


# The Andhra Pradesh Paper Mills Limited

Annual Report 2004-05

## Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.



# contents

Jakko Poyry of Finland is the world's leading consultant on the paper industry.

CRIS-Infac is the credible research arm of CRISIL, the credit rating presence of Standard & Poor's in India.

Both these industry experts are convinced that the demand for paper in India will exceed supply by 2010.

One states the numbers: a 6.1 per cent compounded increase in the demand for paper up to 2008-09 matched by a mere 3.7 per cent increase in supply.

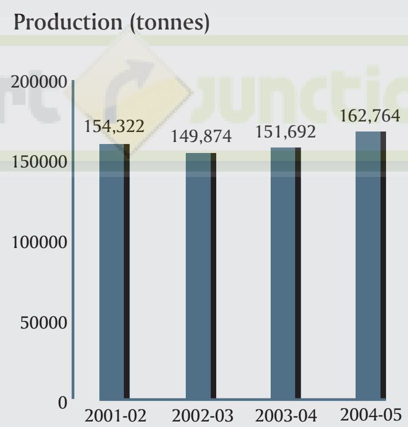
The other concludes that the Indian paper industry is estimated to be heading for a million ton shortfall starting 2010.

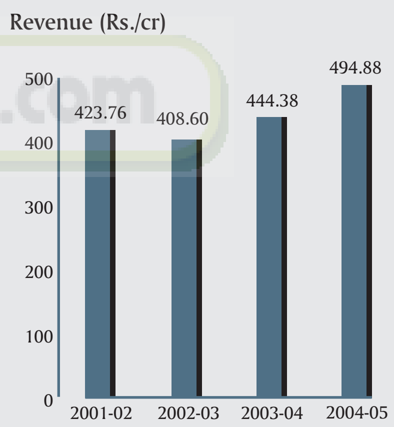
A shortfall that could potentially create room for seven new companies of the size of APPM by the end of the first decade of the new millennium.

A Company like APPM has proactively embarked upon a modernisation mission to benefit from this industry opportunity.

## By building for tomorrow – today!

# The Andhra Pradesh Paper Mills Ltd is one of the largest paper manufacturers in the






## Parentage

The Andhra Pradesh Paper Mills Ltd. (APPM) is a part of the L.N.Bangur Group, which enjoys varied interests in tea, textiles and paper. The promoters and their associates hold a 68 per cent stake in the Company (as on March 31, 2005), which is headquartered in Hyderabad.

## Plants

- Installed capacity of 153,500 TPA (2004-05), one of the largest paper manufacturers in India.
- Manufacturing units in Rajahmundry (98,500 TPA) and Kadiam (55,000 TPA).
- Units in East Godavari District (Andhra Pradesh), located strategically close to a raw material-rich belt.
- Units comprise eight paper manufacturing machines.

## Pride-enhancing certifications

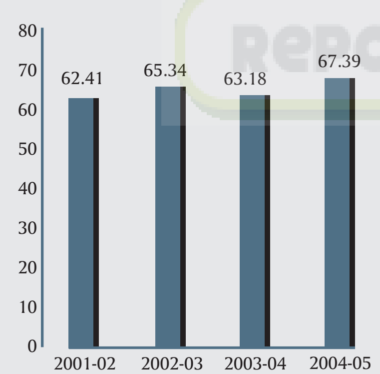
- ISO 9001:2000 (quality management).
- ISO: 14001 (environment management) for the Unit: APPM by DNV, The Netherlands.
- OHSAS: 18001 (occupational health and safety) for Unit: APPM.

## Products

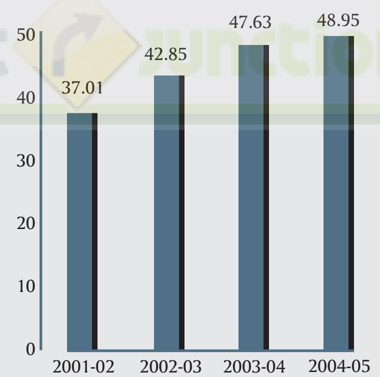
- Writing, printing, paperboard and newsprint paper varieties.
- 93,500 TPA of writing and printing paper capacity, 30,000 TPA of paperboard and 30,000 TPA of newsprint.
- Largest market share in select


# second most populous country in the world.

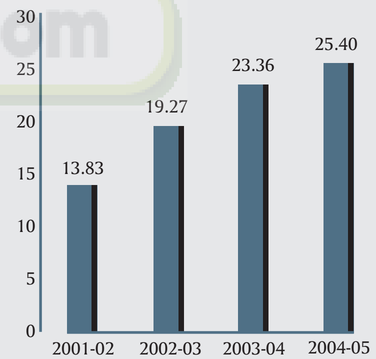
EBIDT (Rs./cr)




Cash profit (Rs./cr)




Profit After Tax (Rs./cr)






industrial, writing and printing paper segments.

❍ 11.5 per cent market share in the copier paper segment.

## Presence

❍ 79 dealers in 30 locations for Unit: APPM and 49 dealers in 15 locations for Unit: CP; among the largest distribution networks in India.

❍ Products exported to ASEAN, the Indian subcontinent, Africa, Egypt, UK and Australia.

❍ Exports account for about nine per cent of production.

## Performance

❍ Uninterrupted dividend record since 1971-72, except for three years (1986-87 to 1988-89).

❍ 11.74 per cent CAGR in revenues over the last four years ending 2004-05.

❍ 4.35 per cent CAGR in EBIDT over the last four years ending 2004-05.

❍ 24.11 per cent CAGR in profit after tax over the last four years ending 2004-05.

## Public holding

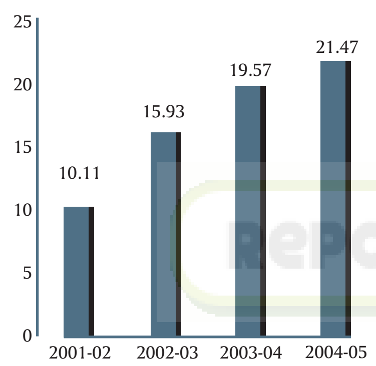
❍ 50.97 per cent increase in market capitalisation to Rs.142.30 cr (31 March, 2005) on the BSE.

❍ Active trading of the Company's shares on The Stock Exchange, Mumbai and National Stock Exchange of India Ltd.

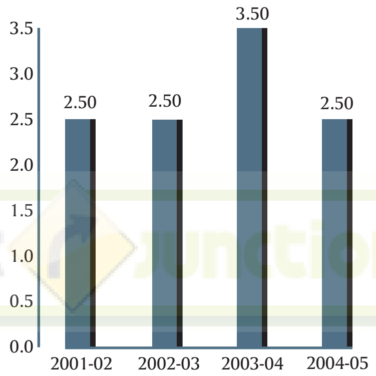


# What the numbers reveal about our performance in 2004-05

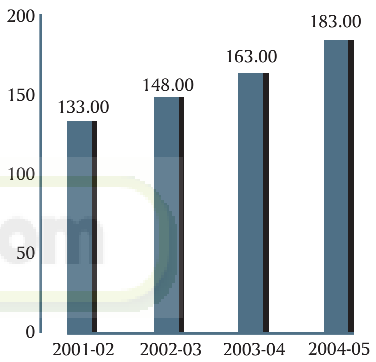
Earnings per share (Rs.)




Dividend per share (Rs.)




Book value (Rs.)




## The numbers

❍ 11.4 per cent growth in revenue to Rs. 494.88 cr.

❍ 6.7 per cent increase in EBIDT to Rs. 67.39 cr.

❍ 8.7 per cent growth in post tax profit to Rs. 25.40 cr.

## Inside the plants

❍ 7.3 per cent growth in paper production to a record 162,764 tons.

❍ 3.6 per cent growth in pulp unbleached wood output to 104,067 tons, the highest in a decade.

❍ 7.21 basis point increase in capacity utilisation to 106.04 per cent.

❍ Introduction of two new paper varieties.

❍ Implementation of the landmark Mill Development Plan.

## In the marketplace

❍ 96.5 per cent value growth in exports to Rs.42.95 cr.

❍ Entry into the export market for the first time by Unit: CP with a dispatch of 3,022 tonnes.

❍ Two per cent increase in the average realisation to Rs.30, 282 per MT.

❍ Increase in the number of countries exported to including those in Africa and Middle East.

## In the Board room

❍ Rs. 635 cr financial closure of the Company's Mill Development Plan.

❍ Equity and debt participation by International Finance Corporation (Washington), DEG (Germany) and equity participation by Finnfund (Finland) in the expansion programme.

❍ Rs.113.14 cr rights issue (one share for every share held at Rs. 95 per share) to part-finance the expansion.

❍ 520 basis point rationalisation in the average cost of debt to 7.71 per cent in 2004-05 as compared to 2001-02.

"We have initiated the largest single investment of Rs. 635 cr in the history of the Company"

Dear Shareholders,

It has been a landmark year for The Andhra Pradesh Paper Mills in more ways than one.

Take performance for instance. We raised the bar across all our divisions, resulting in an overall increase in profitability.

Or, take business continuity for instance. The Company embarked on one of the most ambitious modernisation-cum-expansion projects in its history, necessitating an investment of Rs. 635 cr, which will lead to higher operating efficiencies, compliance with stringent environment norms, superior product mix and higher raw material flexibility.

It might surprise a number of shareholders who will obviously notice our annual turnover of Rs. 495 cr and compare it with our larger proposed investment. Permit me, however, to explain the diverse industry forces at play, which justify this investment.

## The emerging industry scenario

Stringent environment norms: The Indian pulp and paper industry is on the threshold of a metamorphosis, which requires an investment of around Rs. 6,000 cr over the next three years to switch to a chlorine-free bleaching technology.

According to an estimate of the Indian Paper Manufacturers Association, close to 98 per cent of India's paper mills with sub-optimal capacities of 50,000 TPA and below will be unable to address this emerging challenge. The probable result: an imbalance in the demand and supply of paper starting from 2008 onwards.

The larger players may well benefit from this transition, the biggest benefit being captured by the proactive first-mover.

India as an attractive outsourcing base: With the environment norms tightening even in the developed countries leading to bigger investments, production is likely to move to low-cost destinations. As a result, India may emerge as an attractive conversion destination.

## Our initiative

APPM embarked on a Mill Development Plan (MDP) to facilitate its technology upgradation, which is expected to be an implemented reality by 2007.

This investment will sustain our business over the medium term, enable us to address environment norms applicable from December 2008 and strengthen our competitive edge.

## The MDP and our future

**Alteration in the product mix:** Presently, our Unit CP derives its pulp from waste paper and agri-residues, restricting our capability to manufacture low value-added varieties. With the prospect of price volatility of newsprint and waste paper in the domestic and international markets, our profitability is threatened. As a result, product-mix decisions using analytical methods are being made so that the market demand is addressed and profit maximised. The enhanced flexibility in product mix with the help of international quality pulp post-MDP, will enable it to enter hitherto unexplored segments, strengthening its product portfolio, enhancing profitability and generating a stronger return on invested capital.

**Increase in production capacity:** Anticipating that the domestic paper market will remain bullish, APPM initiated an expansion of its installed capacity, which will enable it to cater to a larger share of the growing demand in the value-added paper segment.

**Economies of scale:** The state-of-the-art technology, automated processes and higher volumes are expected to provide a considerable cost advantage, insulating the Company's profitability considerably during industry downturns.

**Increased exports:** The contemporary and sophisticated equipment will enhance the scope of a competent manufacture of quality paper, benchmarked to a greener status and certification to various international standards like ISO 14001 and BSi OHSAS 18001. A doubled export exposure will insulate the Company from growing competition in the domestic market and also enable it to sweat equipment to the maximum in return for better economies of scale.

**Driving growth:** APPM's unutilised pulp capacity will serve as a revenue stream over the short term and as a foundation for an increase in the paper manufacturing capacity over the long term, in alignment with contemporary industry requirements. The advantage provided by the infrastructure improvisation will help the Company maximise efficiency and profitability, thereby sustaining growth.

Thus, APPM is geared to reap the benefits of a combination of newer technologies, innovative designs, social and participatory approaches and experiential action leading to the building of tomorrow – today!

L.N. Bangur

*Chairman*

# The 2008 industry challenge – and opportunity!

From March 2008, India's paper manufacturers will need to comply with all the stringent CREP requirements – or be compelled to discontinue their operations. This industry watershed will create a structural shift that represents a threat for most paper manufacturers and opportunity for a select few. At APPM, we see in this industry shakeout, an attractive possibility. We foresee the closure of a number of mills, we foresee an emerging shortage, we foresee a movement towards industry consolidation and we foresee the strong getting stronger. To capitalise on this once-in-a-lifetime industry opportunity, we are putting Rs. 635 cr into our business, the largest investment in our existence.

To build for tomorrow – today!