bilt

# ANNUAL REPORT 2015-16

AVANTHA
GROUP COMPANY

# CONTENTS

# BOARD OF DIRECTORS

**GAUTAM THAPAR**
Chairman

**R. R. VEDERAH**
Non Executive Vice Chairman

**B. HARIHARAN**
Group Director (Finance)

**SANJAY LABROO**

**A. S. DULAT**

**ASHISH GUHA**

**NANDINI ADYA (MS.)**

**B. VENUGOPAL**
Nominee of LIC

**A. P. SINGH**

# COMPANY INFORMATION

### REGISTERED OFFICE

P.O. Ballarpur Paper Mills – 442901,
District Chandrapur, Maharashtra

### OPERATING OFFICE

First India Place, Tower-C, Block-A,
Sushant Lok I, Mehrauli Gurgaon Road,
Gurgaon – 122002

### HEAD OFFICE

Thapar House, 124 Janpath,
New Delhi – 110001

### AUDITORS

K.K. Mankeshwar & Co.,
Chartered Accountants
Kingsway, Nagpur – 440001

# LISTING ON STOCK EXCHANGES

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

### NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Exchange Plaza, Plot No. C-1, G Block, Bandra Kurla Complex,
Bandra (E), Mumbai – 400051

### BSE LIMITED

Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001

# CONSOLIDATED HIGHLIGHTS

## AWARDS

**UNIT BALLARPUR**

### National Energy Conservation Award 2014-15

Second Prize from Bureau of Energy Efficiency (BEE), Ministry of Power, Government of India.

### Platinum Award in Energy Management 2015-16

From SEEM (Society of Energy Engineers and Managers) in Manufacturing Segments.

**UNIT BHIGWAN**

### Golden Peacock Occupational Health & Safety Award 2015

From Institute of Directors, India.

### RISI-PPI Bio Strategy of the Year Award in September 2015

### State Level Award

First Prize for excellence in Energy Conservation & Management, for the year 2014-15 from Maharashtra State Energy Development Agency (MEDA), Pune.

**UNIT SEWA**

### Kalinga Safety Award 2014 - Silver Category

From Odisha Safety Conclave.

# FINANCIALS

## 1. PAPER SALES
**IN MT**

| | |
|---|---|
| FY 2011–12 | 838,542 |
| FY 2012–13 | 830,342 |
| FY 2013–14 | 830,337 |
| FY 2014–15 | 598,983 |
| **FY 2015–16** | **700,654** |

## 2. NET SALES
**IN RS. CRORE**

| | |
|---|---|
| FY 2011–12 | 4,732.3 |
| FY 2012–13 | 4,854.8 |
| FY 2013–14 | 5,220.3 |
| FY 2014–15 | 3,625.9 |
| **FY 2015–16** | **4,221.4** |

## 3. PBDIT
**IN RS. CRORE**

| | |
|---|---|
| FY 2011–12 | 800.9 |
| FY 2012–13 | 875.6 |
| FY 2013–14 | 948.0 |
| FY 2014–15 | 590.3 |
| **FY 2015–16** | **732.3** |

**Notes :**

1. FY2014-15 comprised 9 months, as against 12 months in other financial years.
2. FY2015-16 excludes financial implications of SFI business, which is accounted for as discontinued activity.

# CHAIRMAN'S LETTER

Dear Shareholder

The paper and paperboard industry in India is facing several challenges.

Notwithstanding a fairly rapid increase in demand for paper across most major emerging markets, there exists substantial global excess capacity in pulp as well as printing and writing paper. There are several reasons for this. At 158 kg in the European Union, 218 kg in Japan and 224 kg in North America, the annual per capita consumption of paper in the developed countries has more or less topped out. Moreover, the rapid growth and ubiquitous use of digitisation across businesses and consumers alike — a trend that will only increase over time — augurs poorly for paper demand across such economies.

To be sure, there is still a healthy growth potential in the use of paper across emerging markets. China, for instance, annually consumes only 75 kg of paper per capita. And India is barely at 10 kg per person. Such economies will rapidly increase their demand for paper in the coming years as will those in Sub-Saharan Africa and in parts of Latin America. Even so, there is, and will be, significant excess capacity across the world.

The consequence of this is extreme competition. In their effort to earn revenues to cover at least some of the production costs, global paper manufacturers are selling their output across all faster growing markets, often at prices that barely meet variable costs. India has been hit twice over. First, with the USA imposing steep countervailing duties on Chinese and Indonesian paper imports, producers in China and Indonesia have sought out India to export their surplus. Second, with the free trade agreement (FTA) between India and the ASEAN, customs duties on most paper and paperboard manufactures have been progressively reduced from a base rate of 10% to zero. And, as per the FTA entered into with South Korea, there has been a steady reduction in basic customs duty, which will be zero in the year 2017.

Not surprisingly, therefore, in the past five years, imports of paper and paperboards have risen at a compounded annual growth rate of 15% in value terms.

This flood of imports has significantly disrupted the dynamics and working conditions of India's paper industry. All manufacturers are facing conditions of excess supply; and most have had to post unsatisfactory financial results. Though your Company is better placed than many — both in terms of scale, value added products and diversity of types of paper — it too has suffered. The results bear this out, and I need to explain these in some detail. The numbers, explained below, are representative of our on-going businesses and do not account for losses due to discontinuation of Sabah Forest Industries (SFI).

- For the 12-month period ending on 31 March 2016 (FY2016), net sales was a healthy Rs. 4,221 crore.
- On that, your Company's EBIDTA was Rs. 732 crore, or a healthy 17.3% on net sales. The EBIT was Rs. 468 crore, or 11.1% of net sales. Even in a highly competitive milieu, these were good numbers.
- However, the interest cost on funds that were earlier borrowed to modernise plants and equipment to produce greater throughput of higher grades of value added products has turned out to be too much to bear vis-à-vis your Company's operating profits. In FY2016, the interest burden alone was Rs. 463 crore.
- Consequently, PBT was Rs. 4.55 crore; and after adding other non-operating income and tax write-backs, PAT was Rs. 36.6 crore.

In addition, your Company has suffered, in recent years, from its acquisition of the SFI in Malaysia. Despite considerable efforts and significant investments, SFI has not been able to generate sufficient returns. The reason is not to do with lack of operational efficiencies. Instead, it has to do with the unrealistically strong exchange rate of the ringgit, which has remained such for many years, and makes SFI's wood pulp internationally uncompetitive vis-à-vis other Asian and South East Asian players. This, plus the fact that paper producers all over the world have access to enough freely available supply of hard wood pulp, necessitated a careful re-look of the rationale for SFI.

Having done so, your Company decided to consider SFI as a non-core asset and search for buyers. A share-sale agreement was signed with Pandawa Sakti (Sabah) of Malaysia for sale of its entire equity stake of 98.08% in SFI, subject to certain conditions. Unfortunately, this deal has fallen through. We are looking for other prospective buyers.

In the meanwhile, we have received a non-binding offer from JK Paper for the purchase of two of your Company's plants — Units Ashti and Ballarpur. This is in an early stage and matters are under consideration.

Proceeds from such sales, when these occur, will be used to substantially de-leverage your Company and streamline its finances.

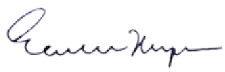
The other difficult operation was the rayon grade pulp mill at Kamalapuram in Telangana. High costs and poor rayon grade pulp prices have led to the plant not producing any output in the last two years. To make the unit viable, your Company represented to the State Government for certain subsidies to restart manufacturing. Our proposals were considered favourably by Government of Telangana which has issued an order to release Rs. 9 crore per annum as power subsidy for seven years and Rs. 21 crore per annum as subsidy on wood for five years. A Memorandum of Understanding is being finalised between your Company and the Government of Telangana.

Your Company's other manufacturing operations continue to perform well. Across many categories of paper, it continues to hold the pole position of the significant market leader. Its products are well accepted everywhere. Its operating efficiencies are among the best in the industry. And it has a farm forestry programme that is second to none. Simply put, it is one of the best organisations — if not the best — in the paper business in India.

The only overhang is the debts that have been incurred for large scale modernising and upgrading of plants and equipment. Once this is brought down to manageable levels, your Company will again earn decent net profits and reward its shareholders. We are making serious efforts at reducing the debt, to become a more asset- and debt-light enterprise in FY2017 and thereafter.

When it happens, I am sure you will see better results. BILT is a great name in the world of paper. It will remain so, with profits for its shareholders.

Thanks for your support.
Yours truly,



**GAUTAM THAPAR**
Chairman

# MANAGEMENT DISCUSSION & ANALYSIS

**NOTE:** *BILT is in the process of adopting to the requirements of the new Companies Act, 2013 and transitioning from its traditional financial year (FY) stretching over a 12 month period from 1 July of a year to 30 June of the following year to a 12 month financial year ending in March. In this transition phase, from a reporting perspective, FY2015 was a nine-month period, while FY2016 was a 12 month period. Hence, the financial numbers for the two financial years are strictly not comparable. This has been accounted for in the Management Discussion and Analysis and so certain comparisons have not been made. However, in certain sections, the Company has given indicative annualised figures to give a sense of comparison for readers. Going forward, the Company will operate according to a 12 month financial year ending in March.*

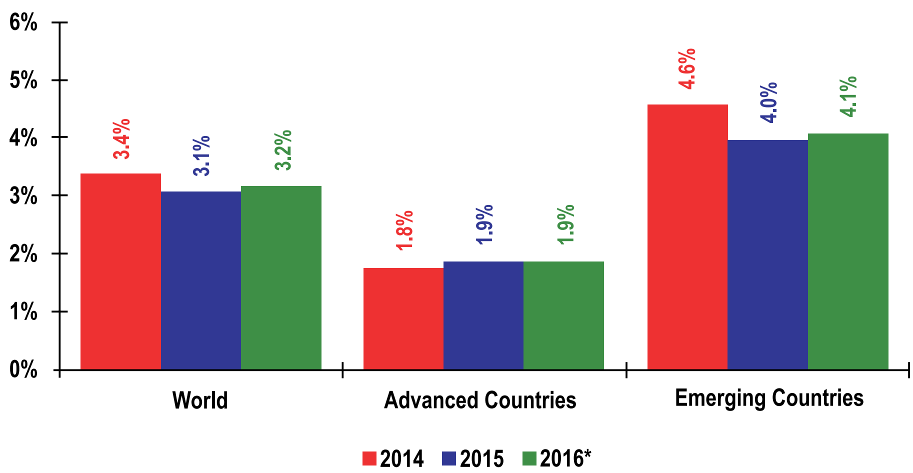
**BUSINESS ENVIRONMENT**

Over the last decade, the pulp and paper industry has almost mirrored the global macro-economic trends. Primarily, the transition has been about a gradual shift of growth in activity from advanced western countries to emerging economies in Asia and Latin America.

Unfortunately, the disconcerting trends witnessed in the global economy during FY2015 got more engrained in FY2016. Today, the ongoing global economic recovery has become a slow and long drawn process amidst increasing financial turbulence. In fact, economic activity softened towards the end of Calendar Year (CY) 2015 in advanced economies; and stresses in several large emerging economies showed no signs of abating. In addition to these headwinds, there are growing concerns about the global impact of the unwinding of earlier investment and financial excesses in China as it transitions to a more balanced, consumption-led growth path. There are also signs of distress in other large emerging markets, particularly ones who have been adversely affected by falling commodity prices.

Data from the International Monetary Fund (IMF), reported in the *World Economic Outlook (WEO), April 2016*, suggest that world economic output reduced from 3.4% in CY2014 to 3.1% in CY2015. While advanced economies remained steady at their lower levels of growth – 1.9% in CY2015 compared to 1.8% in CY2014, emerging markets and developing economies saw growth reduce from 4.6% in CY2014 to 4% in CY2015. Chart A gives the details.

**Chart A GDP Growth, CY2015 and CY2014**




*Source: IMF estimates, Note:*2016 is a forecast*