

GROWTH
EXPANSION
SUSTAINABILITY

ANNUAL REPORT
2008-2009



AVANTHA
GROUP COMPANY

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board of directors

GAUTAM THAPAR

CHAIRMAN

R. R. VEDERAH

MANAGING DIRECTOR

B. HARIHARAN

GROUP DIRECTOR (FINANCE)

SHARDUL S. SHROFF

R. K. AHOJA

SANJAY LABROO

A. S. DULAT

ASHISH GUHA

DR. PRAMATH RAJ SINHA

A. P. SINGH

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

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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consolidated highlights

2008 2009

FINANCIALS

Total Income

Decreased by 0.3 per cent from
Rs. 2,847 crore in 2007-08 to
Rs. 2,838 crore in 2008-09.

Paper Revenue

Increased by 9.3 per cent from
Rs. 2,425 crore in 2007-08 to
Rs. 2,651 crore in 2008-09.

Domestic Paper Revenue

Increased by 13.5 per cent from
Rs. 1,992 crore in 2007-08 to Rs.
2,260 crore in 2008-09.

Operating Profit (PBDIT)

Decreased by 8.3 per cent from
Rs. 715 crore in 2007-08 to Rs. 656
crore in 2008-09.

Domestic Paper Business PBDITA

Increased by 20.7 per cent from
Rs. 523 crore in 2007-08 to Rs. 631
crore in 2008-09.

AWARDS

Corporate Social Responsibility

Rated as a Level 4 CSR Company in
a rating done by Karmayog of 1000
largest Indian Companies, being the
highest rating accorded in 2008.

Unit Bhigwan

India Manufacturing Excellence
Award 2008 from Frost & Sullivan.

First prize in Energy Conservation
and Management from Maharashtra
Energy Development Agency.

CII – National Award for Excellence in
Energy Management.

Gold Award for Excellence in
Environment Management from
Greentech Foundation, New Delhi.

Unit Ballarpur

First prize for Excellence in
Environment Management from
Greentech Foundation, New Delhi.

Silver Award for Excellence in Safety
Management from Greentech
Foundation, New Delhi.

PAPER PRODUCTION IN MT

04-05	383,422
05-06	404,150
06-07	496,847
07-08	599,929
08-09	604,731

NET SALES IN RS. CRORE

04-05	1,790.3
05-06	1,912.7
06-07	2,317.8
07-08	2,831.1
08-09	2,824.7

NET PROFIT MARGIN IN PER CENT

04-05	8.8
05-06	9.2
06-07	9.0
07-08	10.7
08-09	6.7

DILUTED EPS IN RS.

04-05	1.90
05-06	2.25
06-07	2.81
07-08	4.76
08-09	2.72

PBDIT IN RS. CRORE

04-05	460.1
05-06	501.9
06-07	585.5
07-08	714.7
08-09	655.8

chairman's letter

Report & Discussion



DEAR SHAREHOLDER

You would recall that by the end of the first quarter (July-Sept 08) of our reporting year 2008-09, the global financial system was in complete turmoil. Large international financial institutes like Bear Stearns, Fannie Mae, Freddie Mac, Royal Bank of Scotland and Lehman Brothers either went bust or required large Government bailouts. And, this became the norm for several large institutions across USA and Europe.

Reported write-downs reached US\$760 billion by end- September 2008, of which US\$580 billion were incurred by global banks. As expected, losses were mostly mortgage-related, and primarily related to the US and European banks. It only increased with an increase in loan-loss provisioning and further mark-to-market write-downs. World Bank and IMF estimates suggest that by October 2008, the total losses incurred by the global financial system due to the fall out of the 'subprime crisis' was close to US\$4,100 billion, which was unprecedented in modern history. These estimated losses were over five times what was witnessed in Japan between 1990 and 1999 - the closest other such banking crisis.

Naturally, the financial turmoil of such epic proportions had its effect on the global real economy as well. With severe stress on liquidity and major negative consumer and investor sentiments, growth in global output reduced from 5.2 per cent in 2007 to 3.2 per cent in 2008 and is estimated to reduce to -1.3 per cent in 2009. Much of this slowdown has been in the advanced economies of the USA and the EU. US growth reduced to 1.1 per cent in 2008 and is estimated to be -2.9 per cent in 2009. EU growth was a mere 0.9 per cent in 2008. And, in 2009, it is expected to be -3.5 per cent. Japan has got into yet another crisis, with 2009 growth forecasted

at -6.5 per cent. Thanks to such acute de-growth in the real sectors of developed economies, global trade is predicted to shrink by 11 per cent in 2009 — the worst since the Great Depression.

In my letter to you in the last Annual Report, I had already alluded to these global developments. I had also expressed that in this milieu, both India, as a country, and BILT, as a Company were in a 'sweet spot'. While some of the developments were more adverse than expected, this fundamental premise of optimism still holds ground.

First, let's look at India, BILT's primary area of operations. While the Indian financial intermediaries did not witness the kind of fragility witnessed in more developed countries, the global financial crisis had an adverse effect on India as well. There was significant capital flight especially by foreign institutional investors; lower capital inflows; sharp depreciation of the Indian rupee against most major currencies, especially the US dollar; and huge fall in equity values on account of reverse capital flows. Moreover, virtually all overseas lines of credit for banks and Indian companies dried up. The months of September, October and November were

particularly bad as the financial system witnessed significant pressures on the liquidity front. And, economic growth also witnessed a slowdown. With GDP growing at 5.8 per cent in the Oct-Dec 2008 quarter and the Jan-Mar 2009 quarter, annual GDP growth reduced to 6.7 per cent in 2008-09. This is a significant slowdown from the 9 per cent growth witnessed in 2007-08. Clearly, compared to the last five years, there has been a slowdown in the Indian economy.

Having said that, it is also important to note that the macro-economic fundamentals of India continue to be strong and most experts estimate that in the foreseeable future, the country will grow between 6.5 per cent and 7 per cent annually. Compare this with the global picture and one finds that India will continue to be one of the fastest growing economies of its size in the world. And, since May 2009, there has been renewed optimism right across the Indian economy. Industrial output has started showing positive signs, inflation is well under control, consumer sentiments are positive and there is renewed investor confidence in India. As I write this letter, the Sensex – India's premier stock market index - has bounced back to levels

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State-of-the-art paper machine installed at Bhigwan incorporating latest on-machine blade coating technology to produce 165,000 MT of coated paper annually.



Janus Super calendar installed at Bhigwan to impart gloss to the coated papers – the only one of its kind in India with the latest technological innovation from Voith, Germany.

above 17,000. Clearly, India remains a country with several opportunities.

As far as the writing and printing paper industry goes, India is still at a very nascent stage with one of the lowest per capita consumptions in the world. With increased stress on education and economic development, there continues to be large opportunities for growth in this sector. Yes, there is increased use of the internet and similar mediums that have an adverse impact on paper consumption, but this usage is still minimal and not widespread. The market remains widespread and fragmented. The fundamental challenge is to get the right product mix, have efficient distribution channels that reach out to customers,

produce products at reasonable costs and get consumers to use better quality of products.

This brings us to the focussed discussion on BILT.

As you are aware, at BILT, we have adopted a well calibrated growth strategy that lays equal stress on revenue growth and profit growth. Over the last few years, we have focussed on acquisitions; on systematically growing capacities; on strengthening the balance sheet; and on organising production facilities to maximise value addition. While stressing on these objectives two critical elements have become inherent to our operations. These are:

- **The stress on continuous improvements in productivity:** In an industry like pulp and paper, which is highly commoditised across segments, cost competitiveness is critical. In this endeavour, while there will be some big ticket gains, the challenge is to continuously focus on innovations and productivity improvement programmes that keep generating incremental benefits. There has been a focused change initiative on this front over the last few years. And, it gives me immense pride in seeing how this has become an integral part of the operational culture at BILT across its units. In the section on Management Discussion and Analysis, more in-depth details of developments on this front across all the units have been reported.

- **The stress on going up the value chain:** BILT continues to regularly find opportunities to provide value addition across the pulp and paper value chain. In some cases, being the market leader, these initiatives centre on creating new market segments for value added products. It is this focus that has made BILT India's leading player in the coated segment. The Company's foray into the retail business is also a prime example of a stress on grabbing opportunities for value addition in an industry that is otherwise highly commoditised. During 2008-09, there were several developments on this front where the product mix was altered to meet the demands of the market with products that offer better margins.

Clearly, as a Company, BILT is in a consolidation phase. Major investments and acquisitions have been undertaken in the last few years and 2008-09 was primarily a year of consolidation. And, it was a very challenging year, especially for the international operations at SFI (Malaysia) and the pulp operations at Kamalapuram. In the Oct-Dec 2008 quarter, both these

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operations witnessed a complete erosion of demand. But, I am happy to report that the strong domestic performance of the Indian paper operations recorded a 13.5 per cent growth in revenue and helped offset the setbacks on these businesses helping maintain consolidated revenues at levels similar to 2007-08. Profits have been lower, but that is expected in a year when most companies globally grappled to even generate profits. Also, with market conditions improving by April-May 2009, both SFI and the Kamalapuram pulp operations have stabilised and started generating profits. In some ways, such adverse market conditions have helped BILT emerge as a stronger Company. The results give greater confidence in the structuring of BILT as a portfolio of business with different risk return profiles that operates as a more de-risked business.

While much of 2008-09 was about overcoming market conditions, BILT continued to implement its expansion plans at Bhigwan and Ballarpur. 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 has been completed and commercial production commenced from March 2009. The expansion at Ballarpur involved installing a new uncoated wood-free paper manufacturing machine which will increase capacity at this unit by 165,000 MTPA. Trial production has commenced here from August 2009. This is a massive increase in capacity. In fact, with this expansion, Ballarpur has now doubled the capacity it had built over the last five decades.

BILT has always focused on being a good corporate citizen stressing on sustainable growth and community development. While this is a key element of the Company's value system, it is also important for its business given that units are located in deep hinterlands and use natural resources like wood. 2008-09 has been a landmark year in terms of recognition of BILT's focus on business practices that promote 'sustainability'. As a recognition of its efforts on sustainable use of forest resources, BILT became the first Indian paper Company to receive the Forest Stewardship Council-Chain of Custody (FSC-COC) certification for three of its manufacturing units at Ballarpur, Bhigwan and Ashti. This certification recognises BILT's commitment to environmentally appropriate, socially beneficial and economically viable management of the world's forests. This will now allow BILT to use the FSC label for its products that gives it a credible link between responsible management of forests and the

production, manufacturing and marketing of wood-based products, including pulp and paper. This will differentiate BILT in the market place and aid consumers and businesses to make purchasing decisions with a view on how it benefits people and the environment. The Company is in the process of extending the above certification to remaining Indian units during 2009-10.


We continued to stress on Corporate Social Responsibility. During 2008-09, our initiatives on this front were based on the concept of 'partnership' with different groups to develop and help the communities around BILT's plants. This included partnership with NGOs, partnership with the Government, partnership with the banking and financial system, partnership with international donor agencies, and partnership with community based organisations. I urge you to read the chapter on Corporate Social Responsibility that details all the activities and achievements on this front.

BILT has emerged as stronger Company having faced stiff challenges in 2008-09. The fundamentals of the business remain strong. While I remain confident and optimistic about the prospects in 2009-10, I am also aware that the coming financial year will further test the mettle of the Company. Market conditions and the business environment are improving but competition is going to remain cut-throat. In India, several new capacities will come on stream increasing market supply; while globally there will continue to remain a demand supply mismatch. We have consciously created capacities in countries like India and Malaysia that have much more competitive cost structures. These cost structures with our focus on efficiency improvements and flexibility in product mixes hold us in good stead. I am confident of our team's ability to implement business plans and take on the challenges in the near future. The resilience shown in 2008-09 has further enhanced this confidence.

Finally, my thanks to all the Company's employees, who have once again done a marvellous job. And to you, our shareholders, for believing in this business and being with us. We remain committed to enhancing shareholder value in every endeavour of our business.



Gautam Thapar
Chairman



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