

2006

UNFOLDING THE FUTURE

Annual Report 2005 | 2006



BALLARPUR INDUSTRIES LIMITED



BOARD OF DIRECTORS

Gautam Thapar	CHAIRMAN
R. R. Vederah	MANAGING DIRECTOR
B. Hariharan	GROUP DIRECTOR (FINANCE)
Shardul S. Shroff	
Dr. Ram S. Tarneja	
Vice Admiral K.K. Nayyar (retd.)	
R. K. Ahooja	
Sanjay Labroo	
P. K. Banerji	NOMINEE OF LIC
Ramni Nirula	NOMINEE OF ICICI BANK

COMPANY INFORMATION

REGISTERED OFFICE
P. O. Ballarpur Paper Mills-442 901
District Chandrapur, Maharashtra

HEAD OFFICE
Thapar House, 124 Janpath, New Delhi-110 001

OPERATING OFFICE
First India Place, Tower-C, Block-A, Sushant Lok-I,
Mehrauli Gurgaon Road, Gurgaon-122 002

AUDITORS
K.K. Mankeshwar & Company, Chartered Accountants
Kingsway, Nagpur-440 001

LISTING ON STOCK EXCHANGES

The Equity Shares of the Company are listed on the following Stock Exchanges:

BOMBAY STOCK EXCHANGE LIMITED
Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001

NATIONAL STOCK EXCHANGE OF INDIA LIMITED
Exchange Plaza, Plot No. C-1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai-400 051



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Headlines

REVENUE FROM PAPER
increased by 8.9 per cent from Rs.1608 crore in 2004-05 to Rs.1752.5 crore in 2005-06.

OPERATING PROFIT (PBDIT),
prior to exceptional items increased by 7.7 per cent from Rs.459.9 crore in 2004-05 to Rs.495.3 crore in 2005-06.

INTEREST OUTGO
decreased by 16.2 per cent from Rs.110.4 crore in 2004-05 to Rs.92.5 crore in 2005-06.

PROFIT AFTER TAX (PAT)
increased by 26.1 per cent from Rs.168 crore in 2004-05 to Rs.212 crore in 2005-06.

RETURN ON NET WORTH (RONW)
increased from 11.5 per cent in 2004-05 to 13.8 per cent in 2005-06.

Report  junction.com

FULLY DILUTED EARNINGS PER SHARE (EPS) increased from Rs.9.45 in 2004-05 to Rs.11.12 in 2005-06.

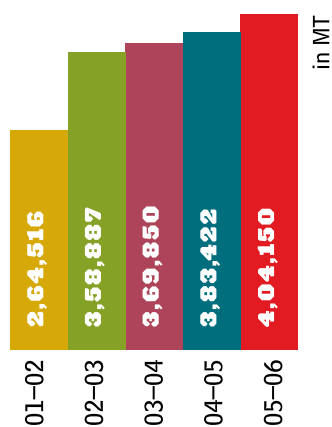
UNIT ASHTI
(erstwhile APR Packaging Limited) achieved its targeted quality and production figures. A new state-of-the-art A4 Packaging line has also been installed at the unit.

UNIT BHIGWAN OBTAINED OHSAS 18001:1999 CERTIFICATION
in November, 2005 in addition to ISO 9001:2000 and ISO 14001:2004 certifications. The unit also received the Energy Conservation award from Bureau of Energy Efficiency, Government of India and State Level Energy Conservation Award. It also received the Greentech Safety award from Greentech Foundation.

Financial Highlights

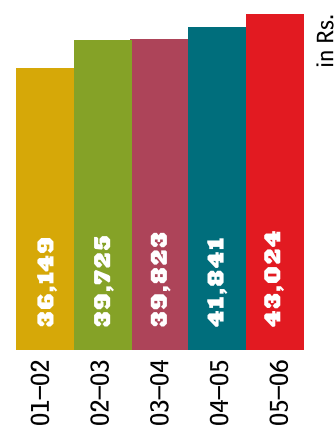
PAPER PRODUCTION

UP
5.4%

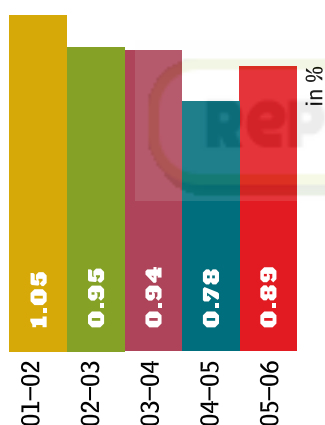


NET SALES REALISATION: PAPER

UP
2.8%

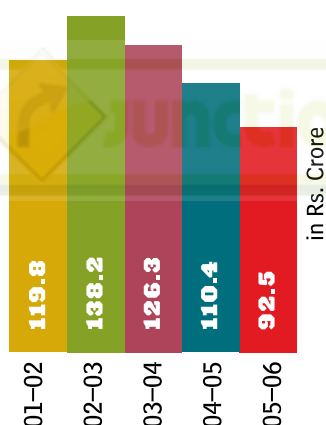


DEBT EQUITY RATIO



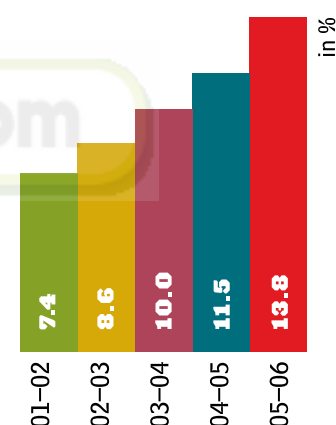
NET INTEREST OUTGO

DOWN
16.2%



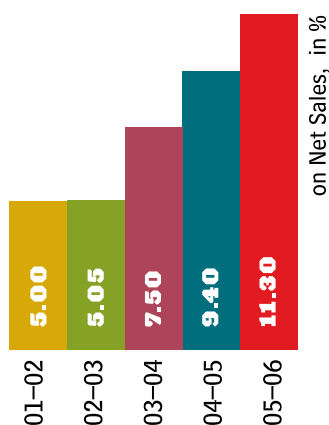
RETURN ON NET WORTH

UP
230 BASIS POINTS



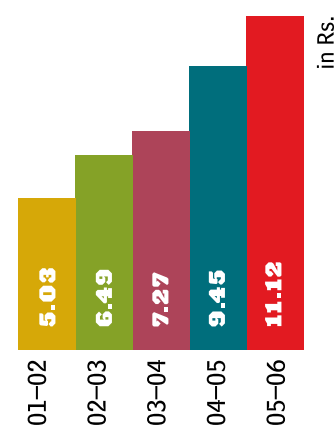
NET PROFIT MARGIN

UP
190 BASIS POINTS



EARNINGS PER SHARE

UP
17.6%



1

Message from the Chairman Emeritus



Your Company is dramatically transforming itself from being the largest paper manufacturer in India to becoming a significant global player. This fundamental change in the DNA of BILT requires new strategic leadership at the highest level. The Board of your Company and I felt that there would be no better person to takeover the mantle of Chairmanship than Mr. Gautam Thapar.

Dear Shareholders,

According to Hindu scriptures, after attaining the age of 60, a man is expected to renounce his daily chores to seek deeper insights through thought and meditation. Even after accounting for the substantive increase in longevity between the time when these holy texts were written and today, I felt that crossing 75 was a significant enough milestone.

Thus, on 30 June, 2006, I decided to formally step down from being the Chairman of your Company.

There are several reasons for this decision. For one, I have had a long innings as your chief steward at BILT. I was appointed the Chairman of the Board of your Company in November, 1965; and you will agree with me that being at the helm for over 40 years is long enough.

For another, and to my mind far more significant, your Company is dramatically transforming itself from being the largest paper manufacturer in India to becoming a significant global player. This fundamental change in the DNA of BILT requires new strategic leadership at the highest level. The Board of your Company and I felt that there would be no better person to takeover the mantle of Chairmanship than Mr. Gautam Thapar. He has been involved with the day-to-day working of BILT long enough to know the Company and the nuances of the global and Indian paper industry. Like many entrepreneurs of his generation, Gautam has seen the enormous benefits of economic liberalisation since 1991 and, thus, has a global vision of leadership. He is well regarded by the senior management of your Company. And, being

in his 40s, Gautam has the energy and drive to ensure successful execution of the global vision of BILT.

So, please join me along with the employees and the Board of Directors of your Company to welcome Gautam Thapar as the new Chairman.

Let me briefly touch upon the state of the economy and the future of BILT.

With the benefit of experience, I can confidently say today that the reforms which began in 1991, are finally gaining significant traction. We have had three consecutive years of high GDP growth averaging at 8 per cent per annum. All economic indicators for the current fiscal suggest that India will achieve yet another year of 8 per cent growth.

There is a profusion of entrepreneurial energy throughout the country—of breadth and scale that I have never seen in my long corporate career. More and more companies are expanding, going global, hiring best in class people and empowering them entrepreneurially to chase their dreams.

I firmly believe that with adequate and sustained investment in physical infrastructure, there are no barriers to India attaining an 8.5–9 per cent compound annual growth over the next decade. That will make us the second most significant economic superpower in Asia and the largest and fastest growing democracy of the world. India is definitely in the fast track. And after decades of working under various bureaucratic strangleholds of the licence-permit RAJ, I am proud to be a witness to this significant change.

Your Company, too, is changing rapidly. It is building scale throughout India; it is

engaged in many significant value enhancing innovations in the product and marketing space; it is constantly improving operational efficiencies; and with the acquisition of Sabah Forest Industries in Malaysia, it has not only secured future supplies of raw material but also created an entry to the rapidly growing South-East and East Asian markets. Going forward, I am sure you will see more such global forays, backed by excellence in execution and integration.

I am therefore confident that your Company has entered into an era where it ought to deliver even higher growth, better profits and superior shareholder value.

Chairman Emeritus is a title which usually means that a man has been put to pasture. That is not the case in BILT. I shall be around to confer with your Company's new Chairman and the Board and offer advice whenever needed.

Let me take this opportunity to thank you for allowing me to serve your Company for almost five decades. It has been a pleasure and an honour. It is a greater pleasure to implement a smooth succession, and see that the best people are running the business to secure an even better tomorrow.

Thank you very much.



L M THAPAR

CHAIRMAN EMERITUS

Going forward, I am sure you will see more such global forays, backed by excellence in execution and integration. I am therefore confident that your Company has entered into an era where it ought to deliver even higher growth, better profits and superior shareholder value.

Chairman's Message



Dear Shareholders,

To begin with, a tribute. On 30 June, 2006, Mr. Lalit Mohan Thapar stepped away from being the Chairman of your Company, and took over the mantle of being Chairman Emeritus. Mr. Thapar, or 'LMT' as he is referred to within BILT, was appointed the Chairman of the Board of your Company in November, 1965. During an innings spanning over four decades, he has led BILT to successively greater heights—and done so with warmth, caring and a gentlemanly finesse that is getting increasingly rare in today's world.

Like many others in your Company, I have had the privilege of seeing the qualities of LMT's leadership from close quarters, and I shall always be appreciative of his wisdom and mentoring. We at BILT were delighted when LMT agreed to being the Chairman Emeritus, for it gives us an extended opportunity of seeking his guidance. And I look forward to his advice in the years to come.

In my letter to you in last year's Annual Report, I had written that all indicators suggested that India may, have transited to a higher growth path. Facts have proven this to be true—indeed, more conclusively than what I thought a year ago. India has had three consecutive years of exceptionally high GDP growth: 8.5 per cent in 2003–04, 7.5 per cent in 2004–05 and 8.4 per cent in 2005–06. All economic indicators for 2006–07 suggest that the country will achieve something like 8 per cent growth yet again. Thus, we are looking at a compound annual growth rate of 8 per cent instead of the 7 per cent that I wrote last year.

The most important objective of India's economic governance is to ensure that we achieve an average of over 8 per cent GDP growth in the next decade. That carries with it many challenges and tasks, especially a significant ramp up in infrastructure investments and a host of regulatory reforms. If this goal is achieved, as I believe it will, we should see major improvements in literacy rates and education spends, which ought to significantly increase the demand for paper and paper products.

I look at the Indian market for paper in a simple and uncluttered way. No country in the world with a GDP of over US\$ 800 billion,

secure

fibre, pulp

**the
future**

and markets for

The SFI acquisition is very important in terms of securing your Company's long term raw material supplies. However, it is much more than a pure backward integration strategy. SFI has significant paper producing capacity which, in due course, will be balanced, modernised and further enhanced.

has a per capita paper consumption as low as 7 kilograms. Thus, the only move that I foresee is upwards. And with a higher growth rate of 8 per cent per annum, we should be seeing a major growth in the demand for all kinds of paper across every major segment of the market.

It is, therefore, vital for the long term interests of your Company that it rapidly grows the business, further consolidates its market position in all the key domestic segments and maintains leadership in each and every market where it operates. That requires four major drivers:

- Securing raw material supply that can see us through at least the next decade.
- Rapidly developing larger scale of operations.
- Continuously innovating to introduce new products and grow new markets.
- Creating a de-risked corporate financial and capital structure that can facilitate further growth with consistently greater shareholder value.

I shall discuss each of these four issues in some detail.

India is grossly deficient in cellulosic fibre, the basic raw material for producing paper, and there has been very little government action on how to increase commercial forestry. In such a milieu, it is essential for a Company of the size and scale of BILT to secure its raw material supplies.

This is what prompted your Company in June, 2006 to make its first international foray by entering into a conditional agreement to acquire 97.8 per cent equity in Sabah Forest Industries (SFI) Sdn Bhd, Malaysia. SFI is the largest integrated paper and pulp facility in Malaysia with a

144, 000 MT paper plant and a 120, 000 MT pulping unit. More importantly, it has forest concessions of 289, 000 hectares valid up to 2094. The enterprise value is US\$ 261 million (approximately Rs.1, 175 crore). Subject to detailed due diligence and regulatory approvals, your Company will take around 80 per cent stake, with the residual being held by other associates, J. P. Morgan and the Government of Sabah. The transaction is structured in a manner that will have little impact on BILT's balance sheet.

The SFI acquisition is very important in terms of securing your Company's long term raw material supplies. However, it is much more than a pure backward integration strategy. SFI has significant paper producing capacity which, in due course, will be balanced, modernised and further enhanced. So too will be the scale of the pulp plant. Thus, SFI will serve three key purposes. First, as mentioned earlier, it will help secure the long term supply of cellulosic material—both forest resources and pulp. Second, in due course it will provide an additional source of paper supply for your Company's Indian markets. And third, it will give your Company a foothold in the growing South-East Asian market and hence position it to play a more global role in the region. We view Sabah as the first international building block of BILT's forward looking global growth strategy.

That brings me to the second issue: rapidly building larger scale of operations. You may, recall that last year's Annual Report spoke of your Company's Board of Directors approving investments of Rs.1, 200 crore to modernise its plants and significantly increase paper making capacity. With BILT