



EMAMI PAPER MILLS LIMITED

Scripting a new growth story

ANNUAL REPORT 2012-13

Forward looking statement

In this annual report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. Wherever possible, we have tried 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 subjects 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.

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CORPORATE INFORMATION

Board of Directors

Shri A.V.Agarwal (*Executive Chairman*)
Shri Manish Goenka (*Whole Time Director*)
Shri P.S.Patwari (*Executive Director*)
Shri J.N.Godbole
Shri H. M. Marda
Shri.J.K.Khetawat
Shri S. Balasubramanian
Shri U. G. Bhat

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
Allahabad Bank
Export-Import Bank of India

Works

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

Registered Office

687 Anandpur
E M Bye Pass, Kasba Golpark
Kolkata 700107
Tel: 033 6613 6264
Fax: 033 6613 6400
Email: emamipaper@emamipaper.in
Website: www.emamipaper.in



MANAGEMENT DISCUSSION AND ANALYSIS

Global economy

The global economy remained sluggish on the back of risks related to the viability of the Eurozone or major US fiscal policies and the fresh crisis in Cyprus. Policy tightening in response to capacity constraints and concerns about the potential for deteriorating bank loan portfolios, weaker demand from advanced economies and country-specific factors slowed GDP growth in emerging markets and developing economies from about 9 percent in late 2009 to about 5.25 percent in 2012 (*Source: IMF*). The IMF staff's Global Projection Model suggests that more than half of the downward revisions to real GDP growth in 2012 are rooted in domestic developments. However, a gradual strengthening of activity in 2013 is expected.

Indian economy

The Indian economy made significant strides over the last few years with gross domestic product (GDP) projected to grow at an average of 5.3-5.5 percent in 2012-13, keeping the country as one of the fastest-growing economies of the world.

India is the world's third largest economy in terms of the purchasing power parity (PPP) and has investments amounting to nearly USD 1 trillion lined up in partnership with the private sector over the coming years. The largely broad-based nature of the country's economy is represented by the fact that agriculture accounts for 17 percent, industrial 18 percent and services-based sectors 65 percent (*Source: IBEF*).

Indian paper industry

The Indian paper industry is estimated at between Rs. 30,000-35,000 cr and accounts for over 2.5 percent of the world's paper and paperboard production even though the country accounts for nearly 17 percent of the global population. The industry is currently populated with over 700 mills with less than 50 mills having a production capacity of 50,000 MTPA, demonstrating the potential of consolidation in the sector. Over the past five years, the Indian paper industry has invested between Rs.10,000-12,000 cr towards increasing productivity through the adoption of more efficient and

cleaner technologies to enhance corporate sustainability.

India is rated as one of the fastest growing paper markets on the back of healthy GDP growth. As per projections, the paper and paperboards industry is expected to cross 20 MTPA by 2020 and 40 MTPA by 2030 with an annual growth rate of between 7-8 percent.

The paper industry has an important role to play in the Indian economy. Paper consumption in India is pegged at about 12 kg per capita making it a highly potential market when one considers the global per capita consumption of paper at 56 kg (*Source: SME India Mart*). In order to serve this upcoming demand, Indian paper industry needs to upgrade capacity and technology.

Newsprint sector

India led the world in terms of newspaper circulation with a massive pile of 374 million newspapers circulated daily (*Source: Registrar of Newspapers for India*) with the total number of registered newspapers at over 86,000. According to the National Readership Survey, India has more daily newspaper than any other nation; out of the world's 100 largest newspapers, 20 are Indian. The demand for newsprint in the country is expected to grow at a rate of 9 percent and India's paper consumption is expected to increase from 2.1 MTPA in 2012-13 to 3.0 MTPA by 2015-16 and 3.5 MTPA by 2017-18 (*Source: CRISIL*).

The Indian newsprint market is characterised with voluminous demand and a high growth rate. However, the capacity of Indian paper mills is insufficient to meet the demand; almost 50 percent of the demand of about 2 MTPA is addressed by way of newsprint imports. Manufacturing newsprint through waste paper is prevalent in India, since the country does not have a developed waste paper collection system, with raw material availability being low and prices being relatively high. Consequently, imports of waste paper accounted for 55-60 percent of the total waste paper consumed.

Printing and publishing sector

Over the years, the global printing industry has grown,



making giant strides through improved equipment (scope, technology and speed). The Indian publishing sector is one of the largest in the world; the country is counted among the top-seven publishing nations.

The size of the Indian publishing and printing industry is estimated at USD 1.9 billion and USD 25 billion, respectively. The size of the Indian book printing market is estimated at about Rs. 7,000 cr and projected to touch Rs. 10,000 cr by 2016 (*Source: Pira International*). Moreover, India is emerging as an outsourcing hub of publishing and printing services, the country accounting for a 60 percent share of the global publishing outsourcing business. This robust growth in printing and publishing sector leaves immense scope for the Indian paper industry to grow at a pace in line or even ahead of GDP growth.

Packaging sector

The Indian packaging industry is estimated at Rs. 63,000 cr, growing at 11 percent annually and expected to cross Rs. 95,000 cr by the year 2015 (*Source: CRISIL*). Demand for packaging is driven by a high growth in volume sales most consumer goods categories. Growth in organised and modern retailing channels (supermarkets and hypermarkets) represent the main driver of this shift towards packaged goods. As these modern retail outlets are better equipped to showcase packaged products compared to traditional retail outlets, the role of packaging in influencing purchasing in-store decisions is greatly increasing. This has made packaging a more potent marketing tool than before.

The use of packaged goods products is trickling down from India's large cities to rural masses. The rise in competition among consumer goods manufacturers and an increasing focus in providing consumers convenient closures are among the key growth drivers. India's retail industry is expected to grow 7 percent over the next decade, reaching a size of USD 850 billion by 2020. Traditional retail is expected to grow at 5 percent and reach a size of USD 650 billion while organised retail is expected to grow at 25 percent and reach a size of USD 200 billion by 2020 (*Source: CRISIL*).

Key industry drivers

Rise of vernacular newspapers: CRISIL expects demand for newsprint to grow 9.5-10.5 percent CAGR over the next five years - from 2.1 MTPA in 2012-13 to 3.5 million tonnes in 2017-18 - driven by higher literacy and increase in the number

of pages per newspaper due rising advertising spends.

Advertising revenues growth in print media: A report by Motilal Oswal indicates that the Indian print media industry, which accounted for 45 percent of the total advertising spend in the country, is headed for a rebound with advertising growth (revenue) improving 4-5 percent year-on-year and to 11 percent over FY13-15 on the back of stable GDP growth, anticipated easing in interest rates and a low-base effect.

Local print media proliferation: New newspapers being published in India will continue to grow at around 6 percent annually. While the era of 24-hour news channels on television has had its impact on the circulation numbers of newspapers, it is evident that India still wakes up to the newspaper. The highest circulated daily in India still remains a regional language newspaper (*Source: TMT India 2013*).

Growth in education, office space to drive demand for W&P paper: Demand for W&P (writing and printing paper) is projected to grow at 6.5-7 percent CAGR from 3.8 MTPA in 2012-13 to 5.3 MTPA by 2017-18. Strong growth is expected in the copier, coated and maplitho segments. Within W&P, demand growth for copier paper is likely to be the strongest at around 14 percent CAGR from 2012-13 to 2017-18. Rise in office space absorption is likely to translate into stronger demand for high-quality copier paper from the office printing segment and hence the share of copier paper in the total demand pie for W&P will increase from 17 percent in 2012-13 to around 20 percent in 2017-18.

Rising demand for paperboard: Demand for paperboard is projected to grow at 7-7.5 percent CAGR from 5.6 MTPA in 2012-13 to 7.9 MTPA in 2017-18, driven by growth in industrial production and sustained demand for consumer goods due to increase in penetration of organised retail. CRISIL Research expects paperboard to account for 56 percent of packaging board demand in volume terms in 2012-13. Trends like change in lifestyle and socio-economic factors have led to a sharp rise in demand for packaging paper as reflected in the improved packaging of FMCG products, rising spends on healthcare and over-the-counter medicines and increasing preference for ready-to-eat food products.

Emami's industry presence

Emami Paper Mills Limited, part of the Emami Group of Industries has paper mills located in Balasore (Odisha) and Dakhineswar (Kolkata) manufacturing newsprint and value-



added writing and printing (W&P) paper. Unit 1 at Balasore is one of the most environmentally-friendly paper mills in Eastern India, consuming waste paper for the manufacture of internationally-benchmarked newsprint.

The Company is in the presence of undertaken a landmark move for establishing a new paper machine for the manufacture of multi-layered coated board at its existing facility at Balasore. Once completed, Emami Paper will emerge as Eastern India's largest manufacturer of such value-added packaging paper varieties in Eastern India.

IT support

The Company has implemented a SAP ECC 5.0 - ERP in July 2010. The implementation was done at the centralised data centre covering the Kolkata Corporate Office, Balasore and Kolkata plant. The entire implementation was completed in record 10 months with business processes for materials management, sales and distribution, production, quality and accounting, mapped in SAP.

SAP supports the Company's complex business process with ease. SAP helps streamline business processes and improves connectivity and information flow across the Company. It also facilitates accelerated and informed decision-making by providing flawless information and wide scope of data analysis within a minimal time span. It also reduces paper work by the online use of information system and achieves reduced cycle time of order processing and is now a single platform for all users to share and view data. After overcoming the initial challenges, the system has become stabilise and meeting our customised information requirements.

Human resource

The Company recognises the importance of people in its growth and has formulated a structured 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 Thirty First Annual Report together with the Audited Statement of Accounts for the year ended March 31, 2013.

FINANCIAL RESULTS

Rs./lacs

		2012-13	2011-12
Operational Income		51001.61	49507.76
Profit before interest and depreciation		7348.31	6514.37
Less: Interest		3022.16	2637.15
Profit Before Depreciation & Tax		4326.15	3877.22
Depreciation	3082.14		
Less :Transfer from revaluation reserve	49.24	3032.90	2716.22
Profit Before Taxation		1293.25	1161.00
Less : Provision for current taxation (MAT)	253.83	-	230.11
MAT Credit entitlement	(253.83)	-	(230.11)
Provision for deferred tax	137.77	137.77	330.30
Profit after Tax		1155.48	830.70
Add : Surplus brought forward		941.58	1032.76
Balance available for appropriation		2097.06	1863.46
Appropriations			
Proposed Dividend on Equity Shares		363.00	363.00
Proposed Dividend on Preference Shares		1.75	
Tax on Dividend		61.99	58.88
Transfer to General Reserve		500.00	500.00
Balance carried forward		1170.32	941.58
		2097.06	1863.46



Financial Performance

Your Company continued to reinforce its leadership position in the Indian newsprint industry and remained one of the lowest cost manufacturers of Newsprint. Emami Paper's commitment of delivering superior quality products to a wide segment of pride-enhancing customers has been a major reason for the Company in maintaining an impressive position in the industry.

Despite several obstacles of challenging economic environment, high interest rates, stubborn inflation levels and an overall suppressed consumer demand, your Company registered a growth in the turnover from Rs. 493.50 crores in 2011-12 to Rs.499.89 crores in 2012-13. By achieving continued operational efficiency enhancements and tight cost structures, your Company's operating profit (PBDIT) increased 12.77% from Rs.65.14 crores in 2011-12 to Rs.73.46 crores in 2012-13. The company has achieved record production of 145816 tonne for the year 2012-13 which is more than 100% of installed capacity.

This performance is testimony to the Company's inherently robust business and operating model, enabling it to continue to outperform the industry average. With the increased focus on literacy by the Government of India through such grassroots programmes as Sarva Siksha Abhiyan and allocation of large funds for the education and the print media sector, demand for newsprint in the country is expected to continue to report substantial growth of between 8-10 percent over the next decade.

Dividend

Your Directors are pleased to recommend dividend of 30% (Re.0.60 per share) on Equity Shares of Rs.2/- each and 8% pro-rata dividend (Re.0.09 per share) on Preference shares of Rs.100/- each for the financial year ended March 31, 2013. The Dividend, if approved by the shareholders, will absorb Rs.426.74 lacs (including the dividend tax of Rs.61.99 lacs).

Mill Expansion And Development Plan

Leveraging a rich experience of over 30 years in the business of manufacturing and marketing various grades of paper,

readymade and well-laid infrastructure in terms of land, energy (captive power and grid transmission and distribution), water availability, MOEF clearance and skilled resources, your Company is undertaking a landmark expansion by setting-up a 100,000 TPA paper machine for manufacturing multi-layer coated board (packaging paper grades) at its existing location in Balasore. With a view to reinforce its competitiveness in the market and secure energy availability, the new mill complex will also have a 10 MW captive power plant, providing 100 percent self-reliance.

When completed by March 2015, your Company will emerge as the largest manufacturer of Multi-Layer Coated Board in Eastern India and one of the largest in the country.

Multi-layer coated board (comprising grey back, white back, folding box board, solid bleached board and liquid packaging board) is one of the fastest growing segments of the paper industry, growing at an annual rate of between 14-20 percent per year, even faster than the overall rate of growth of the domestic paper industry at about 10 percent.

Multi-layer coated board is used in several industries such as FMCG, pharmaceuticals and several other packaging-centric industries and with the upcoming boom in retail, especially enabled by the 49 percent FDI being permitted into the industry, the demand for duplex/ coated boards is expected to increase to 3.2 million tonne by 2016-17, up from 2.2 million tonne in 2012-13.

The project capital cost is optimally funded through a mix of promoter funds and foreign currency debt (ECB/ FCNR).

Issue Of Preference Shares

During the year the Company has issued 20,00,000, 8% Cumulative Redeemable, Non-Convertible Preference Shares of the face value of Rs.100/- each at a premium of Rs.300/- each aggregating to Rs.80.00 Crores.

Environment Management

Emami Paper Mills has embraced several proactive environmental measures to mitigate the risks of its operations on the environment. The Company promoters are of the firm



belief that they are as much environmentalists as industrialists and as such, have contributed to the development of several state-of-the-art environmental assets across its manufacturing facilities. Your Company believes in achieving growth but not at the expenses of the environment. The Company has undertaken necessary steps and actions for ensuring high levels of environmental management by ensuring health, hygiene and safety for surrounding communities in all the locations where it operates.

Towards achieving its environmental objectives, the Company is focused on:

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

Your Company is among the few in the industry to have adopted one of the best Integrated Management Systems (IMS) certified by DNV (Det Norske Veritas AS, the Netherlands) through their surveillance and recertification audits, encompassing the following:

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

At Emami Paper, there has been substantial development in energy conservation by installing energy efficient equipment. Hundred percent of the energy requirement of the Balasore plant is sourced from the mill's 20 MW captive power plant. Some of the other environmental assets possessed by the Company include:

- State-of-the-art effluent treatment plant (ETP)
- Sludge dewatering system
- Solid waste recycling
- Feeding of ETP sludge to boiler for power generation
- Rainwater harvesting

These assets have enabled the Company to achieve declining water and energy consumption per tonne of paper produced to benchmarks even lower than the standards. To optimise

chemical and water consumption even further, the Company undertook the following measures:

- Conducted detailed study of water and wastewater management practices in different processes and domestic level assessing the opportunities for water and cost savings by performance enhancement of existing and future facilities
- Integrated the water management with process needs by adopting the 'Reduce, Re-use and Recycle' concept to optimise discharge quantities
- Explored opportunities for reducing energy and chemical consumption in water and wastewater treatment systems
- Adopted the latest water and wastewater treatment technologies
- Propagated water saving equipment and devices besides organising training programmes on water management

Corporate Social Responsibility (CSR)

At Emami Paper Mills, we are not just another business organization driven by the sole objective of our bottomline. We are a positive change initiator, touching people's lives, enhancing incomes and creating a happier society. The company's conviction is in line with a maturing governance culture that no company can hope to succeed as a profitable island in an underprivileged environment.

It is with this conviction that Emami Paper engaged in corporate social responsibility when it went into business in 1983. The company directed its CSR for the benefit of those living in the vicinity of its Balasore plant, benefiting the tribal community. The Company's CSR initiatives were conducted with the singular objective to extend the benefits of its corporate growth to its societal stakeholders.

Over the years, the company made relevant interventions in the areas of education, health and general welfare. The result is that Emami Paper has emerged as a responsible corporate citizen in the locations of its presence.

At Emami, our corporate social responsibility is not an adhoc



response; this institutionalized initiative is driven by a CSR committee comprising eight executives. The result is that the company's footprint and portfolio have progressively increased, benefiting around 30,000 people.

Youth

Over the years, Emami Paper has increasingly invested in youth-building through a larger investment in schools and youth-centric activities. During the year under review, the company allocated 24% of its CSR budget on youth.

Miscellaneous

Emami Paper also intends to invest in schemes related to animal welfare, grass and food cultivation, biogas generation, power and electricity and solar energy in Balasore. The company intends to engage in research related to water management, waste management and superior land utilization.

CSR initiatives, 2012-13

Education

- The company funded the building of Remuna College, Balasore.
- Provided scholarships to deserving students (including tribals).
- Funded the entire science section of Remuna College.
- Emphasised and funded girl education.
- Commissioned Bal Vikas Kendras, providing free education to the poor.
- Provided free meals and exercise books to school children.
- Donated desks, tables and water coolers to schools.

Health

- Conducted free health camps (diagnosis and medicines).
- Adopted 57 families of Fulkiari village; provided health insurance, benefiting tribals.
- Started rural mobile health camps.
- Started free ayurvedic, homeopathic and allopathic health camps.

- Built toilets for tribals; provided tube wells for drinking water.

Infrastructure

Built roads in the area; constructed temples.

General

- Trained women with tailor competence.
- Provided firewood to tribals.
- Started free veterinary services for animals.
- Supported victims of burnt houses, failed marriages and orphans; distributed free clothes to villagers.

Corporate Governance

The sections of Corporate Governance and Management's Discussion & Analysis are set out as Annexure-III in this Report.

Directors' Responsibility Statement

Your Directors have:-

1. Followed the applicable accounting standards in the preparation of the Annual Accounts;
2. Selected prudent accounting policies;
3. Taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of your Company as well as preventing fraud and other irregularities; and
4. Prepared the annual accounts on a going concern basis.

Directors

Shri R. S. Goenka resigned from the Board as Executive Chairman with effect from 13th August, 2012. Your Directors wish to place on record their gratitude for his excellent and valuable service to the Company by his commendable leadership during his tenure as Executive Chairman of the Company.

Shri R. S. Agarwal was appointed as Director with effect from