	**4,646**	**3,823**	**21.5%**	**13,075**	**11,218**	**16.6%**	**15,338**	**13,051**	**17.5%**
Total Expenditure	3,120	2,619	19.1%	9,054	7,593	19.2%	10,564	9,099	16.1%
PBDIT	1,469	1,199	22.5%	3,963	3,619	9.5%	4,798	4,251	12.8%
Interest	1	3	-77.4%	2	16	-87.4%	27	29	-4.5%
Depreciation	132	104	26.9%	379	289	30.9%	439	335	31.3%
PBT	1,337	1,092	22.4%	3,582	3,314	8.1%	4,331	3,888	11.4%
Tax	350	403	-13.3%	1,156	1,221	-5.3%	1,602	1,393	15.0%
PAT	**987**	**689**	**43.3%**	**2,426**	**2,093**	**15.9%**	**2,729**	**2,495**	**9.4%**

Rate comparision : Concor[1] vs road[2] sector

From Mumbai To	Road	Concor
Delhi	26,000	15,900
Kolkata	22,000	17,500
Chennai	29,000	22,700

[1]- Charges in Rs. of carrying a container of 23 MT
[2]- Charges in Rs. of a truck of 20 MT



(Source : i-maritime)