

ESS DEE ALUMINIUM LIMITED
Annual Report 2011-2012

Opportunities Beckon



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Chairman's Note

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Dear Fellow Stakeholders

The financial year 2011-12 was marked by challenges in both the global and the domestic economy. Amidst rising fiscal deficit and inflation, the Indian economy is expected to grow by 6.9% in this financial year 2012-13 as per World Bank. Globally too, a slower than expected recovery process in the US economy and the Euro crises, continued to cast a shadow.

During the year, we continued to focus on integration activities with India Foils and we are extremely confident that having endured short term pain, our business prospects are extremely promising, over the longer term.

During the Fiscal 2012, we recorded sales of ₹ 6591.33 million, a de-growth of 3.17% while the bottom-line declined by 42.3% to ₹ 681.18 million. This is primarily on account of the near term integration efforts that are underway in line with our strategy of emerging as a market leader over a period of time. Additionally, we faced escalating raw material and other costs. As the economic outlook improves, this situation is expected to improve significantly. Notably, our net sales recovered in the last quarter after declining for the last couple of quarters during the year.

In line with our long term growth strategy, we have appointed Bijoy Kumar Pansari, as the Managing Director of the Company who brings to the table more than four decades of relevant experience. Alongside this initiative, the company has invested in new talent by sourcing the right candidates from the relevant Industry so as to set up a second line of back up to support the execution strategies.

Going forward, the company intends focusing on overseas export market for its Pharmaceutical, Food and FMCG packaging business, beginning with Singapore. Apart from its business of providing packaging solutions to the Pharmaceuticals / Food and FMCG segment, the company would also focus on increasing its product basket to fully harness its product capacities within the same industry verticals.

We have registered our products, HSL coated Aluminium foil and LDPE laminated Aluminium foil with the Canadian Health Authority under DMF Type II. This is in line with our policy of maintaining international quality standards. Innovation continues to be our forte as we launched several new products in line with the industry demand and to proactively meet our customers' needs. There is no dearth of demand, be it from the pharmaceutical sector or the Food and FMCG sector as they fall under the non- discretionary spend segments. At the center of our strategy has always been our ability to anticipate what our consumers want, today and tomorrow. With this strategy in place, we believe we will be able to continue to exceed our consumers' expectations for all times to come.

The USD 23 billion Indian packaging industry is expected to get a significant boost with the Ministry of Commerce and Industry giving an in-principle approval to take up the 10 proposals submitted by the Indian Institute of Packaging to enhance industry standards, which when implemented shall see a huge upswing in industry demand.

As we enter fiscal 2013, we are cautiously optimistic about the future pace and sustainability of global economic improvement. We remain focused on continuing to implement targeted growth projects; fully integrating India Foils including achieving identified synergies; and continuing to also keep a tight rein on costs.

Through FY 2011-12, which I believe was a year of consolidation; we had tremendous support from our Executive Leadership Team and guidance from the Board of Directors. The relentless efforts of our employees have seen us through this crucial phase and I wish to extend my gratitude to the entire team and look forward to their continuing support.

Sudip Dutta
Chairman



From the MD's Desk

Bijoy Kumar Pansari is the new Managing Director of the company. With experience spanning over four decades, he has held eminent positions with leading corporate houses where he has been instrumental in formulation and implementation of strategic growth plans, policies, strategies and monitoring operational efficiencies. He is a Chartered Accountant and Law Graduate from Calcutta University.

In an in-house interview, the new Managing Director spoke extensively on the company's performance and also shared his vision for Ess Dee.

Key Excerpts therefrom are reproduced below.

How has Ess Dee shaped up in the last financial year?

The year 2011-12 has been a year of consolidation, which has transformed Ess Dee into a stronger entity that will now widen its horizons in terms of markets it caters to. Having achieved a leadership position in the pharmaceutical packaging market in India, we are set to spread our wings in the South East Asia and Latin America.

Today, Ess Dee has manufacturing facilities across India with manufacturing hubs located at Daman & Kolkata and spokes located at Daman, Kolkata, Vasai, Goa, Baddi, Sikkim and Bengaluru. Thus far, this has ensured that all our facilities are located close to the customer base ensuring tailor made offerings, lower inventory carrying cost and prompt supplies. We have now set base in Singapore and are working towards expanding the contribution of exports to our total revenue pie.

Can you update us on the status of the integration process with India Foils?

The unit at Kamarhati is functional and the capacity utilization has been better than that in the previous year. Further, the backward integration process has commenced as one caster plant has commenced commercial operations at Hoera. The technical team is now in the process of revamping the second caster plant.

Apart from improving our capacity utilization as a company, we are extremely focused on enhancing productivity of our machines year on year. This to my mind is a time consuming process and the results of the same would be discernible only over a period of time. As a policy, the company has given high priority to achieving better productivity, as once that is in place, higher production would not be too difficult to achieve.

Notably, the quality of production from our in-house caster is found to be superior to the imported options available as we follow a better filtration process.

How do you foresee the industry shaping here on? What is your take on Ess Dee's potential?

With the expanding middle class and rising income levels, the patterns of consumption are bound to change substantially and the demand for quality and convenience-based products will increase, especially in South East Asia. Concurrently, the increased interaction with the developed world will considerably influence the aesthetic and quality norms of the consumers in the developing world and lead to better consumption standards. This is expected to stimulate greater consumption of branded products and increase the use of packaging where aluminium plays a great role. Ess Dee has marked its entry into Foil based flexible packaging and we see this as an extremely potent segment in addition to the existing product lines that we have.

Given our improved operational platform and operating leverage, we believe that revenue growth represents the single biggest value creation opportunity for our business and expect this to be a key driver of cash flow and earnings growth in the years ahead.

Why has the company chosen Singapore as its base?

While Ess Dee enjoys leadership positioning in the domestic markets, it has envisaged establishing its presence in the overseas markets beginning with Singapore. This would give us the locational advantage that will enable us to cater to the South East Asian markets.

We have very strong relationships spanning two decades with MNCs who have their facilities in India. These MNCs have facilities in various parts of the world including South East Asia and Latin America to whom we plan to cater now.

We are preparing plans to set up an additional state of the art printing unit at Daman and have already acquired land for this purpose. This greenfield expansion plan is expected to be equipped with latest state of the art and technologically advanced machineries. The company proposes to cater to the Pharmaceutical, Food and FMCG companies. The focus of this unit would be to cater to overseas markets and the set up will be of international standards.

Ess Dee is confident of providing quality foils at a competitive price. Thus, we believe that setting up a base in Singapore is beginning of a new chapter in Ess Dee's history.

Why have the sales dipped and what are the company's plans on the domestic front ?

Ess Dee, as a company, has been through a major consolidation process. Transformation is a process that takes some time to fructify and the results and benefits to become evident. Ess Dee is well into this process and the pay-offs will commence soon.

On the domestic front, our Bengaluru unit, under the banner of Flex Art Foil Limited (formerly Flex Art Foil Private Limited) has started catering to the Southern parts of India, and we find an immense potential there. The Hub and Spokes model is firmly in place and is yielding good results.

What do you believe is Ess Dee's key differentiator ?

Ess Dee has always been known for its Innovation. We continue to encourage all our people to find innovative solutions to meet business challenges, with special emphasis on productivity and quality. This has arisen from our deep domain expertise leading to strong customer relationships. We have been able to continuously innovate to meet and exceed our customers' demands and expectations. Our highly skilled and motivated team partner with our customers to come out with winning solutions.

Our mantra of helping our customers to succeed, will take us from strength to strength. I am confident that this is what will help us shape the future of our industry – today, tomorrow and every day.

Would you have any message for the stakeholders?

We are confident that by executing our plans, we will continue to strengthen our market position and buttress our financial performance even in this challenging economic environment.

The packaging industry is witnessing challenges such as the availability and price volatility of raw materials and changing regulations, I firmly believe that Ess Dee will emerge as a long term player with its focus on expansion, execution and innovation.

I extend my deepest thanks to all our esteemed stakeholders who have continued to shape our history—our customers, our shareholders, our employees, our bankers, our suppliers and our communities. I look forward to a promising future as we continue to earn your trust, your confidence and your pride.



Opening the Doors of Opportunity

Innovation in Packaging

Through product innovation, we can help our customers to create a competitive pricing strategy to differentiate premium from everyday brands. Whether it is FMCG products, Food or Pharmaceutical products, the companies that use Ess Dee's packaging, are able to improve their price points, drive volumes and create new markets, which in turn, help us to grow with them.

Today, we have become increasingly skilled at tapping into emerging trends early and translating them into opportunities for sustainable, increased long-term profit. Our ability of knowing the pulse of our customers and to base our innovation around it to offer business enhancing products has enabled us to tap the right opportunities at the right time. Needless to say technology has played a crucial role here.

While we expect to face new challenges in the near term, we also see new opportunities which we are confident of tapping based on our proven strategies over a longer term horizon.

Certifications

The Company has received the Certification of Child Resistant Laminates from approved testing laboratories in UK. This will help the Company to expand its horizon in the European markets. The Company is also planning to get the BRC IOP [British Retail Consortium (BRC) and the Institute of Packaging (IOP)] certification for its Unit II in Bhenslore, Daman.

Packaging to Keep Pace with Today's Customers

..need for differentiation, protection, convenience



With advances in manufacturing processes and technology innovation and integration, the global pharmaceutical industry is currently registering rapid expansion. This will propel the growth of the pharmaceutical packaging industry globally. This growth is expected to be highest in the emerging economies of India and China, primarily on account of increasing generics and contract manufacturing activities in these countries, according to a study by GBI Research.

The global pharmaceutical packaging market which was valued at USD 47.8 billion in 2010 is forecasted to grow at a compound annual growth rate (CAGR) of 7.3 per cent from 2010–2017, to reach a value of USD 78 billion by 2017. The pharmaceutical packaging industry will continue to grow as drugs worth USD 142 billion will go off-patent in the next five years, expanding the generic market and the entire pharmaceutical packaging industry. All of these factors, along with the growing pharmaceutical industry, will continue to drive the demand for packaging.

In the FMCG and Food segments, increasing awareness amongst the rising urban class, rising modern trade formats and demand for convenience products will drive demand for high quality packaging from the end users. Our Clients in this space are looking at packaging as a value adding, differentiating proposition over and above the conventional need for protection and preservation. Our role here, is to offer them not only what they demand but proactively capture the opportunities that changing dynamics offer in this space.

Ess Dee launched a first of its kind consumer foil under the brand name of Housefoil. What differentiates our product is the branding of the foil with the character Doraemon and Friends. The product has been well accepted in the general and modern trade formats. The company also launched the plain house foil in multiple SKU's. The product has been

marketed and distributed through the Multi retail outlets throughout India. Going ahead, we plan to tap the Hotels, Restaurants and catering segment for this product which we believe have huge potential.

With India Foils under our wings we see good potential for some products which we intend reviving. These include:

PP Cap: Aluminium foil is extensively used for pilferage proof sealing of Vials and are required in Pharmaceutical packaging.

Shoe Eyelet: Eyelets are the smooth circular pieces that are used for the threading of laces. Besides shoes, aluminium eyelets are also used in paper bags, ladies purses, men's belts and various other applications.

Cable Wrap: These are plastic coated aluminium tapes used in telecommunication cables. Aluminium foil is the preferred material here as it provides complete barrier to light, moisture etc and Polymer coated aluminium foil is resistant to corrosion.

Aluminium Fin Stock for Air Conditioning: These find widespread usage in heat exchange applications including air conditioning.

We have also set up an independent team for exploring opportunities in the domestic as well as export market with both the existing and potential customers through partnerships in product development as well as offering contemporary solutions. The team is also aggressively scouting for new innovations in packaging to usher in new ideas and effective solutions to existing problems. Our partners in this effort have been our customers themselves who have provided us the much needed support, to invent, innovate and bring out new and better packaging solutions.

Packaging a win-win proposition for our Stakeholders



Enhancing Productivity and Production

Ess Dee has added new spoke at Bengaluru focusing in every way to enhance production with focus to cater to Southern part of the country.

Setting High Quality Standards

The company continues to raise its quality standards by setting international benchmarks for its products. We constantly endeavour to upgrade our manufacturing facilities, processes as well as final output. We have undertaken several technological upgradations to enhance productivity. Apart from the existing certifications, we have registered our products, HSL coated Aluminium and LDPE laminated Aluminium foil with the Canadian Health Authority under DMF Type II.

Our additional strategic decisions include reducing our cash conversion cycles to improve our profits and reducing our overall delivery time, thereby exceeding customer expectations. To support this endeavour, we are investing aggressively in improving our existing systems and bringing in new procedures that would improve the overall efficiency of our deliveries and our line of customer support. Moreover, we have invested heavily on expanding the scope of our infrastructure to enhance our yield, timeline as well as product portfolio

We are aggressively targeting the customer's production mechanism by increasing our foothold at the factory level as well by conducting regular visits to factories across India to understand their facilities and requirements better.