

A large, abstract graphic composed of many concentric, wavy lines in shades of blue, green, and brown, creating a tunnel-like effect that frames the central text.

ANNUAL REPORT 2011-2012



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BOARD OF DIRECTORS

GAUTAM THAPAR

Chairman

R.R. VEDERAH

Managing Director &
Executive Vice Chairman

B. HARIHARAN

Group Director (Finance)

P.V. BHIDE**SANJAY LABROO****A.S. DULAT****ASHISH GUHA****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

CONSOLIDATED HIGHLIGHTS

AWARDS & CERTIFICATIONS

UNIT BALLARPUR

Excellence in Energy Conservation and Management from the Maharashtra Energy Development Agency (MEDA), Pune, a Government of Maharashtra body.

Environmental Best Practices Award 2012 from Confederation of Indian Industry (CII) GBC, Hyderabad for Most Innovative Environmental Project.

Gold Award for Excellence in Environment Management 2011 from Greentech Foundation, New Delhi.

UNIT SEWA

ISO 14001-2004 and OHSAS 18001-2007 certification.

UNIT BHIGWAN

Good Green Governance (G3) Award from Srushti Publications, New Delhi.

Greentech Safety Gold Award from Greentech Foundation, New Delhi.

Earth Care Award for Green House Gases (GHG) Mitigation (Large Enterprises) by JSW and the Times of India.

National Energy Conservation Award in Pulp and Paper Sector by Bureau of Energy Efficiency, Ministry of Power.

Indian Manufacturing Excellence Gold Certificate from Frost and Sullivan and The Economic Times.

8th National Award for Excellence in Water Management and Excellence

Water Efficient Unit Award for two categories i.e. within fence and beyond the fence by CII.

FINANCIALS

PAPER PRODUCTION

Decreased by 0.7 per cent from 846,230 MTPA in 2010-11 to 840,429 MTPA in 2011-12.

DEBT EQUITY RATIO

Decreased from 1.1 in 2010-11 to 0.9 in 2011-12.

NET SALES

Increased by 5.6 per cent from Rs. 4498.1 crore in 2010-11 to Rs. 4747.8 crore in 2011-12.

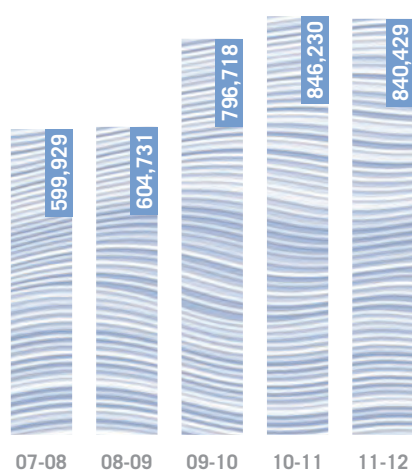
PBDIT

Decreased by 8.5 per cent from Rs. 875.5 crore in 2010-11 to Rs. 800.9 crore in 2011-12.

2011 2012

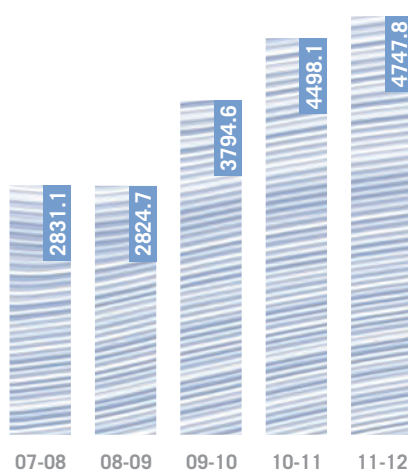
PAPER PRODUCTION

IN MT

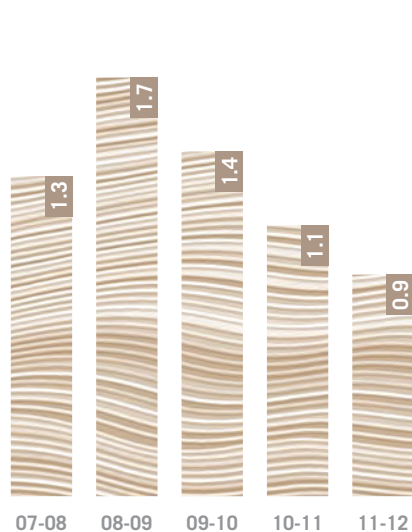


NET SALES

IN RS. CRORE

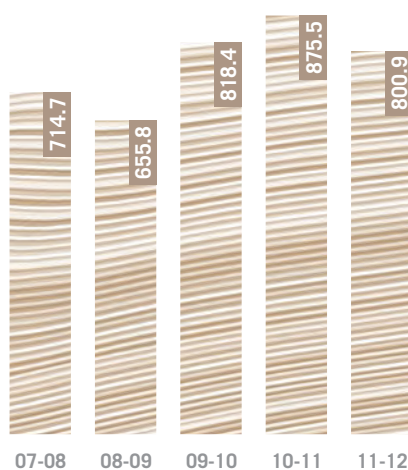


DEBT EQUITY RATIO



PBDIT

IN RS. CRORE



CHAIRMAN'S LETTER

DEAR SHAREHOLDER In the course of a year, the world has become a far more economically difficult place than before. According to the World Bank, global GDP growth has fallen from 4.1 per cent in calendar year 2010 to 2.7 per cent in 2011, and is projected even lower at 2.5 per cent for 2012.

The Euro zone is again in recession — with growth in 2012 being estimated at (–)0.5 per cent. Greece continues to spiral downwards, and the economy will contract by over 6 per cent in 2012. Spain's GDP will shrink by 1.7 per cent, as it faces widespread popular disenchantment with one out of four employable people being out of a job. Italy's GDP will also reduce by about 2 per cent. Even Germany, the beacon of growth and productivity in Europe, is expecting 2012 growth come down to a mere 0.8 per cent.

Comparatively, the US is doing better. Even so, it will grow by 2 per cent to 2.1 per cent in 2012. While reducing, it still has a high unemployment rate of 7.8 per cent. And there are serious uncertainties about having a productive bi-partisan Congress from January 2013, which is vital to bring about necessary fiscal reforms.

The most worrisome aspect is the falling growth in emerging markets. It seems unbelievable that after decades of

spectacularly high growth, China will grow by less than 8 per cent in 2012. Brazil's growth has shrunk quite dramatically, to 0.5 per cent in April-June 2012. And, as we all know, India's growth is down by over 2 percentage points in the course of a couple of years. With GDP growth at 5.5 per cent in April-June 2012, it will be lucky if we achieve 6 per cent for 2012-13.

In an environment that doesn't show any signs of improvement in the short term, what is the outlook for the paper and pulp industry and your Company? Let me touch upon some issues.

First, the global demand for paper.

It is clear that demand is shrinking in the advanced economies partly due to economic conditions, but mostly on account of a widespread digital culture and serious penetration of the high speed broadband internet which is promoting increasingly paperless systems.

The numbers tell the story. From a peak of 30.7 million metric tons (MT) in 2004, demand in North America has reduced to 22 million MT in 2011. Western Europe peaked in 2007 with demand for 28 million MT. By 2011, this has dropped to 22.6 million MT. Japan, too, has dropped from a high of 11.9 million MT in 2006 to 9.8 million MT in 2011.

The good news is the contrasting story of developing countries like India and China, which continue to witness strong growth. For instance, China, which now has the largest paper industry in the world, has seen the sector grow in recent years. In India, too, paper demand continues to grow with education constituting an increasingly significant proportion of the budgets of a rapidly increasing number of households. Thus, in paper as in many other areas, it is clear that the wedge between the advanced countries and the emerging economies is widening — especially so in Asia.

Given these circumstances, the fact that your Company and its subsidiary, Sabah Forest Industries (SFI) operate in India and South East Asia is cause of comfort. I see paper demand continuing to grow in your Company's markets. It may vary from year to year. But I don't anticipate falling demand in the foreseeable future. Therefore, your Company's top-line should continue to grow.

Second, by the end of calendar 2012, your Company's key investments in setting up major pulping mill facilities in SFI and Ballarpur will bear fruit. At SFI, the expansion for producing an additional 120,000 air-dry ton of pulp per year has been completed successfully. The pulp mill modernisation at Ballarpur will progressively commence operations from December 2012. Your Company has also invested in these capacity additions in a manner that will allow it to expand at these sites with very favourable capital/output ratios.

Thus, with in-house access to its key raw material, there should be reduced dependence on the global purchase of pulp — whose prices often move counter-cyclically and prevent operations from locking in to its variable cost structure. My expectation is that with this significant addition in pulping capacity, your Company should not only be able to produce more paper products, but also do so at higher margins than before.

Third, with the additional pulping facilities at SFI and Ballarpur, the current investment cycle has more or less come to an end. In the next few years, your Company's management will focus on 'sweating' the additional capital



to produce more output at lower unit costs and earn better returns. All else being equal, thanks to higher pulping capacity at SFI and Ballarpur, I expect margins to improve in the years to come. And with it, the return on capital employed.

Fourth, while product differentiation continues to play its role in creating a competitive edge, the pulp and paper industry is increasingly getting commoditised. Returns for companies are becoming as much a function of marketing and operating excellence as of effective estimation of market cycles and proactive decision-making for the buying and selling of forest products, pulp and paper.

Traditionally, the business cycles in the paper industry was over 4-5 years. This length has shortened significantly: today, the cyclical trends are closer to one year. Such shortened cycles make it even more important to correctly time the market with

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LET ME TOUCH upon some work that has been done on CSR and sustainability. Through its subsidiary, BILT Tree Tech Limited (BTTL), the Company continues to work with farmers to plant trees that are suitable for industrial wood.

buying and selling decisions to generate optimal shareholder value.

Fifth, I need to briefly explain the internal restructuring exercise carried out in July 2012. From 1 July 2012, there has been a transfer of the Sewa and Ashti business units of BILT to BILT Graphic Paper Products Limited (BGPPL), a step down subsidiary of your Company; and that of the Kamalapuram rayon grade pulp business to BILT. This now creates three clear businesses:

- the writing and printing paper business including copier paper through the step-down subsidiaries BGPPL and SFI
- the rayon grade pulp business at Kamalapuram, which is now directly under BILT; and
- the tissue business through the subsidiary Premier Tissues (India) Limited, which is also with BILT.

Moreover, the captive power assets at the Unit Shree Gopal have been transferred to BILT from Avantha Power and Infrastructure Limited (APIL), a group company. Similarly, the captive power assets at Units Ballarpur, Bhigwan and Sewa have been transferred to BGPPL from APIL. Given the role that power plays in paper manufacturing, these have been done to derive better operational efficiencies from having integrated facilities.

Sixth, regarding the financial performance of your Company, the positive was that BILT continued to penetrate markets and grow its sales volumes. Consequently, consolidated net sales increased by 5.6 per cent to Rs. 4,748 crore in FY2012. The negative was the sharp hike in various input costs — pulp, fuel and energy. Thus, despite a higher top-line, profit after tax after minority interest decreased by 42 per cent to Rs. 123 crore in FY2012. With the increase in pulping capacities and reduced demand on outside power, I expect the profits to improve in the coming years.

Seventh, while focusing on financial returns, BILT remains committed to being a good corporate citizen. It is even more important from a business perspective for a forest based enterprise such as your Company to focus on sustainable development. Your Company has taken several steps in this direction. In fact, FY2012 is the completion of a decade of focused

Corporate Social Responsibility (CSR) work at BILT.

Let me touch upon some work that has been done on CSR and sustainability. Through its subsidiary, BILT Tree Tech Limited (BTTL), the Company continues to work with farmers to plant trees that are suitable for industrial wood. Thousands of farmers in Odisha, Madhya Pradesh, Chhattisgarh, Andhra Pradesh and Maharashtra are associated with BTTL's farm forestry programme for over a decade.

BTTL has a strong network of qualified forestry staff; and environmentally controlled global standard nurseries in Maharashtra and Odisha with a capacity to produce 14 million plants for production of clonal saplings. It also supplies quality seedlings of *leucaena* (*subabul*) and *casuarina* in Andhra Pradesh and Maharashtra, and *acacia* in Odisha.

The Company also facilitates financial assistance for small and marginal farmers through bank loans to encourage them to take up plantations in their rain fed fallow lands. It also gives assured buy back of wood at a declared support/ market price, whichever is higher.

I urge you to read the chapter on CSR regarding your Company's initiatives in the course of the year.

There are many growth prospects in the business. Other than your Company's traditional paper products, across many of which BILT retains the pole position in the Indian market, there are opportunities in tissues with the right kind of focus on branding and distribution. So too in rayon grade pulp, where we are studying cost effective ways of increasing capacities and output. We are also examining entry into the corrugated packaging business.

Let me conclude by congratulating the management on doing a good job in a very difficult year. With key investments in place, there will be far less volatility to manage; far better quality of assets to 'sweat'; and far greater focus on improving the financial performance of your Company.

As always, thanks for your support.
Regards



GAUTAM THAPAR
Chairman