

COSMO FILMS LIMITED

REPORT AND ACCOUNTS 2002-2003

achieve

Mission at Cosmo

- **Cosmo will seek global market leadership.**
- **Development and growth in Oriented film will be our focus.**
- **We will continue to create a winning culture, operating in the highest standards of ethics and values.**
- **We will strive for excellence in customer service, quality and R & D.**

Vision at Cosmo

To be the most preferred brand for innovative BOPP products in India and the World.

Core values of Cosmo

Customer Orientation

Cosmo believes in long term relations with customers. Under any circumstances we put the customer first. We ensure value for money for our customers through better products, services and our interaction.

Transparency

Cosmo practices transparency with all stakeholders through structured periodical communication and adhering to best corporate governance practices.

Innovation

Cosmo encourages innovation in every facet of its business activity including developing cost effective innovative packaging solutions for our customers. We have created a world-class R & D set up.

Cost conscious

Cosmo has initiated company wide Six Sigma programmes for cost reduction in a structured manner.

House-keeping

Cosmo adheres to world-class house-keeping standards at all its locations.

Fair business practices

Cosmo enjoys a reputation of being fair and just to all its stakeholders.

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Profile

Ashok Jaipuria

Chairman & Managing Director.

B.V. Bhargava

M.Com., LLB., Former Managing Director of ICICI Ltd.

H.K.Agrawal

B.E. & MBA (IIM), Management Consultant.

Mahendra Sanghvi

A Polymer Scientist. Promoter and Managing Director of Shaily Engineering Plastics, Baroda.

Aseem Dasgupta

B.E & MBA, CEO of Cosmo Ferrites Limited.

Dr.Surinder Kapur

Ph.D. in Mechanical Engineering, is Managing Director of Sona Koyo Steering Systems.

Rajeev Gupta

B.E & MBA, Executive Vice President & Director in DSP Merrill Lynch Limited.

S.K.Mittal

Chartered Accountant, Executive Director and CEO of Cosmo Films Limited.

Kailash Pershad

Nominee Director of ICICI Ltd.

Vimal Bhandari

Chartered Accountant, is Executive Director of IL& FS.

Manager Team

Ashok Jaipuria

S.K.Mittal

R.Mukherjee

A.G.Deshpande

Janardhan Gupta

S.D.Gosavi

Sanjay Chincholikar

B.Suresh

P.C.Garg

R.K.Gupta

Atul Mittal

Chairman & Managing Director

Executive Director & CEO

President

Vice President-Operations

General Manager-Commercial

Dy.General Manager-Manufacturing

Dy.General Manager-Projects

Dy.General Manager-Marketing

Dy.General Manager-Commercial

Dy.General Manager-Accounts

Dy.General Manager-Finance and
Company Secretary

AUDITORS

B.K.Shroff & Co.

BANKERS & FINANCIAL INSTITUTIONS

International Finance Corporation, Washington

Rabo Bank

Vysya Bank Limited

State Bank of India

HDFC Bank Limited

Export Import Bank of India

Bank of Bahrain & Kuwait

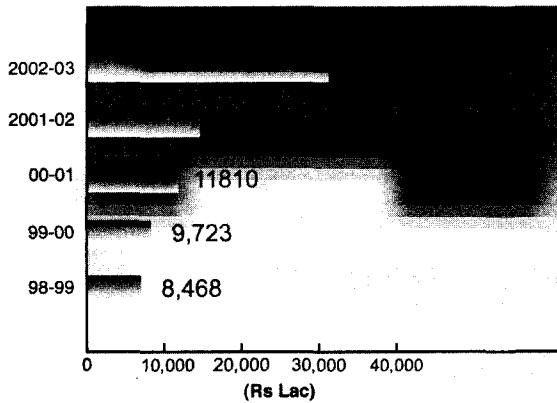
Industrial Development Bank of India

Union Bank of India

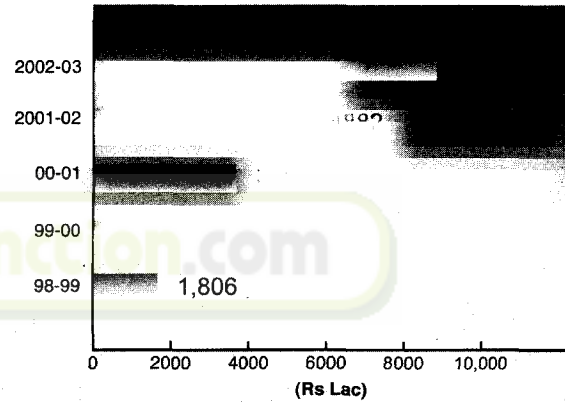
ICICI Bank

FIVE YEAR TRENDS

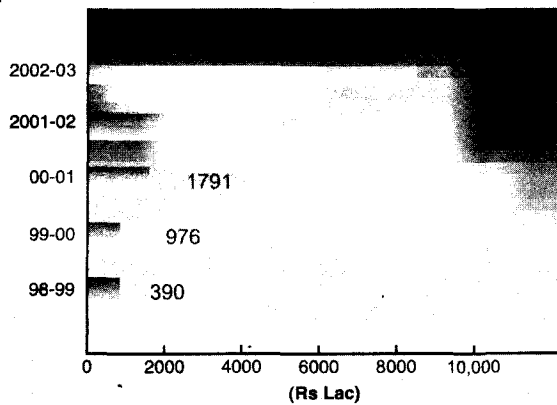
Net sales



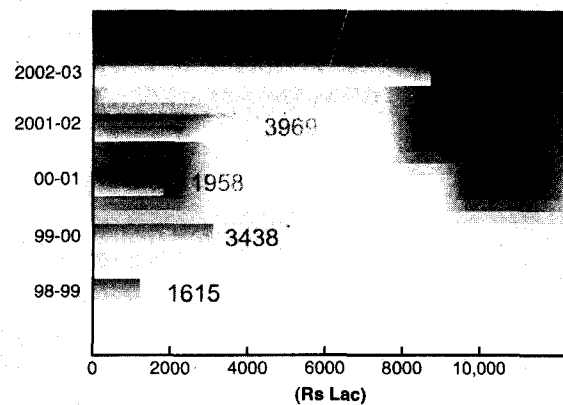
EXPORT SALES



Cash Profits



MARKET CAPITALISATION



What We Achieved in 2002-03

- Expansion project of 10000 TPA capacity successfully completed, ahead of schedule and within budgeted cost. In fact, this is one of the shortest gestation period BOPP projects in the world.
- Gujarat Propack Limited (GPL) - a company acquired last year has been successfully turn-around and merged with Cosmo Films Limited. All legal processes pertaining to merger have been completed in a record time. This has been one of the quickest and strongest turn-around in the Indian Corporate History.
- Combined cash profit has doubled from Rs. 4114 lacs to Rs. 8337 lacs.
- Exports have grown from Rs. 4882 lacs to Rs. 8524 lacs.
- Physical activity of the next expansion project of 14000 TPA capacity being set-up at the existing location of Waluj (Aurangabad) at a projected cost of Rs.51 crores has started. This project is targeted to be commissioned during the current financial year. With this expansion our capacity will be 60000 TPA, amongst top 15 BOPP manufacturers in the world.
- Orders have been placed for Captive Power Plant of 8 MW at Waluj Campus with an investment of Rs.20 crores approx. This project will help us to reduce our energy cost which is presently higher than leading BOPP manufacturers in the world.

Achieved financial closure of aforesaid BOPP expansion project as well as Captive Power Plant.

- Restructured debts. Consequently, our weighted average interest cost of combined debt has reduced from 10.6 % to 4.4 %. P.A.

CEO-S.K.Mittal

An Interview with

- **Profit before tax has increased to a level of Rs. 6130 lacs as against Rs.2478 lacs in 2001-02 ? What are the major reasons ?**

We have been able to achieve excellent performance despite global economic down turn and lower GDP growth in India. Major reasons were operating efficiency, financial restructuring, exports growth and turn-around of Gujarat Propack Limited.

- **Why did you merge Gujarat Propack Limited with Cosmo Films ?**

This has been done to get synergetic advantage of realigning the entire organization team for effectively managing operating costs. With this, our flexibility to the customers through multiple lines at different locations has also improved significantly.

- **How has been export performance and what is the future outlook of exports ?**

Our export sales during last financial year has increased by 75%. Our customer base has also grown. We are quite confident that next year, we shall be able to further increase our exports significantly.

- **What are your expansion plans ?**

After commissioning of our expansion project of 10,000 TPA capacity in March 2003, ahead of schedule, we have already undertaken next expansion project of 14,000 TPA capacity to be commissioned by March 2004. After this expansion project, our capacity will be 60,000 TPA which is amongst top 15 BOPP players in the world. Besides, we are also putting up Captive Power Project at our Waluj Plant to reduce our energy cost.

- **Capacity in the Indian BOPP Industry is likely to double in next one year ? How do you propose to sustain your performance ?**

We are focussing on cost reduction through structured Six Sigma Programme. We are also concentrating on exports as well as new product / application development. We are confident that with these emphasis, we shall be able to improve our performance.

- **In the Budget, Custom duty on BOPP has been reduced by 5%. Will this affect your realisation and margin ? If yes, how do you propose to offset this decline in margins ?**

We are setting up our next production line at Waluj campus without any major increase in our overheads. This will reduce our operating cost per kg significantly and will offset the drop in margins.

- **What is the status of your financial restructuring ?**

We have restructured most of our debts. Consequently, our average interest cost of combined debts has reduced from 10.6% P.A in March 2002 to 4.4% P.A in 2003.

- **Has Iraq war affected your business ?**

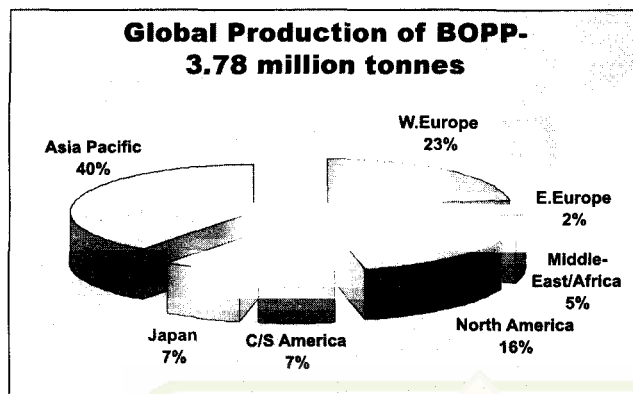
Before war, crude oil prices had gone up. Consequently, our raw materials prices have also gone up which has put pressure on our margins. Subsequently, crude oil prices have fallen and prices of our raw materials are likely to soften. We do not have any exports to Iraq and do not expect any adverse impact on our export performance.

- **China has added substantial capacities in BOPP industry in last two years. Can large capacity in China affect Indian BOPP Industry ? What is the strategy of Cosmo to encounter this threat ?**

Yes, China has added large capacity in BOPP industry. This will create some surplus in BOPP industry worldwide. However, capacity addition in China is quite fragmented. In free market global economy, there will be short term demand and supply imbalances. Large capacity increase will lead to efficiency improvement and thereby increase in demand. We at Cosmo are also adding capacity at fast pace as well as continuously reducing our cost. We have one of the largest product range in BOPP Industry globally. Our brand name is well established in several countries world-wide. We are quite confident of fully utilizing our capacity at reasonable margins.

Management Discussion and Analysis

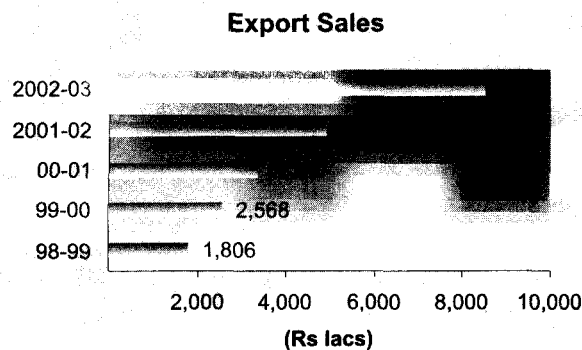
Cosmo Films is in the business of manufacture and sales of BOPP films. World OPP films production in the year 2002 was approx. 3.8 million tonnes. Region-wise Production of BOPP is as under :-



Consumption as well as Production in the Asian markets are highest. In India domestic market during 2002-03 was approx. 57000 tonnes and has grown by approx. 25% as compared to last year. Since the penetration level of BOPP in India is lower compared to Western markets, we expect growth of approx. 15% p.a. in medium terms.

During 2002-03, only Cosmo has added capacity in India. Three more production lines with a total capacity of approx. 47,000 tonnes are likely to be commissioned by Indian BOPP manufacturers including Cosmo in the financial year 2003-04. Our exports have been consistently growing in past several years.

FOB VALUE OF EXPORTS GROWTH - GRAPH



We expect the additional capacity will get absorbed partly through increased level of exports and partly through growth in domestic demand. We are continuously working with various FMCG and other end-user companies for development of new applications of BOPP in expanding the market size. Cosmo is one of the lowest cost BOPP producer in the world and can expand its customer base by providing innovative packaging solutions to its customers.

Gujarat Propack Limited has been turn-around in a very short span and subsequently merged with Cosmo Films. This acquisition has helped Cosmo to achieve better economies of scale.

Reliance has takenover IPCL and has improved its productivity. Consequently availability of raw material for BOPP industry from domestic suppliers as well as overseas suppliers will improve.