

**ANNUAL  
REPORT**  
2007-2008



AVANTHA  
GROUP COMPANY



Mathematicians—and anyone with a sense of wonder—have been fascinated by the Möbius strip ever since August Ferdinand Möbius discovered its unique property in 1858. It denotes cyclical movement and infinity. It is the only known entity with one surface and one edge—in contrast, this page has one edge but two surfaces.

BILT's story of backward and forward integration, which encompasses farm forestry, plantations, raw material, manufacturing and retail, forms a perfectly seamless and infinite entity, symbolized by the surface of a Möbius strip. The imagery also reflects BILT's CSR thrust, a vital link in a truly sustainable business.



## CONTENTS

4	CONSOLIDATED HIGHLIGHTS
6	CHAIRMAN'S LETTER
9	MANAGEMENT DISCUSSION & ANALYSIS
21	CORPORATE SOCIAL RESPONSIBILITY
28	CORPORATE GOVERNANCE
38	DIRECTORS' REPORT
44	AUDITORS' REPORT

## FINANCIALS

48	BALANCE SHEET
49	PROFIT & LOSS ACCOUNT
51	CASH FLOW STATEMENT
52	SCHEDULES
74	BALANCE SHEET ABSTRACT
77	CONSOLIDATED ACCOUNTS



## BOARD OF DIRECTORS

<b>GAUTAM THAPAR</b>	CHAIRMAN
----------------------	----------

<b>R. R. VEDERAH</b>	MANAGING DIRECTOR
----------------------	-------------------

<b>B. HARIHARAN</b>	GROUP DIRECTOR (FINANCE)
---------------------	--------------------------

<b>SHARDUL S. SHROFF</b>	
--------------------------	--

<b>R. K. AHOOJA</b>	
---------------------	--

<b>SANJAY LABROO</b>	
----------------------	--

<b>A. S. DULAT</b>	
--------------------	--

<b>ASHISH GUHA</b>	
--------------------	--

<b>DR. PRAMATH RAJ SINHA</b>	
------------------------------	--

<b>P. K. BANERJI</b>	NOMINEE OF LIC
----------------------	----------------

## 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

Report  junction.com

## 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



## consolidated highlights 2007-2008

### financials

#### Gross Sales

Increased by 19.9 per cent from Rs. 2,524 crore in 2006-07 to Rs. 3,026 crore in 2007-08.

#### Operating Profit (PBDIT)

Increased by 22.1 per cent from Rs. 585 crore in 2006-07 to Rs. 715 crore in 2007-08.

#### Profit after Tax (PAT)

Increased by 19.2 per cent from Rs. 255 crore in 2006-07 to Rs. 304 crore in 2007-08.

#### Return on Average Net Worth (RONW)

Improved from 14.2 per cent in 2006-07 to 17.8 per cent in 2007-08.

#### Fully Diluted Earnings per Share (EPS)

Increased from Rs. 2.81 in 2006-07 to Rs. 4.76 in 2007-08.

#### Dividend

Increased from 30 per cent in 2006-07 to 35 per cent in 2007-08.

### awards

#### Corporate Social Responsibility

**01**  
The AIM Intel Special Asian CSR Award for best CSR practices.

**02**  
The TERI Award for best workplace intervention for the prevention of HIV/AIDS.

#### Unit Ballarpur

Excellence in Energy Conservation and Management.

#### Unit Shree Gopal

Haryana State Safety and Welfare Award, 2007.

#### Unit Bhigwan

**01**  
Greentech Environment Excellence Gold Award, 2007.

**02**  
Greentech Safety Gold Award, 2008.

**03**  
India Manufacturing Excellence Award.

#### Unit Ashti

National Energy Conservation Award.

# 2007 2008

## PAPER PRODUCTION

IN MT

↑ 21.0 %



03 04 05 06 07 08  
04 05 06 07 08

## NET SALES

IN RS. CRORE

↑ 22.1 %

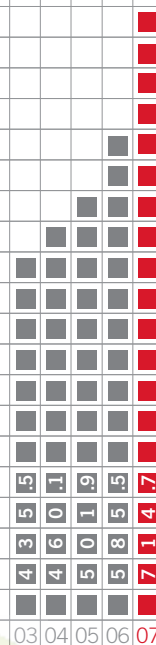


03 04 05 06 07 08  
04 05 06 07 08

## PBDIT

IN RS. CRORE

↑ 22.1 %

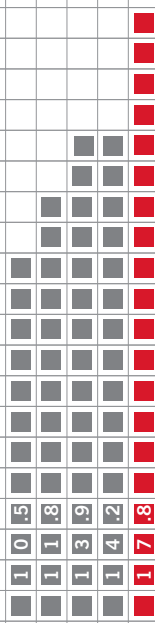


03 04 05 06 07 08  
04 05 06 07 08

## RETURN ON AVERAGE NET WORTH

IN %

↑ 25.3 %

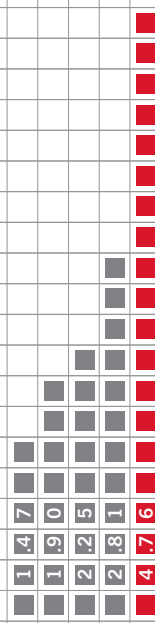


03 04 05 06 07 08  
04 05 06 07 08

## DILUTED EPS

IN RS.

↑ 69.4 %

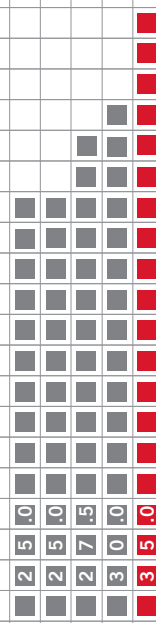


03 04 05 06 07 08  
04 05 06 07 08

## DIVIDEND

IN %

↑ 16.7 %



03 04 05 06 07 08  
04 05 06 07 08



## chairman's letter



### DEAR SHAREHOLDER

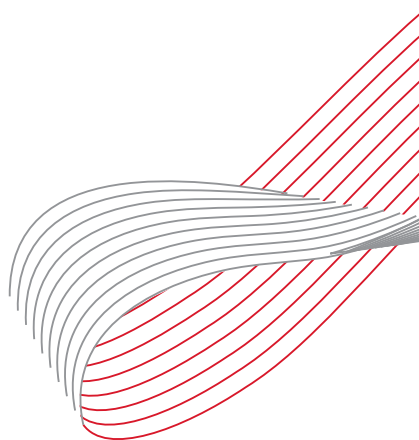
I pen this letter to you at a time when the western financial world is in turmoil. What started in the USA as a sub-prime loan problem has spread to almost all securities and across all institutions. Earlier this year, despite the failure of Bear Stearns, few would have believed that two great US mortgage finance institutions, Fannie Mae and Freddie Mac, would need massive Federal funds bailout. Or that a venerable European bank like UBS would post huge losses quarter after quarter. Or that Merrill Lynch would have to sell itself to the Bank of America. Or that Lehman Brothers would file for bankruptcy under Chapter 11. Or that Morgan Stanley would be negotiating a sell-out. Or that the US government and the Federal Reserve would together have to pump almost \$1 trillion to sequester toxic assets and help save the country's financial sector.

As the Chinese saying goes, "We are living in interesting times".

Despite such mayhem—and we may not have seen the end of it yet—I believe that both India and your Company occupy sweet spots. First, the India story. Our real GDP grew at 9 per cent in 2007-08, and allowed India to

#### NOW TO THE BILT STORY.

If it were to be said succinctly, it is a story of well calibrated profitable growth; of making the best of acquisition; of improving efficiencies; of systematically growing capacities; of strengthening the balance sheet, and of increasing shareholder value.



achieve a five-year compound annual growth rate (CAGR) of 8.8 per cent. It has been the highest five-year CAGR in our recent history.

There is no doubt that GDP growth will be lower in 2008-09—the consensus estimate being somewhere between 7.5 per cent and 8 per cent. This is hardly a ‘gloom-and-doom’ scenario. In a world where the US will be lucky to scrape 1.6 per cent growth, and where the Euro zone is in recession, growth of 7.5 per cent-8 per cent for a continental sized economy such as ours will be an excellent achievement. Indeed, only two major economies will grow at 7.5 per cent or above in 2008 and 2009—China and India. That says a great deal about India’s innate strengths, and the power of its domestic consumption.

In fact, I believe that if we as a nation do not falter in 2008-09, India may well be a seriously preferred destination for foreign portfolio investments as well as FDI. And those of our entrepreneurs who have strong balance sheets and have kept their powder dry can benefit from excellent global acquisition opportunities at very competitive prices.

Now to the BILT story. If it were to be said succinctly, it is a story of well calibrated profitable growth; of making the best of acquisition; of improving efficiencies; of systematically growing capacities; of strengthening the balance sheet; and of increasing shareholder value. Let me touch upon each of these.

- **Well calibrated profitable growth and rising shareholder value.** Your Company’s consolidated gross sales (excluding other income) for 2007-08 was Rs.3,026 crore—up 19.9 per cent from the previous year. Profit before depreciation, interest and tax (PBDIT) was Rs.715 crore in 2007-08. The PBDIT margin (as a ratio of gross sales) was a very healthy 23.6 per cent. Profit after tax (after minority interest and share in associate companies) was Rs.300 crore. All of these have resulted in growing shareholder value. Your Company’s diluted earnings per share (EPS) has increased from Rs.2.81 in 2006-07 to Rs.4.76 in 2007-08.
- **Making the best of acquisition.** You will recall that Sabah Forest Industries Sdn. Bhd., Malaysia (SFI) was formally acquired by your Company on 16 March 2007. In the ensuing five quarters, SFI has successfully stabilised operations, raised production, improved operating efficiencies and will complete the integration process with BILT by

March 2009. Paper production of SFI in 2007-08 was 139,194 MT, which was 11 per cent higher than the previous year. You will be glad to know that this growth was achieved without the use of any market pulp or purchased woodchips—which demonstrates how SFI is now working as an integrated unit with end-to-end operations. In addition, SFI’s integrated timber complex production of sawn timber was 40 per cent higher than 2006-07; veneer production was 88 per cent higher; and plywood production was over five times as much. And to build for the future, SFI did plantation activities over 3,000 hectares, which was 37 per cent more than the earlier year.

- **Improving efficiencies.** There have been continuous improvements in productivity and efficiency across all units of your Company. This is perhaps the single most important reason why, despite sharp increases in all key input costs—pulp, coal, fuel, furnace oil and chemicals—BILT actually improved its operating margins. Throughout the year, several plant-level initiatives backed up by global best-in-class benchmarking has led to higher productivity, lower input-output ratios, lesser per unit use of electricity, steam and water, greater output and better operational performance. The details are given in the chapter on Management Discussion and Analysis.
- **Growing capacities.** Your Company had taken a conscious decision to create global scales of operation. We are now seeing this in action, having embarked on significant capacity expansion for strategically selected products in three units—Bhigwan, Ballarpur and SFI. At Bhigwan, the project to increase the capacity of producing coated wood-free paper from 125,000 metric tons per annum (MTPA) to 315,000 MTPA began in March 2007. The project is on schedule and commissioning is expected in November 2008. The expansion at Ballarpur involves installing a new uncoated wood-free paper manufacturing machine which will increase capacity of at this unit by 165,000 MTPA. We expect this to be commissioned by June 2009. The expansion at SFI involves increasing pulping capacity from 310 metric tons per day (MTPD) to over 607 MTPD. This will be commissioned in the year 2009-10. Thus, in the next 24 months, you should see your Company’s paper manufacturing capacity close to 1 million MTPA mark.

■ **Strengthening the balance sheet.** In my last year's letter to you, I had explained the rationale for the corporate restructuring that your Company had proposed to undertake. It is now done. Let me again outline what we did, and why we did it. As of today, BILT has three sets of value creating assets, which are:

- a) The units at Ashti, Shree Gopal and Sewa, and the office supply and stationery business and the retail business, which are directly owned by BILT.
- b) SFI in Malaysia. 97.8 per cent of these assets are owned by Ballarpur Paper Holdings B.V. (BPH), the Netherlands. BPH is a step-down subsidiary of Ballarpur International Holdings B.V. (BIH), the Netherlands which is a 100 per cent subsidiary of BILT.
- c) The plants at Bhigwan, Ballarpur and Kamalapuram. These three undertakings were transferred by BILT to its wholly owned Indian subsidiary, BILT Graphic Paper Products Limited (BGPPL) with effect from 1 July 2007 for Rs.1,950 crore, which BGPPL paid to BILT by allotting equity shares of Rs.450 crore and debentures of Rs.1,500 crore. Thereafter, BILT transferred the equity shares and debentures to BPH. BPH had, based on an equity valuation of US\$ 825 million, received an investment of US\$ 175 million from two major private equity investors for an equity stake of 21.2 per cent. It also received debt financing of US\$ 560 million from international banks, institutions and international branches of national banks. BPH remitted Rs.1,950 crore to BILT as consideration. Today, BPH is the group holding company for SFI and BGPPL.

How does this restructuring raise shareholder value? It does so in three ways. First, it has helped BILT to obtain Rs.1,950 crore to fund a share buyback of 40 per cent of paid-up equity capital and retire significant amount of debt—thus de-levering your Company's balance sheet while simultaneously reducing the pool of equity. All else being equal, this alone should raise earning per share of your Company. Second, by reducing debt in BILT's balance sheet, it has created headroom for financing further growth, either organically or through acquisitions. Third, it has allowed BILT to focus much more on the value added plays of the future: copier paper, the office supply and stationery business, retail and hygiene.

Your Company enjoys excellent brand visibility. We propose to leverage this to further grow both the basic paper business as well as the fast growing office supply and stationery business. We believe that the paper-based office supplies segment in India has explosive growth potential, and that as a market leader with great brand awareness, we can take this segment to a new level. We are doing so in a carefully orchestrated manner. During 2007-08, this business grew by over 44 per cent in value terms, taking the total turnover to Rs.114 crore. Today, our products in segment are sold in over 30,000 outlets across 240 locations in India. I expect the turnover from this business to grow over Rs. 200 crore in 2008-09.

That brings me to what I consider the most important message in my letter to you. It has to do with corporate social responsibility (CSR).

I seriously believe that the sustainability of any company—especially those whose units are located in deep hinterlands and use natural resources—depends on being socially responsible to the participating community and to the environment. While we have some ways to go, I am proud of your Company's CSR work over the years. Here are some facts:

- Over the last seven years, BILT has enabled the participating community to raise their income from between Rs. 30-40/day (less than US\$1) to almost Rs.70 (US\$ 1.75) per day. This has been achieved by interventions in micro- entrepreneurship development, agriculture and livestock—which have reached out to around 6,000 families. In 2007-08 alone, 306 persons have started micro-enterprises with the help of your Company, raising the total to 685.
- Primary education has been a key focus area. Your Company's education initiatives have benefited over 100,000 children between the age of 3 and 14 years. In 2007-08, more than 4,500 children were mainstreamed to formal schools.
- We have been promoting gender equality through women's Self Help Groups (SHGs). In the last seven years, 415 SHGs have been formed. Their micro finance programme now manages more than Rs.400 lakhs of working capital. These SHGs have impacted the lives of 15,000 women.
- In addition, we have focused on reducing child mortality and HIV/AIDS. The first Anti-Retroviral Therapy (ART) centre was established at Ballarpur, in partnership with the government-run National AIDS

Control Organisation (NACO) in August 2007. The centre has registered around 400 HIV positive patients out of which 215 are on ART.

I would urge you to read the chapter on Corporate Social Responsibility.

Your Company is on the right track. It is growing. It is building global scales of production. It is continuously focusing on improving productivity and efficiency. It is building brand-driven high visibility, value added businesses. It is maintaining a strong balance sheet. It is increasing profits and shareholder value. And it is always focusing on CSR and sustainability. Indeed, BILT proves how profits and sustainability can, and must, go hand in hand. We intend to step up these activities in a major way in future.

Finally, my thanks to all your Company's employees, who have once again done a marvellous job and our NGO partners without whom our CSR intervention would not be possible. And to you, for being with us.



Gautam Thapar  
Chairman