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Emami Paper Mills Limited

Annual report, 2005-06

Forward-looking statement

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions of the future may be 'forward-looking statements' within the meaning of the applicable securities laws and regulations. The Company cautions that such statements involve risks and uncertainty and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include raw materials' cost or availability, cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business, and other factors relating to the Company's operations, such as litigation, labour negotiations and fiscal regimes.



What you will find in this report

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Corporate Information

Board of Directors

Shri R.S. Goenka (*Executive Chairman*)

Shri R.S. Agarwal

Shri S.K. Khaitan

Shri A.C. Gupta (*Managing Director*)

Shri A.V. Agarwal

Shri Manish Goenka

Shri P.S. Patwari (*Executive Director*)

Shri S.K. Todi

Shri M.L. Jain

Shri U.G. Bhat

Shri N. Mishra

Shri S.C. Saha (*IDBI nominee*)

Vice-president (Finance) and Secretary

Shri G. Saraf

Auditors

M/s S.K. Agrawal & Company

Chartered Accountants

4A, Council House Street,

Kolkata - 700 001.

Unit auditors

M/s Salarpuria Jajodia & Company

Chartered Accountants

7, C.R. Avenue, Kolkata - 700 072.

Bankers

State Bank of India

State Bank of Bikaner and Jaipur

Indian Overseas Bank

Works

- Balgopalpur, Balasore - 756 020 (Orissa).
- R.N. Tagore Road, Alambazar, Dakhineswar, Kolkata - 700 035 (West Bengal).

Registered office

8, Bentinck Street,

10th floor, Kolkata - 700 001.



Management discussion and analysis

Industry structure and development

The Indian paper industry – comprising writing and printing paper, industrial paper, newsprint and speciality paper - is the fifteenth largest in the world. The industry has a strong and proportionate link with the national GDP; with GDP expected to grow in double digits over the foreseeable future, the demand and consumption of paper is expected to record a CAGR in excess of 6 per cent.

The Indian Government has placed a larger emphasis on education as a part of its reforms agenda. Relevantly, the Government enhanced its allocation towards education to Rs 24,115 cr during 2006-07, which should enhance the offtake of printing and writing paper, a segment in which your company belongs.

Advancements in printing technology, increasing role of the print media as

well as a larger demand of multi-coloured advertisements has resulted in the robust growth of the newsprint demand.

Emami Paper Mills Limited (EPM) is an established brand in this space. The company embarked on a major Rs 330 cr expansion to provide an additional capacity of 85,000 TPA, evolving the company into one of the largest newsprint manufacturers in India.

The Asian newsprint industry

Jaakko Poyry and Pan Asia Paper estimate that more than half of the global growth in newsprint production will be derived from Asia for the following reasons:

- The continent is home to two of the world's fastest growing economies (China and India).
- Accounts for 32 per cent of the share of the global GDP.

- Houses nearly 56 per cent (3.4 billion) of the world's population.

- Fourteen Asian newspapers figure in the world's top-20 newspaper titles by circulation.

Even as Asia emerges as the key driver of the global newsprint industry, within the Indian sub-continent, a growing mismatch between demand and supply is likely to become visible.

The delta between demand and supply has grown from 0.83 million tonnes in 2000 to 0.76 million tonnes in 2005 and is expected to widen to 2.16 million tonnes in 2010. Moreover, demand is forecasted to grow by three million tonnes from 2003-2010. The gap between demand and supply is principally on account of a growth in demand, especially from China and India, and a non-commensurate growth in manufacturing assets. The demand-supply mismatch is expected to

sustain the buoyancy in end-product prices.

Demand-supply

The Indian newsprint market accounts for nearly 16 per cent of the total nation's paper market. The Indian newspaper market was estimated at US \$1.7 billion in 2003 and is expected to grow at a CAGR of 6.9 per cent for next five years to a size of US\$ 2.4 billion in 2008.

During the last five years, the domestic demand for newsprint was a robust 8.6 per cent (CAGR) and the industry grew to around 1.5 million tonnes in 2005-06. This figure is expected to touch 2 million tonnes by 2009-10, driven by growing literacy, widening circulation and a growth in the number of local newspapers.

Interestingly, newsprint production has grown at a slower pace - CAGR of 2 per cent over the last five years, largely on account of financial constraints in the area of capacity addition and a dependence for the principal raw material on imported waste paper. Newsprint production in India stood at around 0.70 million tonnes in 2005-06.

Price trends

India's domestic newsprint prices move in tandem with the international prices. The average prices of newsprint in India rose

by Rs. 3000/- per tonne during 2005-06 in line with a 15 per cent rise in the landed price of imported waste paper. This trend was influenced by global demand-supply dynamics and increase in shipping rates.

Key demand drivers

The key demand drivers for the Indian newsprint industry comprise the following:

Growth in literacy: India's literacy penetration increased from 57.90 per cent in 1999 to over 65 per cent in 2005, widening its readership base from 163 million to around 185 million. With a growth in the Indian population expected to reach 1.3 billion by 2020 and increasing urbanisation, literacy penetration is expected to grow to over 70 per cent by 2020, influencing newsprint demand in a positive way.

Rapidly increasing newspaper

circulations: A growth in newspaper circulation immediately translates into a growing demand for newsprint. The number of daily newspapers in India increased at around 10 per cent per year with 693 publications listed with the INS, of which 57 per cent were dailies, primarily on account of growing population and literacy, a larger segregation into different area (entertainment, sports and business

among others) and growing distribution channels. The increasing circulation was supported by a growing readership base from 163 million in 1999 to around 185 million in 2005. Moreover, the sheer diversity of languages in India catalysed the increase - India has 18 officially recognised languages with each possessing a number of dialects and spin-offs. So India has newspapers in 87 languages - among the highest in any country.

Growing local dailies: The Internet has opened up the Indian newsprint industry in an exciting way. An increasing number of newsprint presses are being located out of major cities to towns and other semi-urban centers with a view to remain proximate to customers (in the reverse scenario, major newspaper editions were transported from the cities to the towns either via rail or road, hence causing a delay). Easy connectivity is prompting the quick transfer of articles and editorials (via the Internet) from the cities to the smaller towns, hence enabling quicker printing and dispatch. This has led to a steady growth in the number of local dailies, hence enabling a growing demand for newsprint.

Income from print advertisements:

Income from print advertisement constitutes an important aspect of business sustainability for publishers.

India – some not-so-well-known facts!

- 109 million literate population.
- A 300 million strong urban middle-class - more than the entire US population.
- Three times more English speaking people than in the United Kingdom.
- 22 million graduates.
- Changing newspaper pagination: Two interesting trends are transpiring within India, prompting a change in the look of the newspaper. Newspapers are getting

increasingly bulkier. This is on account of increasing bunching of news along with a larger spread on international news. Moreover, the size of the newspaper is also getting reduced to allow easy folding and handling. The changing pagination and the addition of newspaper reams allows a higher advertising income, which permits the cash inflow to be reinvested to enhance distribution and circulation. These initiatives are converging to grow the

domestic demand for newsprint.

- Relatively low prices of newspapers: In India, an easy access to a newspaper distribution point coupled with its low cost make newspaper reading a daily ritual among millions as well as prompt a number of households to subscribe to more than one newspaper. This trend is being reinforced by the increasing disposable incomes of India's growing middle-class.

FDI in media and impact

A study conducted by Media Outlook 2004-08 refers to 26 per cent foreign direct investment allowed in print media in 2002. Due to this development, circulation has grown by an average 4.80 per cent compounded annually during five years starting from 2003. The Indian government is considering an increase in the limit of foreign direct investment (FDI) in the news-based print sector from 26 per cent to 49 per cent; the Government is also considering an increase in the limit of 7.5 per cent of foreign syndicated news content in the Indian print media. Till date, the government has cleared FDI in two

newspapers and 17 Indian editions of foreign non-news and non-current affairs magazines. Recently, the foreign media invested in Indian publications like Jagran Prakashan, Business Standard and HT Media.

Outlook

- The newspaper publishing industry in the Asia Pacific region is expected to expand at a compounded annual rate of 2.70 per cent from \$41.4 billion in 2003 to \$47.3 billion in 2008. India is expected to outperform this growth with a compounded annual rate of 6.9 per cent. Besides India is emerging as a promising

market for new publications given its growing role in international business.

- Newspaper advertising in India is expected to increase to a projected \$24.2 billion in 2008 from \$19.3 billion in 2003.
- Newsprint demand in India is expected to grow from 0.68 million tonnes in 1995 to about 2.00 million tonnes by 2010.

Opportunity and threats

Economic development is considered an important driver of paper demand, directly linked with population growth, increased urbanisation and higher literacy.

India's low per capita consumption of

paper is expected to increase with the ongoing growth in living standards, literacy and IT usage. In India, the demand of paper is growing at 6 per cent per annum compared to 1.8 per cent in North America, 4.3 per cent in South Asia and 4.9 per cent in China. As a result, the per capita consumption is expected to grow to at least 8 kgs by 2010, which will require an additional capacity of 20 lac tonnes, entailing an investment of around Rs. 15,000 cr.

The Indian paper industry is fragmented with a large capacity still in the unorganised sector. A considerable investment will be required for its capacity increase; besides, increasing cost of power and fuel, transportation and raw material scarcity are also a matter of concern.

To survive in a competitive international market, the Indian paper industry must focus on the following:

- Cost reduction, conservation of energy and environment protection.
- Continuous upgradation of quality to meet global challenges.
- Continuous improvement in operational productivity.

Review of operations

This has been dealt with in the Directors' Report and annexed to the Audited Annual Accounts.

Risks and concerns

- Reduction in the customs duty to 5 per cent could grow imports, impacting the domestic industry.

- Principal newsprint players consume imported waste paper as the key raw material input. A growing increase in its prices could impact margins, especially if there is a non-commensurate increase in end product realisations.

- Emergence of the non-print advertising media, affecting advertisement flows.

Internal control system and their adequacy

Your Company continues to ensure proper and adequate systems and procedures commensurate with its size and nature of business. This control system ensures that:

- All assets are safeguarded and protected against any loss, wastage and unauthorised usage or disposition.
- All transactions are authorised, recorded and reported correctly.

- Accounting records are properly maintained with an adequate internal control system which is properly documented with policy guidelines, authorisation and approval procedures.

- Reliable Financial Statements are prepared as per Management Information System (MIS).

The company has an extensive system of internal controls with the following features:

- Clearly defined organisational structure.
- Transparency in the procedure adopted in all sphere of activities as per the Quality Management System.
- Adherence and monitoring of internal control system through independent Internal Auditors reporting directly to the Audit Committee, which reviews the functioning and finding of the Audit Department.
- Internal Audit System and Procedures that have been certified as ISO 9001:2000 compliant by Det Norske Veritas, Netherlands.
- These internal control systems are subject to review by the Audit Committee and Board of Directors. Your Company's statutory auditors have, in their report,

confirmed the adequacy of the internal control procedure adopted by the Company.

Human resource development

- The development of human resource is a vital activity. The Company believes that its people will drive growth and has formulated an HRD strategy on the implementation of a need-based training programme. The company sponsors employees to attend seminars, lectures and training programmes organised by professional trade bodies. It rewards employees through recognition and awards.

- Your company started Total Productive Maintenance (TPM) at both its plants –

Balasore and Kolkata - in 2001.

Representatives of the Japan Institute of Plant Maintenance visit our Balasore plant regularly. Besides, trained professionals from M/s Techno Solutions (I) Pvt Ltd., Mumbai, are imparting practical training and consultancy in TPM implementation. Recently a pre-audit was conducted at our Balasore Plant by a team of Auditors from JIPM and the Company will very soon challenge TPM Excellence Award in the first category.

- Key performance indicators by all Heads of Departments are subjected to a management review at the monthly management review meetings.

- EPM enjoyed harmonious industrial relations during the year under review.

Cautionary statement

Statement in this 'Management's Discussion and Analysis' describing the company's objectives, projections, estimates, expectations or predictions may be 'forward looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the company's operations include global and Indian demand-supply conditions, finished goods prices, raw material availability and prices, cyclical demand, changes in Government regulations, environmental laws, tax regimes, economic developments within India and global and other factors such as litigation and industrial relations.





Directors' Report

To
The Members of
Emami Paper Mills Limited

Your Directors take pleasure in presenting their
twenty-fourth Annual Report together with the
Audited Statement of Accounts for the year ended
31st March 2006.