



Driven by growth

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44th Annual Report 2007-2008

The Andhra Pradesh Paper Mills Limited

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Five Years at a Glance

		2007-2008	2006-2007	2005-2006	2004-2005	2003-2004
OPERATING RESULTS						
Production	MT	1,80,681	1,59,574	1,45,998	1,62,764	1,51,692
Sales	MT	1,76,758	1,55,750	1,51,717	1,63,421	1,49,743
Turnover	Rs. Lakhs	62824.41	53303.00	49756.16	49487.92	44438.22
Profit before Depreciation and Tax	Rs. Lakhs	6497.07	6432.94	6344.49	5454.82	4664.31
Depreciation	Rs. Lakhs	5236.22	4142.64	2124.35	2062.86	2001.55
Extra-ordinary item	Rs. Lakhs	(705.52)	–	–	–	–
Provision for Tax	Rs. Lakhs	89.17	(324.78)	336.99	775.07	197.00
Provision for Deferred Tax	Rs. Lakhs	223.20	201.90	380.00	77.20	130.00
Profit after Tax	Rs. Lakhs	1654.00	2413.18	3503.15	2539.69	2335.76
Dividend on Equity Shares	Rs. Lakhs	257.34	257.34	476.39	297.75	414.01
Dividend on Preference Shares	Rs. Lakhs	–	–	–	–	18.70
Tax on Equity Dividend	Rs. Lakhs	43.73	43.73	66.82	41.76	55.45
Retained Profit	Rs. Lakhs	1352.93	2112.11	2959.94	2200.18	1847.60
SOURCES OF FUNDS						
Share Capital – Equity	Rs. Lakhs	2573.36	2381.97	2381.97	1183.00	1182.89
– Preference	Rs. Lakhs	–	–	–	–	–
Reserves & Surplus	Rs. Lakhs	39069.58	36125.63	34013.52	20837.20	19107.09
Shareholders' Funds	Rs. Lakhs	41642.94	38507.60	36395.49	22020.20	20289.98
Share Application Money from Promoters	Rs. Lakhs	–	–	–	1275.00	–
Borrowings	Rs. Lakhs	53193.05	51109.71	33417.93	15130.07	15080.87
Deferred Tax Liability	Rs. Lakhs	2117.50	1922.10	1720.20	1340.20	1263.00
Total	Rs. Lakhs	96953.49	91539.41	71533.62	39765.47	36633.85
APPLICATION OF FUNDS						
Net Fixed Assets	Rs. Lakhs	86390.19	83922.27	68368.33	31040.76	26203.42
Investments	Rs. Lakhs	1664.34	1664.36	1776.97	1807.87	2829.68
Net Current Assets	Rs. Lakhs	8665.77	5602.12	1115.82	6497.98	7091.22
Miscellaneous Expenditure (To the extent not written off)	Rs. Lakhs	233.19	350.66	272.50	418.86	509.53
Total	Rs. Lakhs	96953.49	91539.41	71533.62	39765.47	36633.85
Book Value per Equity Share	Rs.	162	162	152	183	163
Earnings per Equity Share	Rs.	6.44	10.13	18.97	21.47	19.57
Dividend (Equity)	%	10	10	20	25	35
Note: Figures have been regrouped wherever necessary.						

DNA of our business

The strength of APPM's products was always well known in our addressable markets. The care that we have shown in increasing pulp and paper production using world class technology while protecting the environment has helped in improving the fundamentals of the Company. More importantly while doing so, we have succeeded in protecting the nature and helped in regenerating the green cover.

In our effort to ensure sustained growth, we have upgraded our technology, consolidated our business, gained market presence, developed innovative products and drawn strength from the firm fundamentals of the Company as we kept raising the bar for ourselves.

A quick look at the past achievements and the present momentum would help appreciate the DNA of our business as we journey to create new track record.

1.

Eminent Board

An eminent board steers the long term policies and strategies of the Company and monitors them to get the best results. The board consists of successful practicing managers, professionals and entrepreneurs with considerable experience in managing diverse industries. APPM prides itself in benchmarking with the best practices in the field of corporate governance.

2.

Sustainability criteria

Sustainability for APPM is to create long term economic value, provide ecological benefits and protect environment and contribute to society.

3.

Raw material security

APPM's initiatives to achieve raw material sufficiency and sustained availability in future have been paying off with higher availability of wood. The Company's ambitious farm forestry scheme emphasizes conservation of natural resources and healthier environment and encourages farmers to plant on a massive scale on their marginal and degraded farm lands. Such efforts ensure availability of hardwood and raw material security in the long term and are a reliable source to cover any future pulp or paper expansion plans.



4.

Production Facilities

The Company owns & operates two units, one at Rajahmundry and another at Kadiam. The Rajahmundry based Unit:APPM is an integrated wood based paper mill with a rated production capacity of 1,07,000 MT per annum finished paper production and 500 BDMT per day of bleached pulp production. The unit manufactures industrial grades, posters, uncoated and office papers using bamboo and other hardwoods as raw materials.

At Kadiam, Unit:CP has a capacity to produce 67,000 MT per annum finished paper varieties such as creamwove, azurelaid, colour printing, kraft liner and newsprint. The product profile is based on agri residue and recycled fiber.



5.

Partners in progress

Customers are treated as partners in the business. APPM supports its customers in developing their business. The two-way communication with them ensures they get the products when they want, encourages them to familiarize themselves with APPM's technology, informs regularly about product strength and quality, and improves overall product knowledge. This regular interaction has helped build Brand Andhra and gain loyalty amongst both old and new customers.



6.

Professional Management

The Company profits from a highly professional management team that has several years of experience in the pulp and paper industry. Every function is manned by a capable and talented team who are committed to deliver results with high levels of ethics and accountability. APPM owes its leading position in the paper industry to the huge reservoir of human resources who bring commitment and

Competitive advantage

Over the years, APPM has built a distinct competitive advantage through knowledge, skills and capabilities. All of them have added value to both the customer and the Company:

- Cost leadership in production
- Focus on quality of pulp and paper production
- Value creation through technology upgradation

7.

8.



Vision

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 and 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.



9.

Strategies and Objectives

APPM's strategic plan is to achieve consistent growth in earnings by concentrating on the development of high value added products, where our expertise provides a competitive edge. These are being achieved by adopting the following strategic goal posts:

- Focus on core skills in pulp and paper production;
- Position the products in growing markets;
- Differentiate ourselves by using state-of-the-art technology;
- Invest in developing new products and efficient processes;
- Be cost competitive by striving to reduce cost of production;
- Maintain strong relationship with customers, vendors, governmental agencies and other stakeholders;
- Continue to invest in employees to ensure they are well trained, motivated and encouraged to face challenges in the future;
- Ensure the business is run in a sustainable way by optimal utilisation of resources;
- Continue to achieve consistent and above industry average growth in earnings;
- Increase shareholder value through enhanced financial performance;
- Deliver Return on Investment above cost of capital.



10.

Publicly listed

APPM's shares are listed on the Bombay Stock Exchange and National Stock Exchange.

Driven by growth

MDP implemented

All of us at Andhra Pradesh Paper Mills are proud that we have one of the most impressive integrated pulp and paper mills in the country. After the implementation of the Mill Development Plan (MDP), the pulp and paper capacities have been expanded; the mills are modernized with world class technology; quality of pulp and paper has been enhanced; productivity has been increased; cost of production has been reduced significantly; consumption of power, fuel, water and other utilities have been minimized; pollution load and effluent discharge has declined significantly; and, in short, the Company's competitive edge has been transformed.

The Company is not what it was even 12 months ago. In fact, the published financial results have not reflected the paradigm shift in the business model, since the MDP was completed towards the latter part of the financial year. As soon as the MDP was completed, there was an exceptional and visible change in the fortunes. Our revenue streams have become robust and energized.

I would hasten to state that the accident to the recovery boiler, referred to in the last year's annual report, delayed implementing the MDP. It was a one-off incident and managed to push the calendar. The incident that took place in the last week of February 2007 cast its shadows in the first half of the financial year. After setting right the unfortunate accident to the recovery boiler at Unit:APPM, the ongoing upgradation programme was completed in the second half of the year.

The gains of the second half, however, were overshadowed by the mark-to-market (MTM) losses on account of the volatility in the currency derivatives. The losses may have materialized in 2008-09 but were booked as a prudential measure.

Operating earnings improved

The earnings at operating level improved in the second half of the financial year, while the above mentioned unfortunate accident and MTM losses impacted the financial results. Under the circumstances, the profit after tax of Rs.16.54 crore and EPS of Rs.6.44 for the financial year ended March 2008 should be considered satisfactory.

The productivity at the mill has improved and the cost of production has started climbing down. By offering cost effective high-end quality paper to the customers, we are on course to improve our earnings quarter-on-quarter for the next couple of years.

Laid foundation for growth

As an organization, I believe, we have laid a solid foundation for sustainable growth of the Company. We have all the sum-of-parts that make for one of the best integrated paper company. In addition to installing superior production technology, we have ensured raw material security

We have laid a solid foundation for sustainable growth of the Company. We have all the sum-of-parts that make for one of the best integrated paper company.



and grown demand for our products. We are also environment friendly and have some of the best talents who are excited and enthusiastic to work in a well-organized paper mill.

I am glad that we have completed the upgradation process, and am proud of our contribution to the pulp and paper making industry and look forward to sustained growth in the future.

Seen on a wider perspective, I have always been keen that the Indian paper industry adopts the latest technology, remains globally cost competitive and environmental friendly. As a well-wisher of the industry, I would be happy to see the Indian paper industry grow in size, meet productivity benchmarks and achieve world class standards. I look forward to India becoming a significant player in the global market.

Indian industry to
be a significant
player

At APPM, we have broadened the expertise on our Board. Mr. M. K. Tara, who has been involved in the management and administration of the pulp and paper industry for over three decades has taken responsibility as the Managing Director. We have further strengthened the Board by inducting Mr. P.K. Suri as Director (Operations) and are privileged to have added industry expertise amongst the newly inducted Non-Executive Directors. I look forward to the insights that my colleagues will bring to the Company.

Broadened
expertise on Board

Together, we hope to continue this journey and in the process constantly improve and develop imaginative and sustainable solutions to create value for all our stakeholders.

With warm regards

A handwritten signature in blue ink, appearing to read 'L.N. Bangur', written in a cursive style.

L.N. Bangur

From the desk of the Managing Director

Driving organizational effectiveness

APPM is a company on the move. It shows in our performance and in the platform that we have created for growth. We have strengthened organisational effectiveness by ensuring that technology has a direct connection with our customers. We use our assets more efficiently, offer better quality products, provide superior customer service and work as one team from the sales and marketing on the demand side to the manufacturing facilities on the supply side. We are a customer focused organisation positioned to take advantage of the growing market opportunities.

We had set ourselves two priorities for the financial year 2007-08. First, we set right the recovery boiler and ensured that the MDP was completed which started giving the transformational gains that we had planned. Although the production volumes were improved year-on-year, the gains were shadowed by the loss of time in production and by the challenges of the derivatives markets. It is more important that we ensured we have a platform for growth and are confident that the impact can be seen in future years.

The year also saw us working on another organisational priority of improving operational excellence. We revisited and examined the internals of our pulp and paper business and expanded the margins, enhanced productivity, reduced the cost of production and selectively improved the product mix. We now have a balanced approach to achieve growth in a responsible manner and develop a winning organisation. We will continue to drive all four elements of our strategy in order to build a sustainable business model and meet stakeholder expectations.

This is my first communication to you after taking office. I am privileged to be associated with APPM given the fact that this is a company built on character and content. We manage this Company conservatively and deliver on our promises. We are focused on growth and on the continued creation of value. Strong vision, thought and integrity define our success. As a company we have the skills, the talent and the courage to create new products, drive markets forward and ensure value add for our customers.



Every effort made so far has given the team the strength to power APPM and achieve its business goals. Our people are our foundation to transform the Company and they have been encouraged to set targets that have stretch built in them.