



Emami..... reaching audience as a news



EMAMI PAPER MILLS LIMITED
ANNUAL REPORT 2011-12

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CORPORATE INFORMATION

Board of Directors

Shri R.S. Goenka (Executive Chairman)
Shri R.S. Agarwal
Shri Manish Goenka (Whole time Director)
Shri A.V. Agarwal
Shri P.S. Patwari (Executive Director)
Shri S.K. Todi
Shri J.K. Khetawat
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 700001

Unit Auditors

M/s Salarpuria Jajodia & Company
Chartered Accountants
7 C R Avenue
Kolkata 700072

Bankers

State Bank of India
ICICI Bank Limited
DBS Bank Limited
State Bank of Bikaner and Jaipur
State Bank of Hyderabad
Indian Overseas Bank
IDBI Bank Limited
Axis Bank
Indusind Bank

Works

- Balgopalpur,
Balasore 756020 (Orissa)
- R.N. Tagore Road, Dakhineswar,
Kolkata 700035 (West Bengal)

Registered Office

687 Anandpur
E M Bye Pass Kasba Golpark
Kolkata 700107
Tel: 033 6613 6264
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Management's Discussions and Analysis

Global Economy

The global economy rebounds in 2010, improves marginally in 2011 led by demand revival in key global economies. In Asia and Middle East, Europe and Latin America, demand grew by over 7 per cent during the year on the back of a revival in the macroeconomic environment. Growing domestic demand has encouraged large capacity additions in Asia where around 41 million tonnes of paper and board capacity are likely to be added over the next 5 years. Of this, China alone is expected to add around 30 million tonnes of capacity while India would add 4 to 5 million tonnes.

Indian Economic Overview

The Indian Economy is estimated to grow over 7 per cent during 2012 and it is further expected that the growth momentum is likely to continue over the next few years.

With the increasing per capita income, growing emphasis on inclusive growth and faster development of infrastructure, education and health sector, India is well poised for major leap forward. Twelfth Five Year Plan in India is expected to further boost up the aforesaid sectors resulting in the great demand for cultural grade and industrial grade paper required for education, media and industrial sectors. But rising costs and inflation is a matter of concern. We do hope that effective steps will be taken to curb this trend without sacrificing the current growth momentum.

Indian Paper Industry

Consumption of paper and paper board is closely linked to the economic development of a country. In India, though the per capita consumption of paper is low, it is gradually improving with buoyant economic growth. Industrial production, expenditure incurred on the print media, government spending on educa-

tion, population growth and literacy levels are other contributing factors. With stable economic growth in the country, domestic demand for paper (including newsprint) has been steadily increasing over the years. It has grown at a 4-year CAGR of around 7 per cent to reach around 11.6 million tonnes in 2011-12 and expected to reach around 17 – 17.5 million tonnes in 2016-17.

The paper industry's market size (including newsprint) in 2010-11 has been estimated at Rs.44500 crores. It has grown at a CAGR of 8.7 per cent over the last 4 years from around Rs.32000 crores in 2006-07. Of all the segments, paperboard has been the highest value segment in 2010-11 accounting for a share of around 42 per cent of the total market size. This was followed by W&P paper at about 37 per cent and newsprint at about 13 per cent. Specialty paper segment accounted for about 8 percent in 2010-11.

Around 215,000 new educational institutions are expected to be established in the country between 2010-11 and 2015-16, as an outcome of the Indian government's Right to Education Act (RTE) initiative. In 2009, the government had passed the RTE to stimulate the spread of education in the country. Correspondingly, the Gross Enrolment Ratio is expected to increase to 90 per cent by 2015 from 71 per cent in 2008. Additionally, initiatives like Rashtriya Madhyamik Shiksha Abhiyan and Sarva Shiksha Abhiyan have boosted demand for W&P paper.

The paperboard segment caters to the packaging of manufactured goods. It can be further classified into tertiary packaging, which includes kraft paper and consumer packaging, which includes greyback paperboard, white-back board, folding box board (FBB) and solid bleached board (SBB). Demand for paperboard is closely linked to the level of industrial activity in the country.

Out of total industrial demand in 2010-11, kraft paper accounted for nearly 60 per cent, recycled boards like

greyback / whiteback accounted for 31 per cent and virgin boards like FBB / SBB accounted for 9 per cent. Demand for paperboard has increased at a CAGR of 6.9 per cent to an estimated 5.0 million tonnes in 2010-11 from around 3.9 million tonnes in 2006-07.

The business environment in the sector is quite challenging and the companies producing high quality product and pricing at competitive rates alone can sustain and flourish in the domestic and international markets.

Paper industry has been granted a status of a priority sector for foreign collaboration and foreign equity participation upto 100% and is entitled to receive automatic approval from the Reserve Bank of India. More foreign players are expected to join the industry in the coming years.

Demand for paper and paperboard closely follow the economic growth of a country and have a positive correlation to the prevailing economic trends. In India, the demand drivers and growth triggers have come from a combination of factors:

- the rising level of national income;
- the growing per capita disposable income;
- rising aspiration levels of the people;
- increasing size of the population;
- spread of education and literacy throughout the country;
- government's several initiatives that focus on education; and
- higher level of industrial activity and corporate spending.

Consistent economic growth in India is expected to result in the robust demand for paper, which has grown on an average 8% for past few years. During the past 5 years, newsprint has registered a growth of 13% while writing & printing paper registered growth of 7 ½%. Your Company operates in these sectors.

Emami Paper mill is the largest newsprint manufacturer in India and producing world class product and selling the same against stiff competition with the imported newsprint. With the constant high demand of its product, EPM expects strong financial performance in the coming years.

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 62% 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.

CRISIL Research estimates demand for newsprint to grow by 9-10 per cent CAGR from 2.1 million tonnes in 2011-12 to 3.4 million tonnes in 2016-17, faster than the growth in circulation of print media. The sharper rise is also attributed to the expected rise in the number of pages per newspaper, mainly driven by rise in advertising spends of corporate. Rising literacy levels in the country have been driving the growth of print media in the country.

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 later 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.

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 tonnes 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%.

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.

SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • 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 	<p>Weakness</p> <ul style="list-style-type: none"> • The Company produces paper and newsprint from 100% recycled fibre which is scarce in our country
<p>Opportunities</p> <ul style="list-style-type: none"> • Large and growing domestic market • Huge potential in export market • Capacity expansion 	<p>Threat</p> <ul style="list-style-type: none"> • Increasing coal and logistic cost • Small and unorganised industry players • Cheap dumping from export countries • Negative budgetary policies for paper industry

IT support

EPM runs on SAP, which support company's complex business process at ease. SAP helps to streamline business processes, better connectivity and information flow across the Company resulting in quality services to its internal as well as external customers. The Company enjoys tremendous confidence of its customers for maintaining its delivery schedule with quality products and execution of contracts with system integration offered under SAP. The Company is also in process for implementing SAP-HR in the current Financial year.

A Centralised Data Centre has been installed at Emami's Corporate House, Kolkata having technologically advanced Server with modern operating system to comply with SAP landscape. Firewalls and other security solutions like Unified Threat Management (UTM) and end-point security measures have been taken to enforce strict security practices in all nodes to mitigate risks and protect IT assets from any threats & vulnerabilities.

Human resource

The Company consider the importance of people as the main contributing factor for the development and growth of industry. The performance of Management System of the company has become stronger with timely goal / target setting by the individual / head of departments (HODs). The monthly review of performance is taking place in more relaxed atmosphere thereby ensuring better commitment and participation from the employees.

The Company believes in "Open Door Policy" and employees are encouraged to meet the senior management at any time to highlight key issues and share ideas. Interactions with senior management are also organised on a periodic basis to provide a platform for voicing employees views and concerns.

Employee engagement is essential to develop a feeling of ownership for the Company and enable them to deliver optimal performance. A number of initiatives like festival celebrations in office, family get together and outings, sports, employee reward and recognition and

suggestion schemes are undertaken to boost employee engagement.

Internal audit and control

The Company continues to update its systems and procedures to keep it adequate and to ensure its effectiveness with the 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.

The internal audit department of the Company reviews the internal control system on a regular basis to improve its effectiveness. Regular internal audits are conducted based on annual internal audit programme as agreed with audit committee of board covering all the offices, factories and key areas of business. The findings are then taken up by audit committee along with management for suitable action. The audit committee also reviews the effectiveness of Company's internal controls and regularly monitors implementation of audit recommendations.

The Company has a comprehensive budgetary control system in operation and key performance goals are set for each of the units and product lines. These are monitored and reviewed on a periodic basis and corrective actions as needed are initiated.

Risk Management

The Company has systematic process for analysing and mapping the risks based on discussions with different stakeholders and study of past records. Outside experts are also consulted to provide an external perspective to the risks. The risks so identified are addressed by an appropriate risk mitigation plan.

Each plant has a risk management committee headed by the plant head. This committee meets on a regular basis and reviews the systems and procedures. Suitable modifications are made where necessary after the deliberations, if found necessary. These are further reviewed at the corporate office once on a biannual basis.

Similarly, the risks are thoroughly analysed for any new project prior to the implementation. These risks are segregated into market risks, operating risks, financial risks etc. These project risks are taken care off through regular monitoring and taking appropriate action to address them.

Training is also imparted to executives for effective analysis of various risks and formulation of appropriate mitigating strategies.

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

Your Directors take pleasure in presenting their Thirtieth Annual Report together with the Audited Statement of Accounts for the year ended March 31, 2012.

FINANCIAL RESULTS

	Rs./Lacs	
	2011-12	2010-11
Operational Income	48,969.00	42,984.01
Profit before interest and depreciation	6,943.07	7,207.68
Less: Interest	3,065.85	2,740.35
Profit Before Depreciation & Tax	3,877.22	4,467.33
Depreciation	2,773.19	
Less: Transfer from Revaluation Reserve	<u>56.97</u>	2,657.59
Profit Before Taxation	1,161.00	1,809.74
Less : Provision for Current Taxation	-	
Income tax for earlier years	98.51	
Provision for deferred tax	<u>231.79</u>	423.22
Profit after Tax	830.70	1,386.52
Add : Surplus brought forward	1,032.76	568.13
Balance available for appropriation	1,863.46	1,954.65
Appropriations		
Proposed Dividend	363.00	363.00
Tax on Dividend	58.88	58.89
Transfer to General Reserve	500.00	500.00
Balance carried forward	941.58	1,032.76
	1,863.46	1,954.65

Financial Performance

Your Company strengthened its leadership in the newsprint segment and continued to be the lowest cost manufacturer in the country. The Company's commitment in delivering high quality products to customers has been a major reason for maintaining prestigious

position in the industry and allowed the Company to achieve better sales realization against the stiff competition with imported newsprint.

Your Company registered a considerable growth of 13.92% in the turnover from Rs.429.84 crores in 2010 - 11 to Rs.489.69 crores during the year under

review. The Company achieved another landmark by registering a record production of 144920 MT for the year. Operating profit (PBDIT) was marginally lower at Rs.69.43 crores as against Rs.72.08 crores last year despite sharp increase in the cost of raw material, coal and financing charges. Directors are pleased to inform that in spite of turbulent business environment, your company, based on its intrinsic strength, has maintained its performance and outperformed the industry.

With the increased focus on the literacy by the Government and allocation of large funds for education and print media sector, demand of the company's products is expected to be very promising. Therefore, overall performance of your Company is expected to be improved substantially in the coming years.

Dividend

Your Directors are pleased to recommend a dividend of 30% for the financial year ended March 31, 2012. The Dividend, if approved by the shareholders, will absorb Rs.421.88 lacs (including the dividend tax of Rs.58.88 lacs).

Environment Management

Your Company continued with its commitment towards ensuring a safe and healthy workplace for all employees, guests and visitors, by maintaining the highest levels of safety and occupational health standards. Manufacturing units of your Company have best-in-class infrastructure, competent resources and state-of-art protection measures. The Environment, Occupational Health and Safety Management Systems conform to the best international standards.

Emami Paper Mills Limited (EPM) has adopted one of the best Integrated Management Systems (IMS), duly certified by M/s DNV, through their Surveillance and Recertification Audits, covering the following:

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

EPM committed to its responsible manufacturing practices and has implemented several environment-friendly

processes under its well-defined Environment Policy. The occupational health and safety process is implemented through periodic safety audit, safety observation and environment audit. EPM always makes constant efforts to better the stipulated standards, ensuring sufficient energy conservation with higher waste recycling. EPM has implemented its policies 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
- Minimizing unsafe acts and working conditions
- Promoting comprehensive programmes to propagate health and environmental safety
- Adoption of superior technology and equipment with respect to resource conservation, energy and eco-friendliness.

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

- State-of-art effluent treatment plant
- Sludge dewatering system
- Feeding of ETP sludge to FBC boiler for power generation
- Recharging cum Rainwater harvesting system
- Development of green belt.

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

Corporate Social Responsibility (CSR)

The CSR projects focus on promoting Economic, Social, Environmental and Cultural growth of the community at large in an equitable and sustainable manner in the peripheral areas around the factories. Over the years, we have worked with dedication towards enriching lives across the community. The company is consistently taking up various community welfare ini-