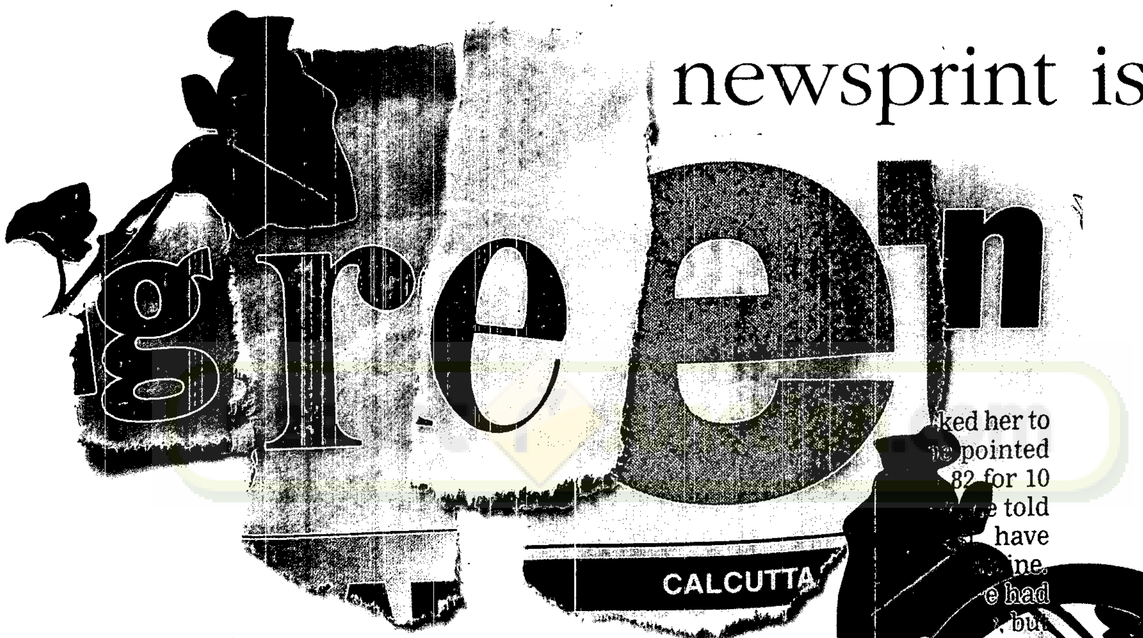



# Emami Paper Mills Limited

Annual report, 2006-07

# Forward-looking statement

In this annual report, we have disclosed forward-looking information to help investors to comprehend our prospects and take informed investment decisions. This report is based on certain forward-looking statements that we periodically make to anticipate results based on the management's plans and assumptions.

We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknow risks or uncertainties materialise, or should underlyir assumptions prove inaccurate, actual results could va materially from those anticipated, estimated projected.

We undertake no obligation to publicly update ar forward-looking statements, whether as a result of ne information, future events or otherwise.



# Contents

# Corporate Information

## Board of Directors

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

Shri R. S. Agarwal

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

Shri S. K. Khaitan

Shri A. V. Agarwal

Shri Manish Goenka

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

Shri S. K. Todi

Shri U. G. Bhat

Shri N. Mishra

Shri J. N. Godbole

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.

## Cost Auditors

M/s. V. K. Jain & Co.
Cost Accountants
8/1, Lalbazar Street
Kolkata 700 001

## Bankers

State Bank of India
State Bank of Bikaner and Jaipur
Indian Overseas Bank
ICICI Bank Ltd.

## Works

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

## Registered office

687, Anandapur,
E M Bye Pass
Kasba Golpark,
Kolkata 700 107
Email : emamipaper@emamipaper.in

# Management discussion and analysis

## Industry structure

The world consumes 40 million tons of newsprint annually. The global demand reached a record level in 2006, indicating that newsprint consumption is linked to global GDP growth. Over the past three years (2003-06) demand grew by 3.7 million tonnes or 5.5 per cent.

The Indian paper industry continues to outperform the global paper market. Demand in India for newsprint, writing and printing paper grew at a cumulative 8 per cent in 2006-07. This robustness is expected to sustain for the following reasons:

- India's per capita consumption of paper is among the lowest in the world at 4.5 kg compared with China's 28.3 kg, Asian average of 26.9 kg and a global average of 52.6 kg. Going ahead, this aberration is expected to correct with speed.
- India's demand for paper is expected to grow from six million tonnes to eight million tonnes by 2010 and 11 million tonnes by 2015, driven principally by the 'education for all' programme of the government, a buoyant economy and media growth.

## The Asian newsprint industry

Rising literacy and affluence have driven newsprint consumption in Asia. Demand in the non-Japan Far East increased by about 5 per cent in 2006. China and India continued to show strong growth at 7 per cent and 12 per cent respectively.

China evolved from being a net newsprint importer to a net exporter in 2006 because its new capacity exceeded demand growth. Realisations in China declined in 2006 as a result of capacity increases and a weaker market balance. The Chinese export tonnage was primarily directed at the other Asian markets. As a region, Asia remained dependent on substantial imports.

The newspaper industry in Asia remained unaffected by the problems of a stagnating market and declining circulation plaguing the newspaper industry in the West. In fact, the industry is expected to grow in the next 5-10 years, according to a 2006 report by IFRA, the world's leading association for newspaper and media publishing.

## Indian overview

India is one of the few global markets where newspaper sales are rising rapidly. Annual newsprint consumption is estimated at 1.70 million tonnes and domestic production is only 0.90 mn tonnes, leaving room for significant imports.

While India's paper sector is expected to grow at a CAGR of 6-7 per cent for the next five years, demand for writing and printing paper is expected to increase at a CAGR of 4.8 per cent – 5.6 per cent.

## Key demand driver

The principal demand drivers of the Indian Newsprint industry comprised the following :

**Literacy:** According to a survey by the National Readership Studies Council released in August 2006, the number of people in India who read newspaper every day grew by 12.6 million people in a year to 203.6 million (6%) on account of higher literacy and affordability. With India's population growth expected to reach 1.3 billion by 2020, literacy levels are projected at over 70 per cent, influencing newsprint demand.

**Market growth:** India's media and entertainment industry is growing, the print media being preferred by investors. The Paris-based World Newspaper Association described India as a 'newspaper power' with the largest circulation of dailies in the democratic world and a thriving free press. India's 2,130 dailies enjoyed a whopping circulation of 8,88,63,048 copies (source: Registrar of Newspapers for India, 2006).

**Fresh investments:** Print media majors are reinvesting in their brands and production capacities. In the last few years, *Hindusthan Times, Deccan Chronicle and Dainik Jagran* chose to go public, indicating an appetite for funds and onward deployment.

**Advertising boom:** The Indian print media success story is being driven by increased advertising revenues and riding economic growth. Print media advertising revenues are expected to increase by 13 per cent from Rs.128 billion in 2007 to Rs.232 billion in 2011 (source: FICCI).

**Preference for print:** In India, readers prefer news in print form over the internet.

## Outlook

The domestic demand for paper is expected to grow at a CAGR of 6.6 per cent over the next five years.

Your Company is likely to benefit substantially following the commissioning of its new project in September 2007, enhancing installed capacity from 85,000 TPA to 145,000 TPA. Depending on market conditions, your Company plans to increase its production of writing and printing paper as well.

## Opportunities and threats

Economic development is considered to be an important driver of demand for paper, directly

Your Company will be able to meet the above challenges and manage the constraints through upgradation of technology, focusing on cost control measures and make use of the opportunities for achieving growth in terms of capacity additions, turnover and profits.

linked with population growth, increased urbanisation and higher literacy.

India's low per capita consumption of paper is expected to increase with growth in living standards, literacy and IT usage.

Over the last decade, Asia's surpassed North America and Western Europe to emerge as the largest newsprint consuming region, accounting for 31per cent of the world's newsprint.

Threats include a probable downward trend in global prices on account of increased competition from Canada, China, Malaysia and Indonesia as well as changes in the raw material to recycled fibre.

To survive in a competitive international market, the Indian paper industry will need to focus on cost reduction, conservation of energy, environment protection, quality upgradation and continuous productivity improvement.

## Review of operations

This has been dealt with in the Directors' Report and annexed to the audited annual accounts.

## Risks and concerns

- China enhancing its economies of scale.
- Increase in raw material price (waste newspaper) could affect affordability.

Your Company will be able to meet the above challenges and manage the constraints through the upgradation of technology, focusing on cost control, capacity addition leading to a growth in turnover and profits.

## Internal control systems and their adequacy

Your Company continues to ensure proper and adequate systems and procedures commensurate with its size and nature of the 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 according to an established Management Information System (MIS).

These internal control systems are subject to review by the Audit Committee and Board of Directors. Your Company's statutory auditors, in their report, confirmed the adequacy of the internal control procedure adopted by the Company.

Your Company's extensive system of internal controls comprises the following features:

- Clearly defined organisational structure.
- Transparency in all spheres of activities in line with the Quality Management System.
- Adherence with and monitoring of the internal control system through independent internal auditors reporting directly to the Audit Committee, which reviews the functioning and findings of the Audit Department.

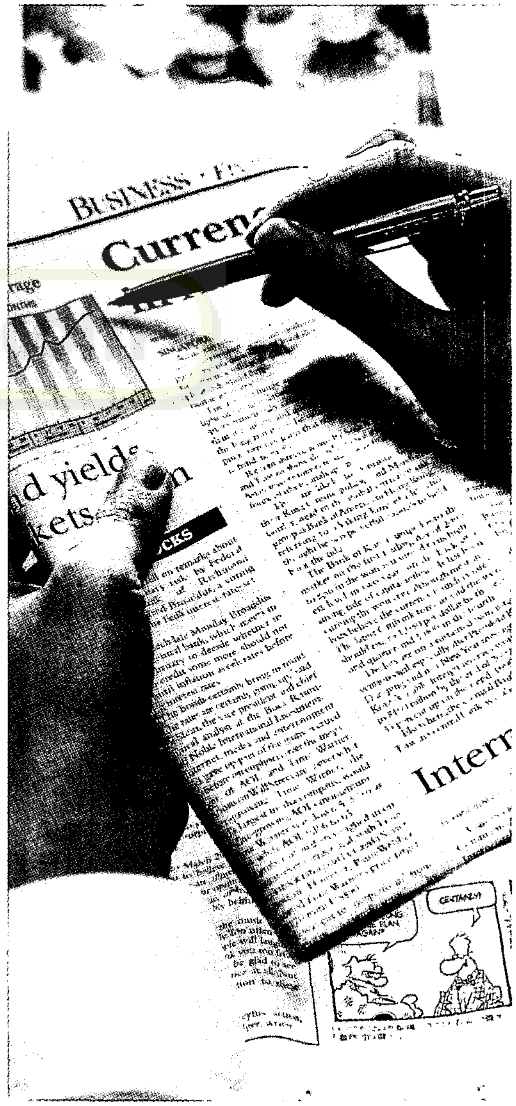
Your Company received the TPM Excellence Award in the first category from Japan Institute of Plant Maintenance (JIPM), Japan. It is in the process of getting the ISO 14001 and OHSAS 18001 certifications for its Balasore and Kolkata units. Its internal audit system and procedures were certified as ISO 9001:2000 compliant by Det Norske Veritas, Netherlands.

## Human resource development

- The development of people skills is critical to success. In view of this, the Company formulated a human resource development strategy comprising need-based training. Employees were sponsored to attend seminars, lectures and training programmes organised by professional trade bodies. It rewarded employees through recognition and awards.
- Key performance indicators by all Heads of Departments ware subjected to a management review at the monthly management review meetings.
- The Company enjoyed harmonious industrial relations in 2006-07.

## Cautionary statement

Statement in the 'Management 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. The important factors that could make a difference to the Company's operations include global and Indian demand and supply conditions, finished goods prices, raw material availability and prices, cyclical demand, changes in the Government regulations, environmental laws, tax regimes, economic developments within India and the world as well as 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-fifth Annual Report together with the Audited Statement of Accounts for the year ended 31st March 2007.

## Financial results

Rs./Lakhs

| | | 2006-07 | | 2005-06 |
|---|---|---|---|---|
| Sales | | 15871.00 | | 13567.72 |
| Profit before interest, depreciation and exceptional items | | 4170.83 | | 2710.79 |
| Less: Interest (net) | | 748.44 | | 309.99 |
| | | 3422.39 | | 2400.80 |
| Depreciation | 1143.19 | | 823.84 | |
| Less:Transfer from revaluation reserve | 121.59 | 1021.60 | 144.61 | 679.23 |
| Profit before tax and exceptional items | | 2400.79 | | 1721.57 |
| Add : Exceptional items | | | | |
| Profit on sale of long term investments | | 513.99 | | 4961.59 |
| Profit before taxation | | 2914.78 | | 6683.16 |

## Operations and outlook

During the year under review, production increased by 11 per cent from 50679 MT in 2005-06 to 56300 MT in 2006-07 and your Company recorded a 17 per cent growth in the turnover from Rs.135.68 crores in 2005-06 to Rs.158.71 crores in 2006-07.

Profit before depreciation and tax substantially increased by 43 per cent from Rs.24.01 crore in 2005-06 to Rs.34.22 crore in 2006-07.

The improvement in the performance is attributed to a sustained buoyancy in the domestic demand for newsprint and paper, increased productivity and all round improvement in efficiency.

Your Company is optimistic of a robust growth in the demand for newsprint and with the commissioning of its expansion project in September 2007, its performance will improve significantly.

## Environment management

The importance of clean production cannot be over-emphasized in paper manufacture.

Your Company is totally committed to protect the environment, uphold human safety and promote people's health. It is with this view that the management of your Company institutionalised its environment management through enunciated policies pertaining to the environment, safety, quality and energy. The principal features of the policy comprised:

- Compliance with all relevant legislative requirements.
- Reduction in pollution load through the rationalisation of liquid discharge and air emission on the one hand as well as land conservation on the other.
- Conservation of energy and preservation of natural resources like water, raw material and fuels.
- Enhanced cross-organisational awareness in the areas of environment, safety and health.
- Promotion of meaningful programmes to propagate health and environmental safety.

The management considers this environment policy as an index to a genuine and sustainable development. In fact, your Company can confidently assert that it is among the most environmentally compliant paper mills in India, which is the result of a series of measures covering process changes, proactive investment in effluent treatment plants, sludge dewatering system as well as the efficient management of solid wastes through recycling and continuous monitoring. The result of this priority was reflected in declining water consumption and the responsible management of effluents in line with the norms of the Orissa State Pollution Control Board.

During the year under review, your Company invested Rs.21.25 crore in the installation and commissioning of a sludge dewatering system and effluent treatment plant. The sludge dewatering system which burns waste sludge in the boiler, is the first of its kind in India and will help reduce the cost of coal in the boiler on the one hand and reduce carbon emissions on the other. It will be relevant to indicate that the sludge dewatering system is aligned to the forward-looking requirements of the Clean Development Mechanism.

Your Company appointed Ernst & Young as a consultant for this environment-friendly project, which was inspected and appreciated by a senior official from the Orissa State Pollution Control Board, going ahead, this project expects to earn certified emission reductions, which will translate into attractive income. Besides, the mill is in the process of readying itself for a complete compliance with the ISO 14001 (Environment Management System) certification.

Rs./Lakhs

| | | 2006-07 | 2005-06 |
|---|---|---|---|
| Less : Provision for current taxation | 291.36 | | 128.51 |
| Provision for fringe benefit tax | 11.08 | | 11.83 |
| Income tax for earlier years | (1.08) | | 0.22 |
| Provision for deferred tax | 297.73 | 599.09 | 152.88 |
| Profit after Tax | | 2315.69 | 6389.72 |
| Add: Surplus brought forward | | 1534.03 | 115.17 |
| Balance available for appropriation | | 3849.72 | 6504.89 |
| Appropriations | | | |
| Interim dividend | | 242.00 | – |
| Proposed Final dividend | | 121.00 | 544.49 |
| Tax on dividend | | 54.50 | 76.37 |
| Transfer to general reserve | | 2000.00 | 4350.00 |
| Balance carried forward | | 1432.22 | 1534.03 |
| | | 3849.72 | 6504.89 |

## Dividend

During the year, your Company declared and paid an interim dividend of 20%. Your Directors are pleased to recommend a final dividend of 10per cent for the financial year ended 31st March 2007, making a total dividend of 30per cent i.e. Rs.0.60 per share. The dividend, if approved by the shareholders, will result in an outgo of Rs.417.50 Lakhs (including the dividend tax of Rs.54.50 Lakhs). Last year, the Company paid a normal dividend of 20per cent and a Special Dividend of 25per cent on the occasion of 'Silver Jubilee Year' of the Company.