



BILT ANNUAL REPORT 2006-2007

BALLARPUR INDUSTRIES LIMITED



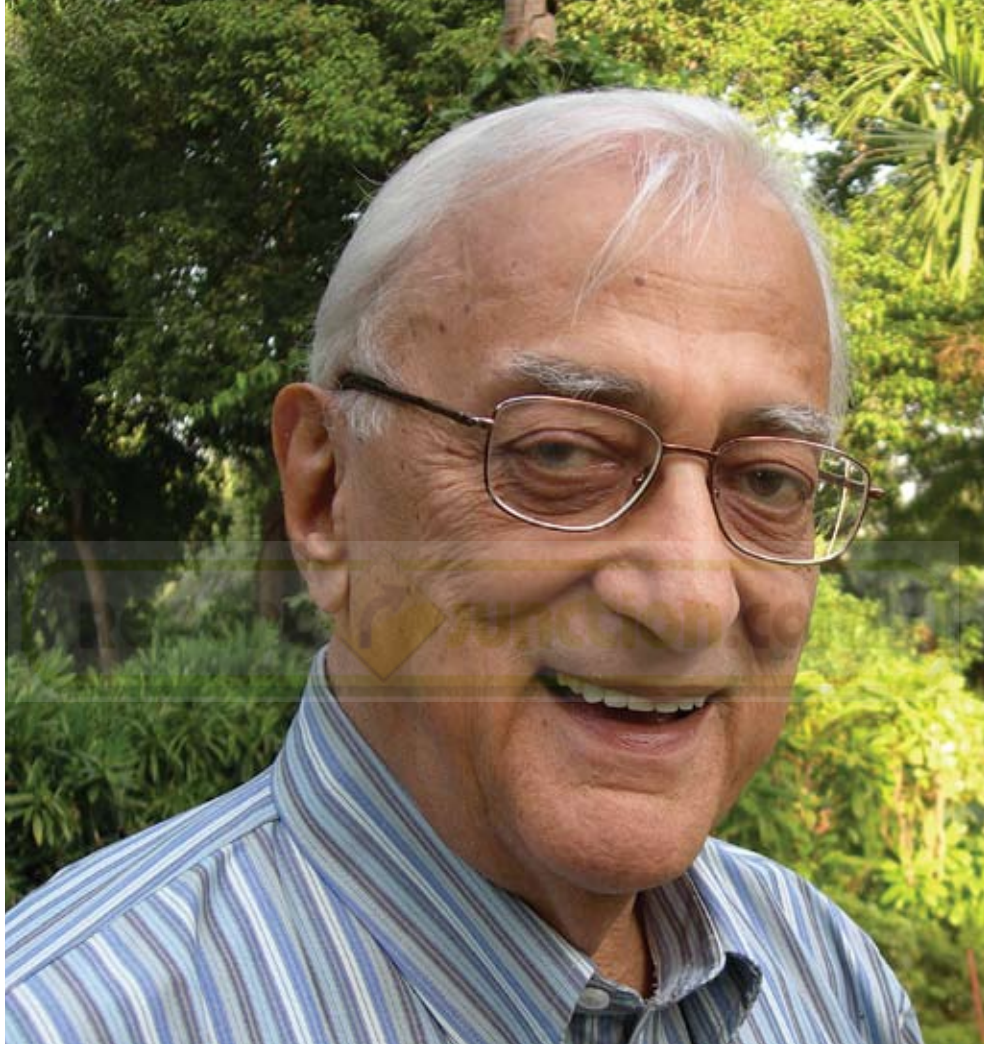


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financials

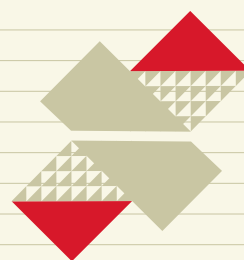
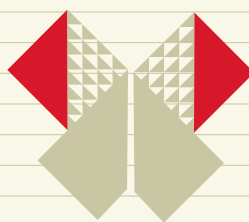
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LALIT MOHAN THAPAR

1930–2007





board of directors

Gautam Thapar

chairman

R. R. Vederah

managing director

B. Hariharan

group director (finance)

Shardul S. Shroff

R. K. Ahooja

Sanjay Labroo

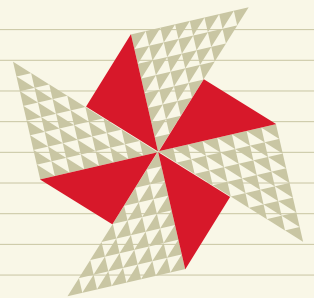
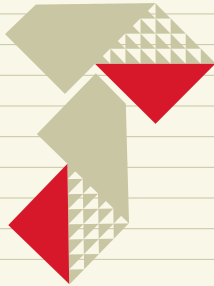
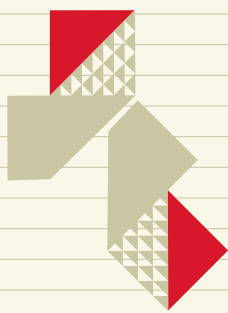
A. S. Dulat

P. K. Banerji

nominee of LIC

Zarin Daruwala

representative of ICICI bank



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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 & Co.,
Chartered Accountants
Kingsway, Nagpur-440 001

listing on stock exchanges

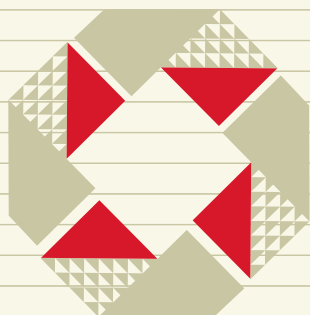
The Equity Shares of the
Company are listed on the
following Stock Exchanges:

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



highlights

Gross Sales

Increased by 13.9 per cent from Rs.2,079.6 crore in 2005-06 to Rs.2,368.8 crore in 2006-07.

Operating Profit (PBDIT)

Prior to exceptional items grew by 14.2 per cent from Rs.495.3 crore in 2005-06 to Rs.565.5 crore in 2006-07.

Profit after Tax (PAT)

Increased by 18.3 per cent from Rs.212.0 crore in 2005-06 to Rs.250.7 crore in 2006-07.

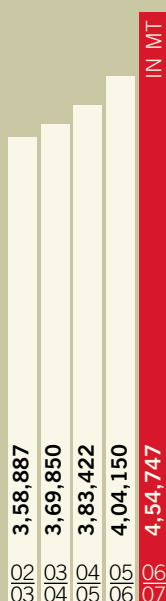
Return on Net Worth (RONW)

Improved from 13.8 per cent in 2005-06 to 13.9 per cent in 2006-07.

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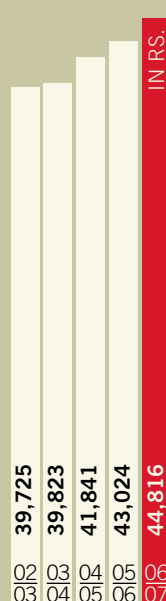
paper production

↑ 12.5%



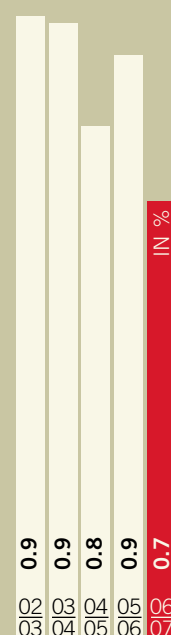
net sales realisation: paper

↑ 4.2%



debt equity ratio

↓ 24.7%



06
07

awards

BILT

Golden Peacock Global Award for Corporate Social Responsibility by the World Council for Corporate Governance .

Unit Bhigwan

01 National Level Energy Award BEE (2006).

02 CII Energy Efficient Unit Award (2006).

03 Indian Manufacturing Excellence Award (2006).

04 Safety Innovation Award (2006) from Safety and Quality Forum.

05 Green Tech Gold Award (2006) for both safety and environment.

National Award for Excellence in Energy Management 2007 from Confederation of Indian Industries (CII). The unit was adjudged the winner from among 39 companies short listed for the award.

Fully Diluted Earnings per Share (EPS)

Increased from Rs.11.12 in 2005-06 to Rs.13.77 in 2006-07.

Unit Kamalapuram

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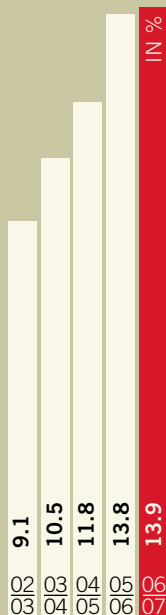
net interest outgo

↓ 5.9%



return on net worth

↑ 14 basis points



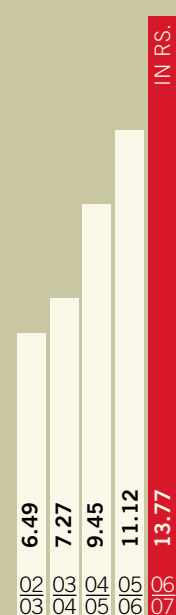
net profit margin

↑ 30 basis points



earnings per share

↑ 23.8%





chairman's letter



Dear Shareholder

On 17 January 2007, Mr. L.M. Thapar, the Chairman Emeritus of your Company passed away. He was the Chairman of the Board of Directors from November 1965 up to 30 June 2006. In his forty plus years at the helm, Mr. Thapar helped grow the Company to where it stands today. He was our sounding board. And friend. We miss him.

The best tribute to LMT, as we called him, is the economic performance of India and the results of your Company. During 2006-07, India achieved real GDP growth of 9.4 per cent—which succeeded 9 per cent growth in the previous year. As I write this letter to you, our country's compounded annual growth rate over the last four years stands at 8.6 per cent. And while there could be some minor moderation this year, most economists agree that we are looking at 9 per cent growth during 2007-08.

Given that over 95 per cent of this growth has been driven by industry and services, it is clear that we are experiencing an upsurge of entrepreneurial spirits of the kind we have never seen before. LMT had commented on it in his letter to you last year, when he wrote "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."

This period of sustained high growth augurs well for paper. Today, the paper industry in India is growing at around 6 per cent per year—which happens to be one of the highest growth rates in the world. Even so, we as a nation have one of the lowest per capita consumption of paper. Thus, there is enormous headroom for further growth. If India continues on its higher growth trajectory, I have no doubts that we will see even faster growth of paper consumption.

Strong domestic demand and continuous attention to operational efficiencies have helped in making 2006-07 a yet another excellent year for your Company. LMT would have been proud of the results. The highlights of the consolidated performance for 2006-07 are given below.

- Gross sales increased by 18.8 per cent to Rs.2,524 crore.
- Profit before depreciation, interest and tax (PBDIT), prior to exceptional items, grew by 16.7 per cent to over Rs.585 crore.
- Profit after tax (PAT), rose by 19.2 per cent to Rs.255 crore.
- Fully diluted earnings per share (EPS), increased by 25 per cent to Rs.14.06.

The object of this restructuring has been to unlock greater shareholder value.

You will agree with me that these are excellent numbers, and each and every employee of your Company deserves our thanks for their efforts at raising shareholder value.

I will not go into the details of your Company's performance during 2006-07, which are to be found in the Chapter on Management Discussion and Analysis. Instead, I would like to focus on four areas:

- The performance of Sabah Forest Industries Sdn Bhd in Malaysia which was formally acquired by your Company on 16 March 2007.
- The post-June 2007 financial restructuring of your Company which you may have read of in newspapers and how that should unlock even greater shareholder value.
- The performance of BILT's office supply and stationery business.
- Your Company's ongoing emphasis on corporate social responsibility—based on our belief that sustainable growth requires serious commitment to society.

Sabah Forest Industries Sdn Bhd, Malaysia (SFI) was formally acquired by your Company on 16 March 2007. Thus, in the fourth quarter of 2006-07, SFI was under BILT's management. I am happy to inform you that the integration of SFI with BILT has proceeded even better than anticipated. Thanks to our efforts at optimising capacity utilisation, SFI paper production increased by almost 68 per cent over the preceeding quarter to 36,267 metric tons. Similarly, sawn timber production was increased by almost four times to 7,114 cubic metres, while veneer output was raised over five and a half times to 3,151 cubic metres.

Your Company is focusing on further increases in paper production at SFI along with major improvements in raw material and energy consumption. For 2007-08, we have set a challenging paper production target of over 150,000 metric tons at SFI alone—along with equally ambitious targets for timber operations. I am confident that the management team at SFI will deliver these goals and then prepare themselves for substantially increasing capacities of pulping, pulp sheeting and paper.

Let me now briefly explain the financial restructuring of your Company that has been approved by your Board of Directors. The object of this restructuring has been to unlock greater shareholder value. It requires some explanation.

For the acquisition of SFI, your Company had created two special purpose vehicles

(SPVs). The first was Ballarpur International Holdings BV (BIH) which was capitalised at US\$ 130 million, of which US\$ 60 million equity contribution was by your Company, US\$ 15 million convertible bonds were subscribed by J P Morgan Securities (Asia Pacific) Limited [which will give them beneficial ownership of 20% in SFI] and also a mezzanine debt of US\$ 55 million. This financed the second SPV called Ballarpur Paper Holdings BV (BPH), a 100 per cent subsidiary of BIH. BPH has been sanctioned non-recourse loans of US\$ 200 million, partly to pay for the acquisition of SFI and partly to meet future capital expenditure of SFI. BPH currently owns 97.8 per cent of the capital in SFI and the balance 2.2 per cent is held by the Government of Sabah.

Your Company has now created a 100 per cent subsidiary called BILT Graphic Paper Products Limited (BGPPL) which will have in its fold the three undertakings of your Company at Bhigwan, Ballarpur and Kamalapuram by a slump exchange at a lump sum value of Rs. 1,950 crore based upon the range provided in the valuation report of PriceWaterhouseCoopers India Private Limited.

It is proposed that BPH will take up debt and equity financing from international banks and institutions / international branches of national banks amounting to Rs. 1,950 crore to acquire control of BGPPL from your Company.

With the Rs. 1,950 crore, your Company intends to retire debts owed to secured and unsecured creditors, facilitate payments for mandatory buyback of 40 per cent of the paid up capital and additional Equity Shares of small shareholders i.e. those holding 1,000 Equity Shares (pre-split) or less, desiring to sell their balance shareholding in entirety and towards such other purposes as may be decided by your Board of Directors. The buyback will substantially enhance the Earnings Per Share of your Company thereby increasing shareholder value.

Your Company will continue to hold substantial stake as a holding company in BPH (through BIH), even after the Scheme becomes effective and the steps indicated above are implemented. The accounts of BPH shall continue to be consolidated with the accounts of the Company.

That brings me to the third topic—BILT's office supply and stationery business. During 2006-07, this business grew by over 60 per cent in terms of volume, taking the turnover to Rs. 80 crore. Your Company has three major brands in this segment: BILT Matrix, Royal Executive Bond and BILT Ten On Ten. I am