



The Andhra Pradesh Paper Mills Limited

42nd annual report 2005-06

growth is beautiful

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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 our 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', 'believe', 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.

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CONCEPT NOTE

The Mill Development Plan (MDP) will contribute significantly to the progress meter of the Andhra Pradesh Paper Mills Limited. The project has embedded the standards of 'Corporate Responsibility on Environmental Performance' to the progressive parameters of the company. This concept emphasizes on those elements which communicate the all-round GROWTH.

As different units each department has its own identity and hence has its own set goals. Achieving these goals is GROWTH for these departments which ultimately contribute to the GROWTH of the whole Company. Visualization of the GROWTH has empowered the thought of complimenting nature.

The art of origami gives shape to the paper flowers which appeal to nature thus, the concept of GROWTH, becomes evident in the eco-friendly products of the company. Folding of paper portrays the company's flexibility to merge itself with the nature and the flowers carved out of it signify the upholding of the quality of its products. Even the lifeless flower blends itself to the environment in such a way that living creations do not seem to understand the difference.

Also, the conception of eco-friendly products expresses the GROWTH of the company in building safer and healthier environment for the next generation.

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**The Andhra Pradesh
Paper Mills Limited**

**“Growth is capability
of successfully executing
Mega Projects like
the MDP”**



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Chairman's Statement

"It is better to be prepared for an opportunity, and not have one, than to have one an opportunity to and not be prepared." - Whitney Young

As always, writing to you has been a privilege but this time there's a sense of pride also as FY 2005-06 was a tremendously successful year for the Company, its employees, associates and the valued shareholders. Keeping that in mind, the theme of this year's Annual Report is "Growth is Beautiful." I would like to take this opportunity to provide a brief overview of the initiatives taken by us this year and also our outlook for the business.

As indicated earlier, the last year has added another chapter to the saga of the Company's success story. Today, the need of the hour is to be pro-active and in line with tradition, the Company has adopted a pro-active approach not only in meeting with the Norms of Corporate Responsibility for Environmental Protection (CREP) but also in taking great strides in the direction of positioning itself as the most preferred supplier of its products.

The stringent CREP norms stipulated by the Government of India require all large scale manufacturers in the pulp and paper industry to prevent and control pollution by adopting clean technologies

and improving management practices by 2008 or close down. The Company perceived this situation as an opportunity in disguise and embarked on an ambitious Rs. 635 Crores Mill Development Plan (MDP) in FY 2004-05. A part of this ambitious effort has already been completed and the remaining part will be completed by the close of FY 2006-07. The MDP will not only help your Company to meet the norms ahead of schedule but will also help us capitalise on the ever increasing demand for paper both in the domestic and international markets. It will help us build on our previous results, meet the present challenges and tap the future opportunities in the paper industry.

With the completion of the MDP, we will be amongst the select few in the country having the ability to manufacture Elemental Chlorine Free (ECF) paper, which will be a key USP for the Company in the Indian Market. Moreover, with the capacity expansions and up-gradations, there will be an all-round improvement in the affairs of the Company particularly in the areas of productivity and cost efficiencies.

I hope in my next year's address, I will be able to outline fully the achievements of MDP. It is in this journey of transforming your Company into one of the top 5 players in the country that I seek your continuous support and trust.

My best wishes to you all



L.N. Bangur
Chairman



The Andhra Pradesh Paper Mills Limited



Vision



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APPM by providing competitive value must emerge as the preferred choice for repeat purchases by an increasing number of satisfied customers. We should continue to be environmentally friendly and conduct ourselves as a good corporate citizen. We will follow a result oriented style of management, encourage meritocracy and continuously improve on all parameters of operations thereby producing a profit that improves the ratio of PBT to turnover year on year.

Mission

To be a powerful force in the Pulp & Paper Industry through:

- High level of productivity and excellence;
- Continual improvement in the quality of human resources, products, services and technology;
- Customer satisfaction;
- Concern for occupational health & safety, and Commitment to environmental management



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“Growth is a clear vision
& bandwidth to take
the company further.”

Shri R.C. Mall
Executive Director





How would you rate the performance of the Company in 2005-2006?

Remarkable, in many ways! The Company has attained great success in terms of bottom-line despite higher production costs. Our persistent efforts have been reflected by the 38 percent growth in net profit when compared to the previous year. This impressive growth indicates that the Company can not only set ambitious targets but also can achieve them too.

Please justify the reasons that can be attributed to the Company's performance?

It would be unfair to just state a reason or name a few who can be credited for the Company's growth. Above all, it was the dedication of our employees at all levels and their ability to exceed expectations in every situation. Other external and internal factors like good market conditions and great demand and acceptance of our products due to their superior quality also contributed significantly.

How does the Company propose to enhance the value to its shareholders?

To our shareholders, we owe a lot. It's their faith that has induced confidence in us and helped us experience success. Stability has always been a key element that has made our shareholders repose confidence in us. The Company's EPS as on 31.03.2006 was Rs.18.97 on the increased share capital and we expect the EPS to go up even further in the long run.

How do you see yourself with respect to standing in the Indian paper industry post the enforcement of the CREP Norms?

The MDP and its immediate outcome will boost the morale of the Company hugely; and rightly so. Enforcement of the CREP Norms would destabilise the small and unorganised paper manufacturing units due to their inability to meet the requirements of these Norms. Once the MDP completes, the Company will have an enormous advantage of improving its position and profitability vis-à-vis the other paper manufacturers.

In the future, when only service would be the only discerning factor, how do you propose to differentiate yourselves from others?

The Company has always pioneered technical advancements and will continue to do so in the times to come. However, it alone cannot be the sole distinguishing factor in a world of cut-throat competition. Thus, the Company has also opted for a more proactive approach towards the distribution network and backend systems. A new distribution channel is strategically being set up in various areas based on the intensity of consumption.

We have also successfully implemented mySAP ERP this year. These changes will enable us to quickly respond to individual customer requirements and hence ensure better and faster services.

What will be the role of Industrial Relations in the times to come?

In India, the role of Industrial Relations (IR) in manufacturing organisations is changing dramatically. A visible transition from traditional IR to Employee Partnering is taking place in our Company leading to the emergence of "It's my Company" feeling among all the employees. This transition can be seen in increased employee empowerment and productivity, institutionalisation of continuous learning and the emergence of performance based work culture with concerted Human Resource and Organisational Development initiatives. Your Company strongly believes that growth can be easily achieved if people working within the organisation learn and improve their skills on a continuous basis and the HR Department is working with great passion in this direction.

Growth is strong
fundamentals.



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