

TURNING A NEW PAGE

EMAMI PAPER MILLS LIMITED ■ ANNUAL REPORT, 2010-11

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 unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

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

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 Manish Goenka (Whole time Director)
Shri A.V. Agarwal
Shri P.S. Patwari (Executive Director)
Shri S.K. Todi
Shri U.G. Bhat
Shri N. Mishra
Shri H.M. Marda
Shri J.N. Godbole
Shri S. Balasubramanian

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
ICICI Bank Limited
DBS Bank Limited
State Bank of Bikaner and Jaipur
Indian Overseas Bank
IDBI Bank Limited

Works

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

Registered Office

687, Anadpur,
E.M. Bye Pass, Kasba Golpark,
Kolkata 700 107
Tel: 033 6613 6264
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Email: emamipaper@emamipaper.in



MANAGEMENT'S DISCUSSION AND ANALYSIS

Global Economy

The global economic recovery, which began in 2009, continued into 2010 and is expected to continue in the coming years. The developing countries were the main drivers of global economy, wherein they contributed 46 per cent of the total growth in 2010. The growth in developed economies is expected to remain weak, while that in emerging economy – China, India and Brazil – are likely to remain buoyant.

Indian Economic Overview

The Indian Economy has posted a remarkable recovery during the current financial year not only in terms of overall growth but also displayed fundamental strength, which is reflected in the growth of GDP by 8.6% in comparison with the growth rate of 7.4% achieved last year. Indian economy is emerging as the second fastest growing economy in the world after China. The Government and the Planning Commission expect the Indian economy to grow at the rate of 9% in 2011-12, which will simultaneously lead to the growth of paper industry.

Indian Paper Industry

India ranks 15th among the paper producing countries in the world and is highly fragmented with about 700 units spread across the country with installed capacity of 9.2 million tons. The Paper Industry has been granted the status of a priority sector for foreign collaboration and foreign equity participation up to 100% and is entitled to receive automatic approval from Reserve Bank of India.

The Paper Industry is also an important industrial sector having a bearing on the socio economic development of the country. Significant investments are being made in capacity creation and technological advancement especially in the

writing & printing segment, which will derive advantages of size, enhance production efficiencies, improve productivity and quality and respond to the challenges of the changing business environment. Companies producing high quality products and pricing at competitive rates alone can sustain and flourish in the domestic and international market.

The per capita consumption in India is about 8.5 kg, which is much lower than World average of 55 kg and Asia average of 45 kg. Given the Indian population over one billion and considering its fast developing economy, there is a great scope that Indian paper industry will grow steeply in a very short span of time. The increasing literacy, increasing consumerism, urbanization, growth in service sector are considered to be the main industry drivers for Indian paper industry and it is estimated that it will grow at a CAGR of 10.7% from Rs. 317 billion in 2009-10 to Rs. 526 billion by 2014-15. The demand of paper in India is expected to grow 8% over 10 years with India's consumption being placed at 20-25 million tons by 2020.

Indian Newsprint Industry

The newsprint market in India is characterized with voluminous demand and high growth rate. However, capacity of Indian paper mills is insufficient to meet the demand and almost 50% of the demand is met by way of import of newsprint. Thus this market is still very much open to absorb further expansions by the Indian players, provided quality newsprint as per customer requirements are supplied at a competitive price.

The National Youth Readership study in 2009 discloses following interesting facts those have major bearing over the Indian newsprint market.

- Nearly 24% of the household have newspaper

subscription.

- Four out of every seven households of graduates and three of every eight urban households with literates buy a newspaper.
- Despite television being the most popular source of information (78%), followed by newspapers (53%), the latter cored over television for news and current affairs information source.
- Literacy increased from 64.83% in 2001 to 74.04% in 2011, as per census 2011.

India has more daily newspaper than any other nation and out of world's 100 largest newspapers 20 are Indian. The demand of newsprint in India is expected to grow at a rate of 9% and India's paper consumption will increase from 2 million tons in 2010-11 to 3 million tons in 2015-16.

Manufacturing newsprint through the waste paper is prevalent in India. Since India does not have a developed waste paper collection system, raw material availability is low and prices are high. Consequently, imports of waste paper accounts for 55-60% of the total waste paper consumed (mostly from the US, the world's largest waste paper market).

Industry drivers

- **Education:** In Budget 2011-12, the government allocated Rs. 52,057 crore for education, increasing it 24% over the last year. Also Rs. 21,000 crore for Sarva Siksha Abhiyaan (the government's programme that secures the right of children to free, compulsory education) was allocated, increasing it 40% from the last year Rs.15,000 crore.
- **Literacy:** India's effective literacy touched 74.04%

(provisional census data 2011), catalysing paper demand. As literacy rises further, annual paper consumption is expected to double in India to 20 million tons by 2020.

- **Regional:** There is a substantial growth in the market for vernacular newspapers, the first spin-off benefit of an increase in literacy rate in Tier II and Tier III Indian locations.
- **Service industry:** The Indian GDP growth was catalysed largely by the growth of the service sector, which is expected to grow at 10.3% in 2011-12, accounting for 68% of the GDP. Service sector growth is catalysing the demand for paper.
- **Per capita consumption:** India emerged as the fastest growing major global market for writing and printing paper consumption, reporting a significant rise in 2010-11 even as its per capita consumption remained a modest 9.6 kg compared with 350 kg in some developed countries – a large potential upside.
- **Advertisement revenues:** Advertisement revenues for newspaper companies grew at a CAGR of 14.7% over the last five years (Source: CRISIL). Advertising revenues accounted for over 60% of total newspaper revenues. The print media is expected to generate advertising revenue of US\$2.2 billion in 2011, expected to grow at a healthy 12% between FY10-14P. This is expected to widen newspaper reach, readership, content increase and circulation.

Emami's industry presence

The Indian paper industry is expected to attract Rs 10,000 crore investments in three to five years across greenfield



and brownfield projects. Emami Paper Mills Limited (EPML) is the largest newsprint manufacturer in India with an installed capacity of 145,000 TPA. EPML recorded another strong financial performance this year and achieved record production utilising the plant capacity of almost 100%.

EPML now intends to leverage its rich newsprint experience to enter the writing and printing paper segment with a virgin pulp W&P paper manufacturing capacity of 175,000 TPA with a project cost of Rs 1,225 crore supported by proximate plantation areas. The plant, intended to be located in Orissa, is likely to be operational by 2014.

The company enjoys a locational advantage owing to its proximity to the Haldia Port (200 Km), coal availability from Mahanadi Coalfield (250 Km) ensuring lower logistic cost. It is also connected with dedicated feeder of 132 KV EHT line to ensure uninterrupted power supply. The company will have further advantage of availability of wood/bamboo and other inputs within its catchment areas. In line with the company's plans to install an Integrated Pulp & Paper plant to produce high end Printing & Writing graphic papers from virgin pulp, the company has set up a full-fledged department known as Agro-Forestry Division at Balasore to develop a sound raw material base within its catchment area. Nurseries in various districts of Orissa and West Bengal have been established to provide sapling of Eucalyptus, Acacia and Casuarinas to farmers for pulp wood tree plantation under farm forestry schemes.

SWOT Analysis

Strengths

- Lowest cost manufacturer with modernized production method

- Strategic location – proximity to raw materials, logistics advantage and nearness to the market
- Pan India presence
- In-house technical team to ensure better end-product
- Qualified and technical manpower
- Strong Research and Development team for continuous product development and cost reduction

Weakness

- The Company produces paper and newsprint from 100% recycled fibre, which is a shade below from paper produced from virgin fibre
- Raw material availability at a reasonable price

Opportunities

- Large and growing domestic market
- Huge potential in export market
- Capacity expansion

Threat

- Increasing coal and logistic cost
- Small and unorganised industry players
- Cheap dumping from export countries
- Negative budgetary policies for paper industry

IT support

The company has implemented a SAP ECC 5.0 - ERP in July 2010. The Implementation was done at the Centralized Data centre covering Kolkata Corporate Office, Balasore and Kolkata Plant. The entire implementation was completed in record time of 10 months with business processes for Materials Management, Sales & Distribution, Production, Quality and Accounting mapped in SAP. SAP supports company's complex business process with ease. SAP helps

to streamline business processes, better connectivity and information flow across the company. It facilitates accelerated and informed decision making by providing flawless information and wide scope of data analysis within a very short span of time. It also reduced paper work by using online use of information system; reduced cycle time of order processing and is now a single platform for all users to share and view data. After overcoming the initial hitches the system has become stabilized and meeting our customised information requirements; and now we are planning to implement SAP-HR and Project systems in 2011-12.

Human resource

The Company recognises the importance of people in its growth and formulated a human resource development strategy comprising need-based training. Employees were encouraged to attend seminars, lectures and training. Key performance indicators by department heads were subjected to a monthly management review meetings.

Internal audit and control

The Company continues to ensure proper and adequate systems and procedures commensurate with its size and nature of its business. The 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. The Company's statutory auditors, in their report, confirmed the adequacy of internal control procedures 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 Committee's functioning and findings

Cautionary statement

Statements 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 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

Dear members

Your Directors take pleasure in presenting their Twenty-Ninth Annual Report together with the Audited Statement of Accounts for the year ended March 31, 2011.

Financial Results

(Rs. in Lacs)

	2010-11	2009-10
Operational Income	43,218.24	39,789.42
Profit before interest and depreciation	6,626.09	6,512.20
Less: Interest (net)	2,157.87	2,393.45
Profit Before Depreciation & Tax	4,468.22	4,118.75
Depreciation	2,723.61	
Less: Transfer from Revaluation Reserve	66.02	2,940.90
Profit Before Taxation	1,810.63	1,177.85
Less : Provision for Current taxation	359.90	
Income tax for earlier years	2.49	
Provision for deferred tax	420.73	
MAT Credit entitlement	(359.01)	478.91
Profit after Tax	1,386.52	698.94
Add : Surplus brought forward	568.13	793.88
Balance available for appropriation	1,954.65	1,492.82
Appropriations		
Proposed Dividend	363.00	363.00
Tax on Dividend	58.89	61.69
Transfer to General Reserve	500.00	500.00
Balance carried forward	1,032.76	568.13
	1,954.65	1,492.82

Financial performance

Your Company reported another strong performance this year as it extended its leadership in newsprint segment. Your Company continued its dominance in being the lowest cost newsprint manufacturer and extended its market presence. This allowed the company to deliver superior value to the stakeholders.

Net Sales grew 11.42% from Rs. 385.78 crores in 2009-10 to Rs. 429.84 crores in 2010-11 due to significant increase in existing business volumes. The Company also achieved a record production of 144712 MT during the year achieving plant capacity utilization of almost 100%.

Your company registered a 54% growth in profit before tax to Rs. 18.11 crores in 2010-11 against Rs. 11.78 crores in 2009-10. Profit after taxation also jumped over 98% from Rs. 6.99 crores in 2009-10 to Rs. 13.87 crores.

In view of the paper market condition looking much favorable, the working results of the company are expected to be significantly better in the coming years.

Dividend

Your Directors are pleased to recommend a dividend of 30% for the financial year ended March 31, 2011. The Dividend, if approved by the shareholders, will absorb Rs. 423.29 lacs (including the dividend tax of Rs. 60.29 lacs).

Operations and outlook

Your Company is the largest manufacturer of Newsprint in India and registered an overall improved performance in 2010-11, where all business verticals and sub-segments grew at a robust pace. The average realization in newsprint and writing and printing paper increased by 17 per cent over 2009-10.

Emami Paper's philosophy is to actively engage with the customers not only in providing them with the right quality of products but also to provide solutions to their need through its dedicated technical service team. This has helped in attaining quick market penetration in high end newsprint sector.

The Company continued its excellence in operations with modernized technology, backed by efficient intellectual capital – resulting in zero breakdowns or rejections.

Paper industry is poised for growth and has a linear relationship with GDP of our economy. With the GDP expected to be at around 9 percent during 2011-12, the paper industry will grow simultaneously at 8 per cent over the next 10 years. This will translate into positive results for the Company and higher returns for our stakeholders.

Environment management

Emami Paper Mills Limited (EPML) continues to be committed to its responsible manufacturing practices and has implemented several environment-friendly processes under its well-defined Environment Policy. Some of its environmental policies are:

- Clean production
- Resource conservation
- Responsible waste management
- Minimum pollution load

EPML always makes constant efforts to better the standards set by the Pollution Control Board, ensuring sufficient energy conservation with higher waste recycling.

EPML has adopted one of the best Integrated Management Systems (IMS), duly certified by M/s DNV (M/s Det Norske Veritas AS, Netherlands) through their Surveillance and Recertification Audits, covering the following:

1. ISO 9001:2008 - Quality Management System
2. ISO 14001:2004 - Environment Management System
3. OHSAS 18001:2007 - Occupational Health & Safety Management System.

The management is committed to saving the environment and upholding human safety and health. EPML has implemented its policies and focuses on environment, health and safety, quality and energy as under:

- Complying with all relevant legislative requirements
- Reducing pollution load in terms of liquid discharge, air emission and land conservation



- Saving energy and preserving natural resources like water, raw material, fuels
- Generating awareness on environment, safety and health
- Minimising unsafe acts and working conditions
- Promoting comprehensive programmes to propagate health and environmental safety.

The Company is well-renowned for its environmental management practices. It possesses:

- State-of-art effluent treatment plant
- Sludge dewatering system
- Managing solid wastes through recycling
- Feeding of ETP sludge to boiler for power generation
- Rainwater harvesting

The aforesaid steps have resulted in declining water and energy consumption, reflected in the data submitted for energy conservation in this report.

Mill expansion plans

In line with the planned expansion projects, the Company has firmed up plans for installing Printing & Writing Paper Machine of 175,000 tpa and Elemental Chlorine Free (ECF) Bamboo/Wood Pulp Mill of 150,000 tpa, Captive Power Plant of 32 MW along with required Water Intake and Treatment facilities at a project cost of Rs. 1,225 crores in the 1st Phase. Approvals are in process for land acquisition, environment clearance, water clearance and financial tie-up among others.

As a part of above, the Company has acquired state of the art used Paper Machine from Sweden. It has also floated global tender for the main process equipment. Location of the these facilities adjacent to the existing mill at Balasore provides advantage in terms of utilization of available resources, well established infrastructure and proximity to the coalfield, port, railway siding and highway facilities.

New vista – ‘agro-forestry’

In line with Company’s plans to install an Integrated Pulp & Paper Plant to produce high end Printing & Writing graphic papers from virgin pulp out of bamboo/wood as pulpable raw materials, the Company has set up a full fledged department known as Agro-Forestry Division at Balasore to develop a sound raw material base within its catchment area.

Nurseries in various districts of Orissa and West Bengal have been established to provide saplings of Eucalyptus,

Acacia & Casuarina to farmers for pulp wood tree plantations under farm forestry schemes. Apart from the seed root origin based saplings, the Company has planned to use higher technology aided clonal saplings to increase productivity. A Research and Development Centre for multiplication of clones of Eucalyptus and Casuarinas has started functioning at Balasore with an initial capacity of 10 lacs clonal saplings per year which will be increased to 50 lacs clonal saplings.

The above programme will mean the following direct and indirect advantages to the region.

1. It will provide productive use of the farmers’ land particularly in the non-irrigated areas.
2. It will provide 200 man days per Ha per annum of employment to the rural population.
3. Apart from bringing in the dramatic change in the earning capacity of farmers, it will improve soil condition of the arid land which can help arrest of degradation and erosion.
4. It will also work as huge carbon sink to reduce the GHG problem.

The Agro-Forestry Division has also taken up activities to motivate the farmers/villagers to practice inter-cropping of vegetables, pulses, etc. along with tree plantation to get more interim revenue out of these fast growing crops.

Community responsibility

We at Emami Paper, extend our responsibility, not only to our employees and shareholders but also to the community. Over the years, we have worked with dedication towards enriching lives across the community. A sense of responsibility towards society is inherent to Emami’s concept of entrepreneurship. Under CSR, the major thrust areas include health care, drinking water, education and community service schemes to neighbouring villages and supporting them during natural calamities.

Our healthcare activities range from operating local first aid centres, free health services and health camps through which we provide ayurvedic, homeopathic and allopathic medicines. In the community service schemes, Emami is always ahead in installing and maintaining tube wells, street lights, road repairs, sponsoring sports activities, mass marriages, religious and social activities through local groups. With regards to education, the Company makes regular contribution to the Friends of Tribals Society (FTS)