

Annual Report 2017-18



AVANTHA
GROUP COMPANY

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BOARD OF DIRECTORS

GAUTAM THAPAR

Chairman

R. R. VEDERAH

Non Executive Vice Chairman

B. HARIHARAN

Group Director (Finance)

SANJAY LABROO

A. S. DULAT

A. P. SINGH

SUDHIR MATHUR

PAYAL CHAWLA (MS.)

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,
Gurugram – 122002

HEAD OFFICE

Thapar House, 124 Janpath,
New Delhi – 110001

AUDITORS

Sharp & Tannan
Chartered Accountants
Parsn Manere, A-Wing, 602,
Anna Salai, Chennai - 600006

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



CHAIRMAN'S LETTER

Dear Shareholder,

Last year, I had begun my letter to you by writing, “The financial situation of your Company is serious”, and described how due to external and internal factors, BILT’s revenues were insufficient to service the debt incurred earlier to make the required capital intensive investments in capacity and technology.

Though we still have some ways to go, I have reasons to believe that things have been somewhat better in FY2018 compared to the previous year. Let me begin with your Company’s consolidated financials:

- Revenue from operations (net of indirect taxes) increased by 22% over the previous year to ₹2,519 crore in FY2018.
- EBIDTA improved from a loss of ₹247 crore last year to a profit of ₹352 crore.
- While this was more than adequate to cover depreciation, it was still insufficient to cover interest and finance cost.
- Consequently, profit before taxes (PBT) and exceptional items was (-) ₹840 crore. This was significantly better than the previous year, when it was (-) ₹1,410 crore.

- PBT including exceptional items was (-) ₹1,030 crore — again considerably better than (-) ₹1,716 crore that was posted in the previous year.
- Net profit from continuing operations after tax for FY2018 was (-) ₹864 crore. This was also appreciably better than FY2017, when it stood at (-) ₹1,581 crore.

What the results show is that your Company has clearly improved its operational performance. Revenues are up and the EBIDTA has again turned profitable. I expect these parameters to improve further in FY2019.

What the results also show is that at ₹915 crore, the finance cost at a consolidated level still remains high relative to your Company’s EBIDTA. We have been trying to bring this down through a combination of strategic debt and deep debt restructuring.

Regarding the former, the standalone entity- BILT converted a significant part of the outstanding debt to equity by issuing equity shares through preferential allotment to 11 banks and financial institutions that comprise the Joint Lenders Forum under the Strategic Debt Restructuring (SDR) scheme.

Regarding the latter, the Management has formulated a deep debt recasting plan for your Company's step-down subsidiary, BILT Graphic Paper Products Limited, which involves working with an Asset Restructuring Company to restructure the loan and infuse additional capital for the needs of the business.

Your Company is beginning to get the financial headroom needed to return to normal operations. But let me emphasise that we are not out of the woods yet. Your Company needs to further bring down finance costs which might require additional innovative debt restructuring. It needs to sell Sabah Forest Industries (SFI), which is

a non-core asset and financially classified as a 'discontinued operation'. It also needs to carefully examine the financial viability of some other Units and, where necessary, divest these as well.

These key corporate initiatives — further increasing revenues, controlling operational costs, divesting SFI and, where needed, other non-profitable Units as well as reducing the debt and interest burden — will need to be carried out in an increasingly competitive milieu, where there are more global producers of paper products supplying to India than before. Your Company's Management needs to be ever more vigilant, nimble and swift in execution.

It is a tough challenge. But is a challenge that can be met and overcome. Therefore, I have reasons to expect your Company to perform better in FY2019 and, with that, get BILT on to a financially sustainable growth path.

Thanks once again for your support throughout the difficult times. Let us together pledge that we shall overcome. As we must.

With best wishes,



GAUTAM THAPAR
Chairman

MANAGEMENT DISCUSSION & ANALYSIS

INTRODUCTION

BILT (or the 'Company') is one of India's leading writing and printing paper manufacturer. It continues to implement a well-structured plan which focuses on maintaining its leadership position across carefully selected sub-segments of the writing and printing paper industry. BILT's knowledge-driven emphasis towards value creation has helped to change the positioning of paper from a commodity to a branded product.

BILT's businesses operate through two separate blocks: one under the standalone entity BILT, and the other under its step-down subsidiary Bilt Paper.

Under the standalone entity, BILT, the businesses target the industrial and FMCG markets and include:

- Speciality paper business operating from the Shree Gopal facility in Haryana.
- Rayon grade pulp business operating from Kamalapuram in Telangana.
- Tissue paper business operated through its subsidiary, Premier Tissues (India) Limited.

The other block of businesses comes under Bilt Paper BV, which focuses on the wood-free printing and writing paper, coated and uncoated. This is the Company's primary business portfolio. Here, the focus is on the commercial printing business (both reel and sheet) and the desktop printing business through copier paper. There is also the production of high value bio-degradable high-end packaging. Bilt Paper B.V. operates through its step down subsidiary, namely BILT Graphic Paper Products Limited (BGPPL), which is an asset heavy entity, and has four plants in India: Ballarpur, Bhigwan and Ashti (all in Maharashtra) and Sewa (in Orissa).

Through this structure, BILT addresses the following portfolio:

- Writing and Printing Paper – India.
- Specialty Paper.

- Tissue Paper.
- Rayon Grade Pulp.

Over the years, the Company has developed a range of quality products supported by wide reaching and efficient distribution to build a strong market position. A key element of BILT's business has been continuous efforts on innovation and introduction of new products across applications. This wide range of diversified offerings has provided it with competitive impetus in the markets. Across the product spectrum, BILT has set a very high standard in quality, which has emerged as a key differentiator in the competitive markets where it operates.

The product range is well supported by a strong distribution mechanism. In its core market, India, BILT has a multi-tiered distribution network with a balanced mix of exclusive and multi-brand distributors. In addition, the Company enjoys a good market presence in many countries across Middle East, Africa, Europe and South America.

INDIA: MARKETS

Paper consumption in India has been below its potential. While India hosts 17% of the world's population, it accounts for only about 3% of global production of paper and paperboard. This gap between potential and actual demand is best seen in the per capita numbers. India's per capita consumption of paper is estimated at barely 13 kg compared to 78 kg in China, 158 kg each in the European Union, Korea, Taiwan, Hong Kong, Singapore and Malaysia, 218 kg in Japan, and 224 kg in North America. The global average itself is 56 kg.

This gap between potential and actual demand in India has led to significant pent up demand over the last decade — driven by rising levels of literacy, improving well-being of the people and surging aspiration levels. Thus, despite its low base, India is the fastest growing market for paper.

Demand for paper has been growing at around 8% per year for some time. According to industry estimates, the domestic market for consumption of paper is over 17 million

metric tons per annum (MTPA), with over 2 million MTPA being imported. By 2024-25, under the baseline scenario, domestic consumption is projected to rise to 23.5 million MTPA; and in the optimistic scenario, consumption is expected to rise to 36.9 million MTPA. What this means is that about 1 million MTPA of integrated pulp, paper and paperboard capacity has to be created in India on an annual basis over the current capacity to domestically meet the growing demand.

While the industry has made significant capital investments to ramp-up capacities, the gestation period is long. Moreover, the economic viability of such investments is impacted significantly by availability and cost of raw materials and other inputs. In addition, with competitive global paper prices, global players have targeted the Indian market. Consequently, imports have increased at lower prices.

India is a wood-fibre deficient country. Inadequate domestic supply of raw material is a major constraint for the Indian pulp and paper industry, especially in a milieu where there is no dedicated enabling policy for industrial plantation. The present demand for wood by the paper industry is about 11 million MTPA versus domestic availability of 9 million MTPA, and the demand is projected to rise to 15 million MTPA by 2024-25. Consequently, wood prices have gone up steeply, more than doubling in the last three to four years which, in turn, has seriously affected competitiveness of the Indian paper industry.

Increasing cost of raw material and energy have resulted in a substantial increase in the cost of domestic manufacture of paper and paperboard. Such input price pressures, coupled with relatively high cost of capital, have opened the Indian market to growing imports — leading to under-utilisation of the existing domestic production capacity. Imports of paper, paperboard and newsprint into India have been steadily increasing. Imports have risen in terms of volume, from 1.8 million MT in 2010-11 to 3.08 million MT in 2017-18.

Even as the industry is grappling with the issue of producing paper and paperboard at competitive costs, the problem has been exacerbated by the Government of India's policy of extending preferential tariff treatment to paper and paperboard under the free trade agreements (FTAs) and other bilateral and multilateral trade

agreements. Thus, while domestic industry is operating under extremely challenging conditions, substantial quantities of paper and paperboard is imported into the country at significantly lower costs under the aegis of these FTAs.

Under such conditions, there is a very serious threat of unviability — with several large scale investments in capacities in the recent past turning economically unviable. The domestic industry has invested huge amounts to upgrade and implement initiatives like clean technology, product quality and farm forestry. The inability to scale up production and supply as per plan has considerably affected the industry.

During FY2018, BILT was no exception to this difficult industrial condition. Given the long gestation lag between large scale investments made in the recent past and the ability to scale up revenues — made worse by international competition — there have been major capital and fund constraints faced by the Company, which have adversely affected its operations.

BILT'S Writing and Printing Paper Business

BILT's writing and printing paper business can be divided into four categories: coated wood-free, uncoated wood-free, copier paper and creamwove.

Coated Wood-Free

In India, demand for this category of paper outstrips supply. However, much of the gap continues to be met by imports. Coated wood-free consumption in India increased by around 7% to 870,000 MTPA in FY2018. In terms of value addition, the segment has three categories: blade coated, air knife and cast coated products, ranked in decreasing order of technology. Growth has been higher in the premium end of the market with the blade coated products growing by 8%. This is BILT's primary focus area.

The coated market can be segregated in two ways. First, in terms of one-side coated (C1S) and both-sides coated (C2S). Second, in terms of paper and board products. Within the blade coated products segment, the C2S paper market grew by over 9.5% to 487,000 MTPA and the C2S board market grew by over 9% to 226,000 MTPA in FY2018.

Being a value-added product, coated wood-free paper traditionally enjoyed a price and quality premium. However, with rapid market expansion and rise in import

volumes, especially from the ASEAN, China and South Korea, the segment is rapidly getting transformed into a competitive, commodity-like product where price is becoming the critical factor.

BILT continued to enhance customer service through a multi-format distribution network, with a focus on reducing product costs through higher scale of operations and better efficiencies in production.

Uncoated Wood-Free

During FY2018, the Indian uncoated market — comprising Low Bright and Hi Bright segments — grew by 3% to 13,30,000 MTPA, and the competition was intense. The market remains largely restricted to domestic players and is highly fragmented with a multitude of products and manufacturers. Moreover, in the last couple of years, imports from Indonesia and China have started making an impact in this market.

BILT maintains its strong position as an organised player in this space by offering a wide range of products. The Company has laid greater importance on optimising its product mix for greater profitability. With this objective, BILT has focused on the higher value Hi Bright paper, which accounts for around 74% of the entire uncoated maplitho segment. Hi Bright paper grew by 5.7% in FY2018.

BILT's major brands in this segment include Magna and Wisdom Print, which are used for the notebook and publishing segment; Sunshine Super Printing Paper, which is used for offset printing and Three Aces Natural Shade Deluxe (T.A.NSD), which is used for commercial printing.

Copier

Essentially, copier paper is a forward integration of the uncoated wood-free paper segment. It comprises maplitho paper cut in sizes with product characteristics that are best suited for desktop printing and copying.

Over the last few years, with rapid computer penetration in India, copier has been a fast growing segment. The mill-packed copier market in India grew by 12% during FY2018 to 10,70,000 MTPA. In this segment too, there is increased supply due to imports from ASEAN countries. This has led to more intense competition among the major players in the Indian paper industry, with multiple brands at various price points. With four major brands in the market — Copy

Power, Image Copier, Ten on Ten and BILT Matrix — BILT continues to maintain a strong presence in this segment.

Creamwove

This is a high volume, low value segment. In volume terms, it is by far the largest segment in India. It is characterised by several producers, each with sub-optimal capacities operating in a highly price sensitive market which has been stagnant and estimated at 1.6 million MTPA in FY2018. BILT has strategically maintained a minimal presence in this segment.

BILT's Operations in India

BILT's writing and printing paper manufacturing operations under its step-down subsidiary Bilt Paper B.V. has four production units across India. These are: Ballarpur (Maharashtra), Bhigwan (Maharashtra), Sewa (Odisha) and Ashti (Maharashtra). Details of operational developments across the different units are given below:

Unit: Ballarpur

At Ballarpur, total paper production was 245,351 MT in FY2018 against 147,321 MT in FY2017. The new pulp mill produced highest ever pulp production i.e. 228,453 ADMT (Air Dry Metric Ton) of bleached pulp during the year to meet the captive pulp requirements and to supply pulp to Bhigwan and Ashti. This highest pulp production was possible through continuous de-bottlenecking initiatives taken by the Ballarpur team inspite of fund constraints leading to low levels of inventories and critical spares. Some of the actions taken for increased pulp production are:

- Reduction in down time by providing emergency by-pass arrangements for major equipment in the bleach plant process.
- Use of cooking aid to enhance productivity and reduction in chemicals consumptions.
- In-house repair of the oxygen delignification (ODL) press, which prevented an extended pulp mill shut.
- Improved preventive maintenance practices in mill wide operations.

The surplus bleached pulp was supplied to Bhigwan to partially meet their requirement of purchased pulp. This has given a significant economic advantage to Bhigwan in view of

the high prevailing prices of market pulp.

The mill also continued with its focus on cost reduction and achieved the lowest production cost in last five years. Pulp and paper cost reduced by 7.3% and 7.2%, respectively, over FY2017. Reduction in the variable cost of paper was mainly on account of:

- Complete elimination of purchased pulp consumption on paper machines.
- Reduction of high cost bamboo in raw material mix from 18.6% to 10.5%.
- Innovative modifications in the evaporator plant for reduced steam consumption.
- Reduction in bleaching chemicals consumption by using cooking aid in the pulp mill.
- Significant reduction in water consumption across the mill.
- Use of indigenous starch in place of the imported varieties.
- Installation of new radial reel wrapping in place of manual wrapping.

In line with the Company's focus on product quality and servicing, the mill developed new grades of paper. Some of these were:

1. MG Poster 50 GSM with low paper acidity for glass wrapping.
2. MG Poster for thermal coating base in 45 GSM.
3. High bulk (1.65+cc/g) variant paper for export in 90 GSM and high smoothness variant in NSD Premium in 80, 100 and 120 GSM.
4. Significant improvement in quality of packing of paper reels with the installation of the new radial reel wrapping machine.

Ballarpur: Environment Management and Resource Conservation

During FY2018, Ballarpur undertook several energy conservation initiatives which enabled the mill to successfully achieve and surpass the Perform, Achieve, Trade (PAT-I) cycle targets for energy reduction set by the Bureau of Energy Efficiency (BEE), Government of India. Consequently, it has received 16,587 E-Certificates from the BEE out of which 11,000 E-Certificates were sold in the energy exchange during FY2018.

Ballarpur has also implemented several initiatives for reducing fresh water consumption. In FY2018, its water consumption level was 44 m³/T of product — down from 54 m³/T. This is well below the national norm notified by Central Pollution Control Board (CPCB). The mill's effluent treatment plant is equipped with the state-of-the-art systems like the Moving Bed Bio-film Reactor and the Dissolved Air Floatation effluent treatment process technologies. These have enabled the mill to significantly improve the quality of final treated effluent. Online Continuous Emission Monitoring System (CEMS) and effluent quality monitoring system have been provided, which are connected to the Maharashtra Pollution Control Board and the CPCB server for the transmission of real time data.

Ballarpur: Awards and Achievements

- 'SEEM Platinum Award 2017-18' in National Energy Management — awarded on 25 May 2018 at Delhi.
- First Award for 'Excellence in Energy Conservation' by MEDA, Government of Maharashtra, Pune in September 2017 for 2016-17.
- Transition to ISO 9001:2015 and ISO14001:2015 certificates in June 2017.

Unit: Bhigwan

At Bhigwan, total paper production was 135,283 MT in FY2018 versus 102,605 MT in FY2017. In pursuing continuous cost reduction, new indigenous vendors were developed for (i) nano-particle size acrylic latex booster for binder cost optimization, and (ii) delaminated clay to substitute the imported variety. These initiatives resulted in reduction in production cost. On the product development front, the mill successfully developed clay coated kraft paper for label stock and high strength C1S 55 GSM for flexible packaging.

Bhigwan: Environment Management and Resource Conservation

With its state-of-the-art effluent treatment plant, the mill consistently met the treated effluent norms notified by the Government authorities. It also undertook several key initiatives in FY2018 to reduce energy consumption such as replacement of conventional lights with LED lights in the plant. The following key initiatives were taken to improve the reliability of plant operations: