49TH ANNUAL REPORT 1998-99

The Paper Products Ltd.

PPL – THE POWER OF FLEXIBLE PACKAGING.

BOARD OF DIRECTORS (w.e.f. 16.7.99)
Shri Suresh Talwar - *Chairman*
Shri Suresh Gupta - *Managing Director & President*
Shri K.C. Narang
Shri H. L. Chopra - *Director Technical & Quality Assurance*
Shri Francisco de Miguel
Shri Christian Betbeder
Shri Karl Pfenninger
Shri Evert Ariens
Shri J. M. Didier
Shri Prabhakar Dev
Shri Vibhu Talwar

COMPANY SECRETARY
Shri Manoj Malhotra

BANKERS
ANZ Grindlays Bank Ltd.
Banque Nationale de Paris
Bank of Rajasthan Ltd.
Punjab & Sind Bank
The British Bank of the Middle East
Union Bank of India

AUDITORS
Mehra Khanna & Co.
Chartered Accountants

REGISTERED OFFICE
504,506, Ansal Chambers-II,
6, Bhikaji Cama Place,
New Delhi - 110066, India
Fax No. 6182637

CORPORATE OFFICE
LBS Marg, Majiwade,
Thane - 400601
(Maharashtra) India
Fax No. 5340599/5427050

SALES OFFICES
Ahmedabad
Bangalore
Calcutta
Chennai
Mumbai
New Delhi

FACTORIES
Hyderabad
Kalyani (West Bengal)
Nagpur
Silvassa
Thane

DIRECTORS' REPORT

The directors have pleasure in presenting their 49th Annual Report together with the Auditors' Report and the audited statements of accounts for the year ended 31st March, 1999.

FINANCIAL RESULTS

(Rupees in Million)

	1998-99	1997-98
Gross Turnover	**2554.5**	2083.7
Net Sales Turnover	**2063.8**	1672.4
Profit before Tax	**96.4**	69.5
Less: Provision for Tax	**9.9**	7.3
Profit after Tax	**86.5**	62.2
Add: balance of profit for earlier years	**45.7**	42.1
Profit available for appropriation	**132.2**	104.3
Less:		
Debenture Redemption Reserve	**33.9**	28.3
General Reserve	**10.0**	10.0
Proposed Dividend & Tax on Equity Shares	**23.7**	20.3
Dividend & Tax on Preference Shares	**3.6**	–
Balance carried forward	**61.0**	45.7

During the year review, the gross turnover increased to Rs. 2554.5 million from Rs. 2083.7 million in the previous year. The net sales turnover increased to Rs. 2063.8 million from Rs. 1672.4 million showing an increase of 23%. The Profit before tax increased to Rs. 96.4 million from Rs. 69.5 million. in the previous year. After providing for tax of Rs. 9.9 million, the profit after tax is Rs. 86.5 million. Further after transferring an amount of Rs. 33.9 million to debenture redemption reserve and Rs. 10.0 million to General Reserve the surplus available is Rs. 88.3 million, including brought forward surplus of Rs. 45.7 million. Earning per Share (EPS) has increased to Rs. 13.49 per share from Rs. 10.12 per share in the previous year.

DIVIDEND

During the year 7,00,000 12% Redeemable Cumulative Preference Shares of Rs. 100/- each were issued, pro-rata dividend at 12% on same amounting t Rs. 3.6 million (including dividend tax of Rs. 0.3 million) was declared and paid during the year.

Your directors recommend a dividend on equity shares at Rs. 3.50 per share (i.e. 35% against 30% in the previous year). The dividend pay out will absorb a sum of Rs. 23.7 million (including dividend tax of Rs. 2.2 million).

SUBSIDIARY

The accounts of the 51% subsidiary PPL Feedback Packaging Limited are attached. The working of the subsidiary has been satisfactory. During the year it came out with a rights issue of 2,04,000 equity shares of Rs. 10/- each for cash at par which was fully subscribed. The subsidiary has reduced dividend from 20% to 10%.

NON CONVERTIBLE DEBENTURES

It is confirmed that the funds raised in the earlier years on Non Convertible Debenture (s), have been utilised for the purpose (s) for which the funds were raised.

FIXED DEPOSITS

Out of deposits totalling to Rs. 61.2 million from the public and shareholders as on 31st March 1999, 48 matured deposits aggregating to Rs. 0.47 million had not been claimed. Since then 16 of the deposits aggregating to Rs. 0.17 million have been claimed, paid and/ or renewed.

HYDERABAD PLANT

During the year, the Company acquired the assets of A & R Packaging (a division of APR Ltd) situated at Hyderabad. The unit consists of carton unit, flexible packaging unit and carton systems unit. To Part finance the acquisition of Hyderabad unit, the Company issued non convertible debentures to ICICI aggregating to Rs. 150 million and issued 12% Redeemable Cumulative Preference Shares aggregating to Rs. 70 million to IDBI Bank Limited.

Y2K

The Company has been addressing its Y2K compliance issues since 1998. Computer hardware and software have been tested for Y2K compliance. As on date, all critical hardware & software used by the company including third party software and office automation systems have been made Y2K compliant except for one, which would be made compliant by August, 1999. All manufacturing equipments and machineries are already Y2K compliant. The estimated cost of ensuring compliance is approximately Rs. 20 Lacs. Detailed understandings with key suppliers are in place and are under follow-up to ensure smooth millennium change over. The Company is developing contingency plans to meet foreseeable adverse situations.

PARTICULARS OF EMPLOYEES

Information as per Section 217 (2A) of the Companies Act, 1956 read with rule 2 of the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules 1988 the particulars relating to conservation of energy, technology absorption and foreign exchange earnings and outgo are annexed with this report.

ISSUE OF EQUITY SHARES TO VAN LEER

Pursuant to the resolution passed by the shareholders at the EGM dated 20th April, 1999, the board of directors at their meeting held on 16th July, 1999 allotted 63,94,093 shares of Rs. 10/- each at a premium of Rs. 90/- per share aggregating to Rs. 639.4 million to Valevefa B.V. a 100% subsidiary of Royal Packaging Industries Van Leer N. V. With this issue of equity shares, Van Leer have a 51% equity holding in your company.

DIRECTORS

On account of reorganisation :

- Mr. Suresh Talwar, Executive Chairman retired on 16th July, 1999 after serving the Company for a period of 30 years. The Board records its appreciation of the contribution made by Mr. Suresh Talwar to the growth of the Company. Mr. Suresh Talwar however, continues as Non Executive Chairman of the Company.

- Justice P. N. Khanna, Mr. T. R. Tuli Mr. Mahendra V. Doshi, Mr. K C Narang, Mr. H. L Chopra and Mr. Shravan Talwar resigned from the Board. The Board places on record its deep appreciation of the valuable services rendered by them to the Company.

- Valevefa B.V. has nominated 6 directors.

- Mr. Francisco de Miguel Barriga
- Mr. Everardus Antonius Ariens
- Mr. Christian Betbeder
- Mr. Karl Pfenninger
- Mr. Jean Marie Constant Didier
- Mr. Prabhakar Dev

- Mr. Suresh Talwar has nominated :
  Mr. K. C. Narang
  Mr. Vibhu Talwar

- Mr. H. L. Chopra was appointed as a director on the Board w.e.f. 28th November, 1998 to fill in the casual vacancy caused by the death of Mr. Apresh Rajan, Director-Secretary, pursuant to section 262 (2) of the Companies Act, 1956. Mr. H. L. Chopra resigned as a director w.e.f. 16th July, 1999 and the Board of Directors at their meeting held on 16th July, 1999 have appointed him as an Additional Director and Whole Time Director and accordingly he holds office upto the date of ensuing Annual General Meeting of the Company.

All the above have been appointed as Additional Directors by your Board on 16th July, 1999 and hold office up to the next Annual General Meeting pursuant to section 260 of the Companies Act, 1956 and Article 114 of the Articles of Association of the Company.

Notice(s) has been received from members of the Company proposing the candidature of each of the Additional Director for the office of directors at the Annual General Meeting.

During the year Industrial Development Bank of India (IDBI) withdrew its nominee Mr. Abdul Jabbar as nominee director of the Company. The Board places on record its appreciation of the valuable services rendered by Mr. Abdul Jabbar, during his tenure as a member of the Board.

Mr. Apresh Rajan, Director - Secretary of the Company expired on 20th November, 1998. The directors place on record their deep regret at the loss and offer their deep sympathies and condolences to the members of the grieved family.

AUDITORS' REPORT

The reference by the Auditors to the notes on accounts in their report need no further clarifications as the notes are self explanatory.

AUDITORS

The Company's statutory auditors M/s. Mehra Khanna & Co. retire at the ensuing Annual General Meeting & have expressed their inability to continue as its statutory auditors. Your directors recommend the appointment of M/s. S.R. Batliboi & Associates, Chartered Accountants, Mumbai as statutory auditors of the Company at the ensuing Annual General Meeting. The said auditors, if appointed, will hold office from the conclusion of the ensuing Annual General Meeting until the next Annual General Meeting of the Company. The Company has received an intimation from M/s. S.R. Batliboi & Associates that, if appointed, their appointment would be within the limits prescribed under Section 224 (1B) of the Companies Act, 1956.

A SPECIAL WORD

The Board appreciates the hard work put in by all the employees of the Company, and the support of its customers, suppliers, financial institutions and bankers. The Board is grateful for the support from the Company's shareholders.

By Order of the Board
For **THE PAPER PRODUCTS LIMITED**

SURESH TALWAR
Chairman

Mumbai
Dated : 30th July, 1999

ANNEXURE TO DIRECTORS' REPORT

ANNEXURE–I

Particulars as required under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975

A. Persons employed through out the financial year and were in receipt of remuneration in aggregate of not less than Rs. 6,00,000/- for the year.

(A) Designation/Nature of duties (B) Remuneration received Rupees (C) Qualifications (D) Age /years (E) Experience (F) Date of Commencement of employment (G) Last employment held with designation.

• Shri H.L. Chopra (A) Director- Technical & Quality Assurance (B) 783,555 (C) Diploma in Mech. Engineering, V.D.J. Institute (D) 69 (E) 42 (F) 01.01.1958 (G) Firestone Tyre & Rubber Co. of India Ltd., 'Supervisor' • Shri C.N. Murthy (A) Vice President - Operations (B) 1,140,036 (C) B. Tech in Mechanical Engineering (D) 49 (E) 27 (F) 02.01.1995 (G) I T C Ltd. Branch Manager-PPD • Shri N.P. Chawla (A) Senior Divisional Manager-Northern Region Sales (B) 616,266 (C) B. Tech in Mechanical Engineering PGDM – Marketing (D) 42 (E) 17 (F) 04.07.1988 (G) Birla Yamaha Ltd. Manager- Institutional Sales • Shri Suresh Gupta (A) Managing Director & President (B)1,176,000(C) B.A. (Hons). MBA (D) 46 (E) 25 (F) 27.01.1988 (G) Almana Group, Doha-Qatar 'Executive Director' • Shri M.K. Srinivasan (A) Vice President - Finance & Accounts (B) 1,230,123 (C) M.Com. A.I.C.W.A. (D) 42 (E) 21 (F) 20.02.1993 (G) Montari Industries Ltd., 'Financial Controller' • Shri Suresh Talwar (A) Chairman (B) 1,176,000 (C) M.A. in Economics from Duquesne University Pittsburg, USA (D) 57 (E) 33 (F) 01.09.1969 (G) Computer System, Institute Pittsburg, USA, Professor & Consultant in Accounting & Business Systems • Shri Anil Talwar (A) General Manager- Marketing & Technical Services (B) 757,977 (C) B.Sc. (Hon) L.T.C., D.B.M., M.Inst. (Pkg)-UK. (D) 50 (E) 26 (F) 27.12.1971 (G) None

B. Persons employed for part of the year and were in receipt of remuneration at a rate of not less than Rs. 50,000/- p.m.

• Shri Apresh Rajan (A) Director–Secretary (B) 531,388 (C) B. Com. F.C.S. CAIIB (1) (D) 57 (E) 40 (F) 25.09.1984(G) Lakshmi Commercial Bank Ltd., D.G.M. • Shri A. Venkatrangan (A) General Manager- Commercial (B) 127,849 (C) B. Com. M.B.A. (D) 39 (E) 18 (F) 18.01.1999 (G) Essar Power Ltd. Jt. General Manager- Commercial & Accounts.

Note: "Remuneration Received" includes salary, commission, rent paid for rent free accommodation, actual expenditure for provision of other benefits, house rent allowance, medical expenses, leave travel expenses, reimbursement of gas, electricity and water charges, contribution to provident fund and other perquisites calculated in accordance with the provisions of Income-tax Act, 1961 and the rules thereunder as applicable.

ANNEXURE TO DIRECTORS' REPORT

ANNEXURE – II

Information regarding conservation of energy, technology absorption and foreign exchange earnings and outgo pursuant to Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of Directors' Report.

A. CONSERVATION OF ENERGY

Conservation of energy by ensuring good housekeeping practices continued through the year at Thane and at Silvassa. Use of metal halide lamps in the shop floor area and sodium vapour lamps in the yard have ensured minimised energy consumption for lighting purposes. Capacitor banks have ensured that the power factor remained above 0.96 at all times. A AC frequency control device was installed in the RM2 blower system to make it more energy efficient. A 30% saving in power consumption has been recorded on the machine. A modification was made to the firing system on the incinerator at Thane to reduce fuel oil consumption.

B. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

The Company has its Research and Development Centre which is recognised by the Government of India.

Considerable amount of work was done during the year to develop several multi-ply laminates to provide better shelf life and protection to food products and other consumer goods. The development work was in the area of adhesive laminated and extrusion coated films. Multi-ply laminates based on paper foil films using the latest polymers available were developed with special properties like easy peel, pasturability etc. These provide for import substitution at economical rates.

Another development was in the area of cold seal application to achieve source reduction in packaging films. The work done in this area has won PPL the World Star for Packaging development. Development work on holographic films/ laminates has been commercialised successfully. Hotmelt coatings for soap wrappers and confectionery packaging was developed along with the technology for register application of the hotmelt coating. Pressure sensitive labels using the Flexoprinting technology were developed and commercialised along with metallised paper labels.

There has been continuous development of sealant layers using the Blown Film Technology. The use of the latest polymers to structure high performance sealant layers has resulted in more economical and better performing laminate structures.

The expenditure on R & D during the year under report is as under:

a)	Capital	Rs. 1.32 Million
b)	Recurring	Rs. 4.33 Million
c)	Total	Rs. 5.65 Million
d)	Percentage of total R & D expenses to total turnover: 0.27% (Previous year 0.27%)	

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

1. Foreign exchange earnings from the exports of the Company's products and services amounted to Rs. 162.35 Million and Rs. 5.72 Million on account of interest income.

2. The out flow of foreign exchange during the year is disclosed in the notes to the accounts forming part of the Balance Sheet.

MANAGEMENT REVIEW & OUTLOOK

OPERATIONS REVIEW

The year 1998-99 was satisfactory for PPL. Performance recovered after a disappointing previous year 1997-98. With strong focus on customer service, the company maintained its dominant share of the upper end of the flexibles packaging market. Net sales revenue increased by a healthy 23.4%, operating profit before depreciation increased by 33%, operating profit (EBIT) by 28.5%, and net profit after tax increased by 39%. Both Earning Per Share and Cash Earning Per Share increased commensurately.

Unfortunately, net profit was still below the record level achieved two years ago during 1996-97. This was mainly due to an increase of 105% in depreciation over the previous two years.

An important strategic investment during 1998-99 was the acquisition of the Hyderabad based flexibles and carton factory of APR Limited. The company obtained additional capacity for flexibles; introduction of a new complimentary product line into the company's packaging product portfolio, i.e. cartons and cartoning systems; and a strategic location with infrastructure and space for future growth - all at a relatively low cost compared to a green field investment.

The end of the year observed a major event in the company's history. An agreement was reached in principle for preferential allotment of fresh equity shares to Royal Packaging Industries Van Leer N. V. - to enable Van Leer to take 51% of the enhanced equity capital of the company. More on this later in the Outlook part of this commentary.

INCOME

PPL recorded gross sales of Rs. 2554 million (mn) during 1998-99 including inter-unit sales of Rs. 248 mn. The Previous year figures were Rs. 2083 mn and Rs. 143 mn respectively.

Total sales quantity in tonnage during the year was up by 35%. Excluding inter-unit sales, the growth in external sales tonnage was 21%. Excluding the tonnage from the newly acquired carton business, the tonnage growth in external sales of ongoing businesses was 14%. This growth rate of 14% was a result of two components - a drop in sales of the traditional low margin paper conversion work done at Nagpur and Calcutta plants, and a satisfactory increase of 19% in external sales of the company's main-line business of flexibles and labelling done at Thane, Silvassa, and Hyderabad plants.

In Rupee value terms the net sales of the Company (net of excise, sales tax and rebates) went up by over 23% to Rs. 2064 mn from Rs. 1672 mn in the previous year. Excluding inter-unit, the growth in external net sales value was 19%. Excluding carton business, the external net sales value growth in on-going businesses was 16.5%. The external net sales value growth in the main-line flexibles and labelling businesses was almost 19%, similar to the growth in tonnage quantity terms.

Selling prices of our flexibles materials continued to be under pressure, which became severe in the latter part of the year. The flexible packaging industry, at large, continued to suffer from an estimated 40%-45% unutilised capacity - leading to severe price competition. While PPL is the price leader in the market, we were also forced to decrease selling prices. However, the shift to higher value added products in the overall product mix and businesses of the company continued, and this made up for the drop in the selling prices of individual products.

The export business grew impressively to a CIF sales value of Rs. 169 mn from Rs. 77.4 mn during the previous year. This also marked a significant recovery, since the previous year had shown a drop from the level of Rs. 82.9 mn achieved during the year 1996-97.

Looking at the growth in terms of manufacturing locations, as expected this came mainly from Silvassa facility where Phase III had been commercialised in the previous year. The sales value from Silvassa production grew by over 60%, while the mother plant at Thane maintained the same level as the previous year. At the Hyderabad factory acquired in October '98, the focus was on improving manufacturing processes, work practices and the knowledge base, and the contribution to sales was relatively small. As mentioned earlier, there was a drop in the value of sales from Nagpur and Calcutta locations.

The high growth in our inter-unit sales was mainly due to the new blown-film and extrusion coating lines at Silvassa being operational throughout the year.

During the year, other income increased marginally from Rs. 17.7 mn to Rs. 19.1 mn.

EXPENDITURE

Cost of materials increased by 19.4% to Rs. 1341.7 mn. as against the net sales value growth of 23.4%. As mentioned earlier, this was due to a shift towards more value added products. **Power and fuel expenses** at Rs. 65.3 mn increased by 16.5%, against a much higher growth in tonnage production - due to economies from energy conservation measures. **Repair expenses** at Rs. 30.3 mn were at the same level as the previous year.

Before analysis of other significant expenditure items and changes, it needs mention that Hyderabad plant expenses were a new element during the latter 6 months of the year, with lower than commensurate addition to net sales value.

Personnel expenses increased by 37% to Rs. 139.4 mn representing 6.75% of net sales value as against 6.1% the year before. Hyderabad plant contributed significantly to this cost increase. Finalisation of the long term wage agreement at Thane plant and the consequent step increase, and the full staffing of Phase III operations at Silvassa were also main elements in the increase. Another element was a small movement towards the remuneration level of other industries with similar knowledge and competence base.

Administrative, selling and distribution expenses went up sharply by 34.5% to Rs. 144.04 mn. Analysing the details under this expense head, including miscellaneous expenses, the large component in this increase was **freight and forwarding costs** of Rs. 26.5 mn as against Rs. 16.8 mn the previous year, dictated by our customers *continued need for shorter delivery times of smaller-lots; and also the significant increase in export shipment* volumes. Competitive pressures needed countering by increased customer visits, establishment of a new sales office at Bangalore, intensified co-ordination between plants and offices, and increased publicity and promotion measures including exhibition participation. The expansion and technology upgradation programme required technology related visits. This resulted in **advertising and publicity materials & stationery** combined increasing by Rs. 2.6 mn (69%). **Communication costs** increasing by Rs. 5.7 mn (56%), **total travel expenses** by Rs. 6.7 mn (39%), and **commission on sales** by Rs. 2.5 mn which included agency commission on export sales. **Licence fees** for new software increased to Rs. 4.8 mn from Rs. 1.7 mn the previous year. Consequent to expansion **insurance expenses** increased to Rs. 11.2 mn from Rs. 8.7 mn, and **leasing charges** to Rs. 4.2 mn from Rs. 2.7 mn the previous year.

Other detail expense heads were within control or lower than the previous year.

OPERATING PROFIT BEFORE DEPRECIATION

Profit before depreciation, interest and tax increased by 33% to Rs. 362.1 mn from Rs. 272.0 mn. As a percentage of net sales this figure increased to 17.5%. from 16.3%.

DEPRECIATION

Depreciation for 1998-99 was up by 41.5% to Rs. 136.5 mn. This was on account of the expansion programme which was completed during the year including the acquisition of the Hyderabad plant.

OPERATING PROFIT

Profit before interest and tax increased by 28.5% to Rs. 225.6 mn from 175.5 mn.

FINANCE EXPENSES

During 1998-99 long term borrowings increased by Rs. 67.9 mn as required for the expansion programme. Short term borrowings, both secured and unsecured, increased by Rs. 60.9 mn. Interest expenses for 1998-99 were Rs. 112.7 mn against Rs. 100.6 mn for the previous year. After considering lease rental, bank charges and interest received, the net finance expenses for PPL for 1998-99 increased by 21.9% going up to Rs. 129.2 mn from Rs. 106.0 mn.

Separately, preference shares of value Rs. 70 mn were issued, as mentioned later in this review, and the pro-rata dividend paid amounted to Rs. 3.6 mn.

INCOME TAX AND NET PROFIT

Profit before tax during 1998-99 increased by 38.7% to Rs. 96.4 mn from Rs. 69.5 mn. Tax liability has been provided at Rs. 9.9 mn.

Net Profit after tax increased by 39% to Rs. 86.5 mn from Rs. 62.2 mn during the previous year.

The net profit performance is satisfactory, showing a significant and happy recovery from the drop the previous year. But, as mentioned in the introduction of this Review, it is still below the level achieved 2 years ago during 1996-97 due to the 105% increase in depreciation over the last two years.

EARNINGS PER SHARE

Earnings per share increased to Rs. 13.49 from Rs. 10.12 the previous year. Cash earnings per share, due to higher depreciation, improved to Rs. 35.71 from Rs. 25.82.

DIVIDEND

The dividend on equity shares has been proposed to be enhanced from 30% to 35%.

This will absorb Rs. 23.7 mn (including dividend tax).

A pro-rata dividend at 12% has already been paid on 7,00,000 12% Redeemable Cumulative Preference Shares of Rs. 100/- each issued during the year which amounted to Rs. 3.6 mn (including dividend tax).

FINANCIAL POSITION

SHARE CAPITAL

Equity Share Capital subscribed and paid up, of the company remained unchanged during 1998-99 at Rs. 61.4 mn. However, 12% Redeemable Cumulative Preference Shares of Rs. 100/- each aggregating to Rs. 70 mn were issued during the year to part finance Hyderabad unit acquisition.

RESERVES & SURPLUS

An amount of Rs. 33.9 mn has been transferred to debenture redemption reserve as per the Companies Act and the debenture issue documents. As per normal accounting practice a sum of Rs. 0.7 mn has been transferred from revaluation reserve towards depreciation on revalued assets.

After maintaining a balance of Rs. 61.0 mn in P & L account a sum of Rs. 10.0 mn has been transferred to general reserve.

The shareholder funds stand increased to Rs. 695.7 mn from Rs. 637.1 mn last year (excluding Preference Share Capital). Excluding the revaluation reserve of Rs. 38.9 mn the book value per share has increased from Rs. 97.27 to Rs. 106.91.

BORROWINGS

During the year, the company raised Rs. 150.0 mn from the issue of 14.5% convertible debentures. This was mainly for part financing the Hyderabad unit acquisition. However, with certain repayments, the total long term debt of the company increased by Rs. 67.9 mn. The company's total debt equity ratio (including short term debt and excluding preference share capital and revaluation reserve) as on 31st March 1999 was 1.64:1, up from 1.59:1 at the close of the previous year.

FIXED ASSETS

During 1998-99, PPL added Rs. 338 mn to its gross block. This included freehold land (Rs. 11.1 mn), buildings (Rs. 28.8 mn), and machinery (Rs. 282.8 mn) among the major additions.

The above capital expenditure was funded mainly by Non-Convertible Debentures, Preference Shares, External Commercial Borrowings and Internal Accruals.

INVESTMENTS

During the year PPL invested Rs. 0.50 mn in equity shares of IDBI Bank Ltd under trade investments.

PPL's unquoted investments during 1998-99 went up to Rs. 7.3 mn from Rs. 3.9 mn as at 31 March 1998.

PPL invested Rs. 2.04 mn in 2,04,000 shares of PPL Feedback Packaging Limited, a 51% subsidiary of PPL. The investment was made with a view to augment long term resources of the subsidiary which has performed well during the year. Among other investments, PPL acquired 195 deep discounts bonds of IDBI of face value of Rs. 2700/- each at a predetermined price of Rs. 1.5 mn in consideration of taking over a sales tax deferred loan from APR Ltd. and related to the acquisition of the Hyderabad plant.

INVENTORY

The total inventory level of Rs. 230.5 mn as at 31 March 1999 was higher than the previous year level of Rs. 196.8 mn. This was mainly due to the addition of the Hyderabad plant and the overall volume growth.

DEBTORS

Sundry debtors as at 31 March 1999, stood at Rs. 383.2 mn (net of provision for bad and doubtful debts) compared to Rs. 302.6 mn during the previous year. The average collection period of external sales increased to 60 days as against 57 days in the previous year. A provision of Rs. 7.9 mn towards doubtful debts and Rs. 6.6 mn towards bad debts has been made in the accounts.

LOANS AND ADVANCES

The company during the year, reduced its intercorporate deposits to Rs. Nil from Rs. 21.0 mn.

CASH FLOW AND DEPLOYMENTS

During the year, PPL generated operating cash flow of about Rs. 298 mn as compared to Rs. 235 mn generated during the previous year. The company has completed all previous planned expansion and modernisation programmes except for Rs. 34.0 mn being commercialised during the first half of 1999-2000.

BUSINESS OUTLOOK

PPL continues to be the market leader in India in sophisticated flexible packaging and labelling materials. Our customer profile comprises the "Whos Who" of the Fast Moving Consumer Goods sector (FMCGs). Leading pharmaceuticals companies are also our customers. About 80% of our total flexible packaging materials and almost 100% of our labelling materials are sold to companies owning market leading FMCG brands. PPL focuses on the upper end of the market.

Factors that influence the outlook for PPL include consumer demand for FMCG goods, ability to satisfy demanding customers, operational efficiency, competition, raw material costs, and the effectiveness of our strategic and day to day management.

UNION BUDGET IMPACT

The last Union Budget of the 1990s was presented against a backdrop of several adverse factors. US Sanctions consequent to the nuclear blasts, downgrading of the sovereign rating by International agencies, low GDP growth, depreciating rupee, low investor confidence, doubts on the direction and pace of economic reforms, and recession in major industries led to an expectation of a harsh and inflationary budget.

However the Union Budget gave clear signals of an accelerated integration of the Indian economy with the rest of the world. As part of continuing economic reforms, the budget pegged down growth targets to moderate levels. Several fiscal and structural initiatives were announced. The budget also brought Into focus the insulation of the economy from political uncertainties and ideologies.