

61st ANNUAL REPORT 2010

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The Paper Products Ltd.



PPL - THE POWER OF FLEXIBLE PACKAGING



Product Portfolio

Report Junction.com



Specialised Pouches



Specialised Cartons



Package Protection & Decoration Technologies



Personal Care

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman & Managing Director

Mr. Suresh Gupta
Mr. K. C. Narang
Mr. Jukka Moisio
Mr. Arunkumar R. Gandhi
Mr. M. K. Srinivasan
Mr. Ramesh K. Dhir
Mr. P. V. Narayanan
Mr. Vibhu Talwar
Mr. Timo Salonen

CEO & Executive Director

(Alternate to Mr. Jukka Moisio)

BANKERS

BNP Paribas
Punjab & Sindh Bank
Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Ltd.
Union Bank of India

AUDITORS

S V Ghatalia & Associates,
Chartered Accountants

REGISTERED OFFICE

Regent Chambers, 13th Floor,
Nariman Point, Mumbai - 400 021,
Maharashtra, India.
Tel No: +91 22 2282 0969
Fax No: +91 22 2283 2860
Website: www.pplpack.com

CORPORATE OFFICE

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Maharashtra, India.
Tel No: +91 22 2173 5551 / 2173 5591
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BOARD OF DIRECTORS

SURESH GUPTA - CHAIRMAN & MANAGING DIRECTOR

Mr. Suresh Gupta did his Masters in Management (MMS) from Jamnalal Bajaj Institute of Management Studies, Mumbai. He has diverse management experience of over 37 years, including 23 years in the Company. He was appointed as Managing Director since May 1994, and redesignated as Chairman & Managing Director of the Company w.e.f. 10th March 2010. He also holds position of Executive Vice President, Flexibles Global and a member of the Group Executive Team of Huhtamaki Oyj., the ultimate holding Company.

K.C.NARANG - DIRECTOR

Mr. K. C. Narang is B.A., L.L.B. and FCA. He is a former partner of Dalal Desai & Kumana, Chartered Accountants and a past President of Bombay Chartered Accountants Society. He has been a Director of the Company since July 1981 and has served as Non-Executive Chairman till 10th March 2010. He is Chairman of Audit Committee.

JUKKA MOISIO - DIRECTOR

Mr. Jukka Moisio holds Masters degree in Science and (Econ) and MBA and has worked with Ahlstrom Corp (1991-2008) before joining Huhtamaki Oyj in the year 2008. He is holding the position of CEO and Chairman of Group Executive Team of Huhtamaki Oyj. He has been nominated as Director by Huhtavefa B.V. on PPL Board of Directors w.e.f. 23rd April 2008.

ARUNKUMAR GANDHI - DIRECTOR

Mr. Arunkumar R. Gandhi is a Fellow Member of both, the Institute of Chartered Accountants of England & Wales and the Institute of Chartered Accountants of India. Besides, he is an associate member of the Chartered Institute of Taxation, London. He is on the Board of number of Tata Companies in India and abroad. He has been an Independent Director of the Company since March 2002.

M. K. SRINIVASAN - CEO & EXECUTIVE DIRECTOR

Mr. M. K. Srinivasan is an ICWA and holds a degree in Bachelors and Masters of Commerce from Bombay University. He has diversified experience of over 27 years. He has worked with the Company from Feb' 93 to Aug' 04 in various roles and last position held was of Senior Vice President & CFO before he moved out to serve Arcelor Mittal Group in overseas assignments. He served as CFO, Arcelor Mittal Trinidad from August 2004 to August 2006 and as Chief Executive Officer of Arcelor Mittal Zeneca, Bosnia from August 2006 to September 2009. He has been appointed as CEO & Executive Director since March 2010.

RAMESH KUMAR DHIR - DIRECTOR

Mr. Ramesh Kumar Dhir is a Fellow Member of the Institute of Chartered Accountants (England & Wales) and also a Fellow of the Institute of Management (U.K.). He has wide corporate management experience of over 38 years working with Peat Marwick, London and a US Multinational with operations in India and overseas. He is currently the President and on the Board of Council for Fair Business Practices. He has been an Independent Director of the Company since March 2002.

P. V. NARAYANAN - DIRECTOR

Mr. P. V. Narayanan is a Post-Graduate in Chemistry, and Diploma in Marketing Management. He has 43 years of experience in the field of packaging covering various positions of eminence. He has also been conferred with the Honorary Membership by the Asian Packaging Federation. He has been awarded the Fellow of Institute of Packaging (F. Inst. Pkg) UK and Chartered Scientist (CS) by the Science Council, UK. He is the Chair Professor and Advisor of the SIES School of Packaging. He has been an Independent Director of the Company since March 2002.

VIBHU TALWAR - DIRECTOR

Mr. Vibhu Talwar graduated with honours in mathematics and economics from Oberlin College. He is the COO of the Moolchand Healthcare Group, which is viewed to be a leader in the healthcare services space in India. Prior to assuming his current role in 2002, he was associated with Saloman Smith Barney (real estate Merger & Acquisitions) and JP Morgan, London & Singapore for over 6 years. He has been a Director of the Company since April 2003.

TIMO SALONEN - ALTERNATE DIRECTOR TO JUKKA MOISIO

Mr. Timo Salonen holds Masters degree in Science (Econ) and Masters degree in Law. His career at Huhtamaki Oyj started in the year 1991 and he has held several different roles. He is currently the Chief Financial Officer of Huhtamaki Oyj. Prior to joining Huhtamaki Oyj he worked with Partek Corporation (1983-1991), with several different roles, the last position held was Division Controller, Partek Concrete International, Belgium.

CEO's REVIEW 2010

In many ways the year 2010 was a year of mixed blessings. Having successfully withstood the crises of 2008/9, the Indian economy recorded a near 8% growth. The FMCG sector - the principle sector to which PPL caters to also recorded a robust 14% growth. Keeping pace with this growth, PPL also recorded a solid 15% volume growth. The value growth was higher at about 22% given the higher selling prices consequent to higher input costs. However, the relentless input price increase especially that of polyester film (which increased by 150%) put undue pressure on the margins despite a high volume growth. As a result, the underlying bottom line (ie before exceptional and extraordinary items) was 6.7% of net sales as compared to 8.6% in the year 2009. The time lag between the continuous pet film price increase and its pass on to the customers did impact the company bottom line.

During the year the company reinforced its core values namely Leadership, Quality and Innovation. Going forward, the growth strategy would be market driven and based on product diversification, innovation and geographical spread. We will continue to focus on our key growth drivers namely, Customer, Cost and Cash. While on the one hand we undertook specific measures to unlock the potential of our key resources, we also continued to focus on sweating our fixed assets as well as control our working capital to improve the RONA of the company.

While we expect reasonable growth in 2011, inflation and the large scale scams being unearthed each day is a matter of grave concern and we hope it does not derail the country's otherwise good growth story.



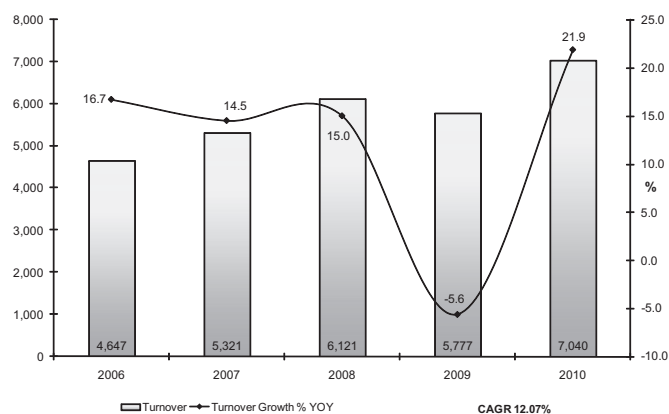
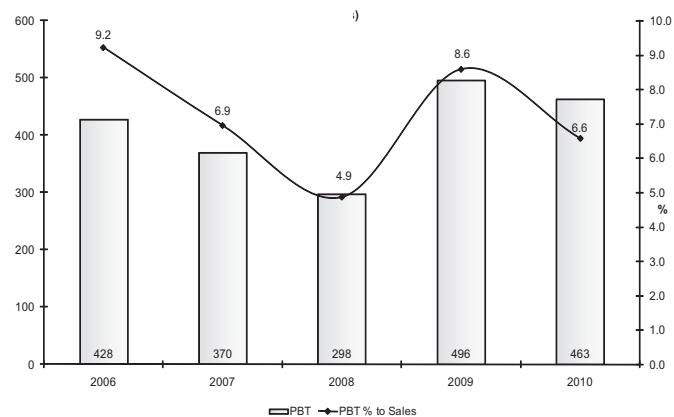
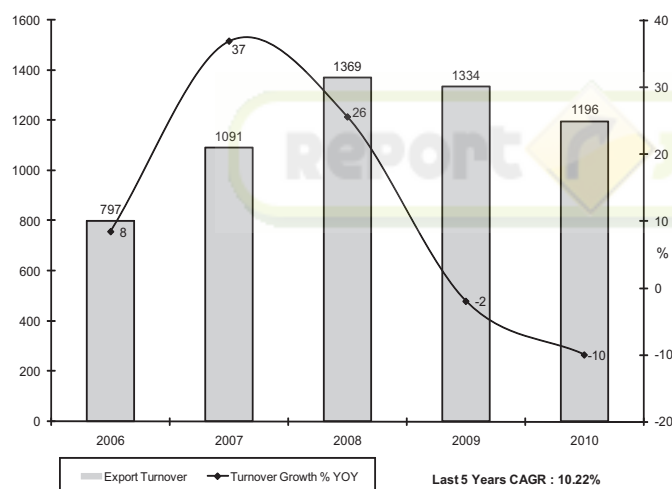
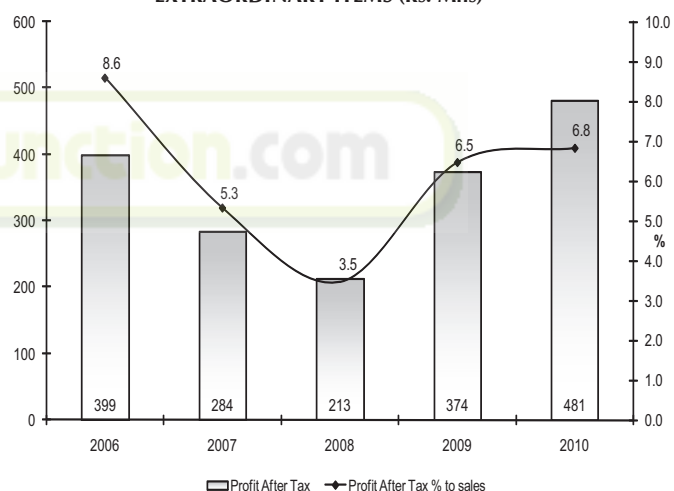
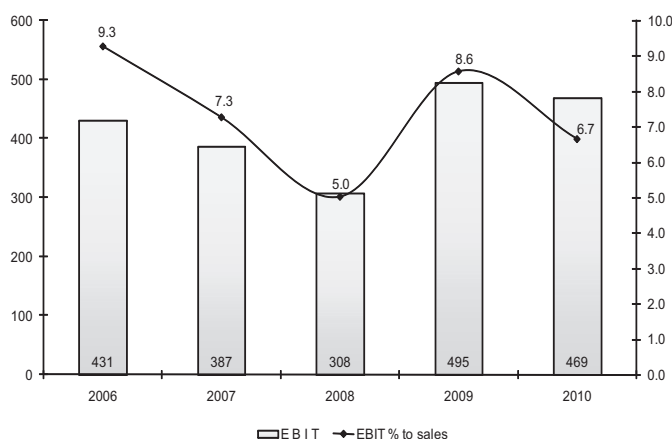
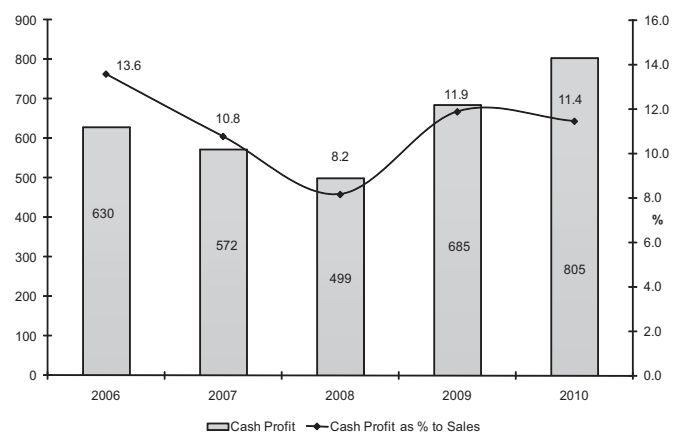
In the current year, we would be expanding our Rudrapur plant by adding one more full conversion line that includes printing, lamination, slitting and cylinder making. At our Hyderabad plant we would be adding a printer, augmenting the overall print capacity. We would also be adding products to our labelling basket as well as seek newer market segments needing our packaging products.

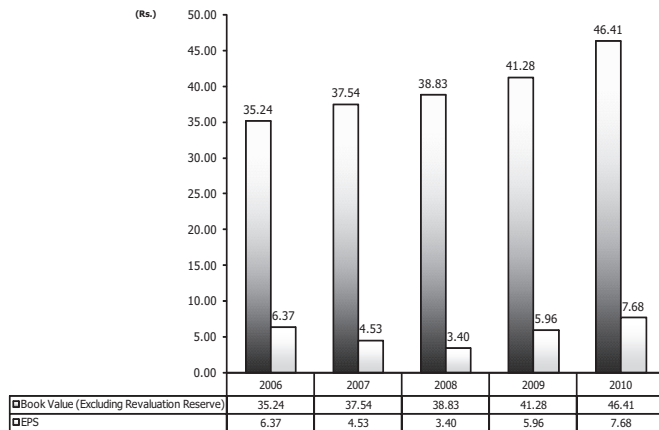
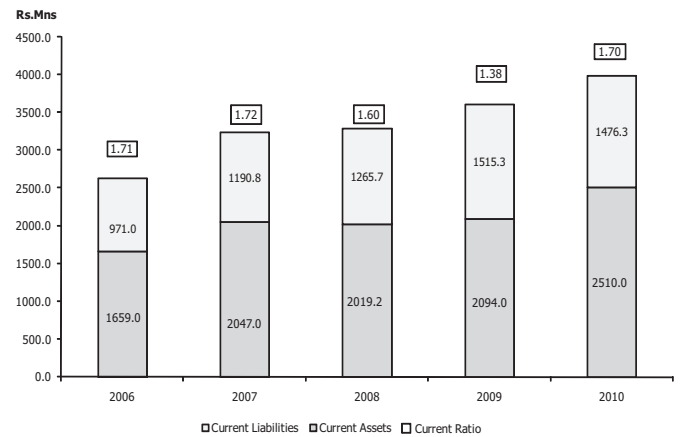
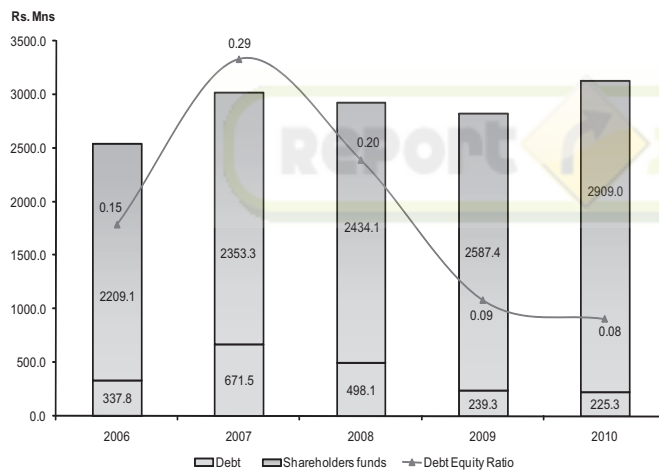
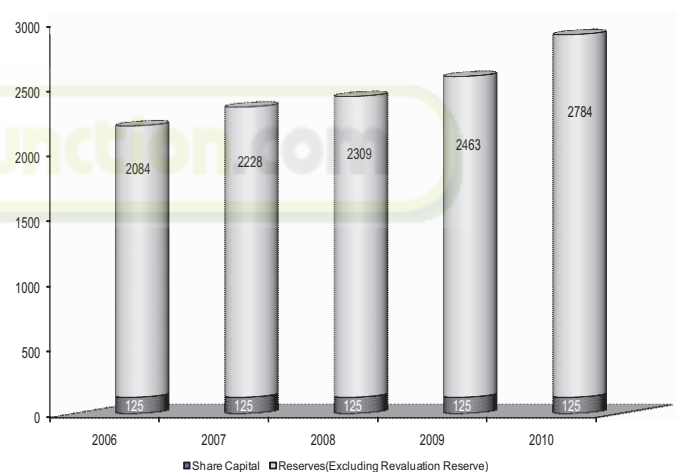
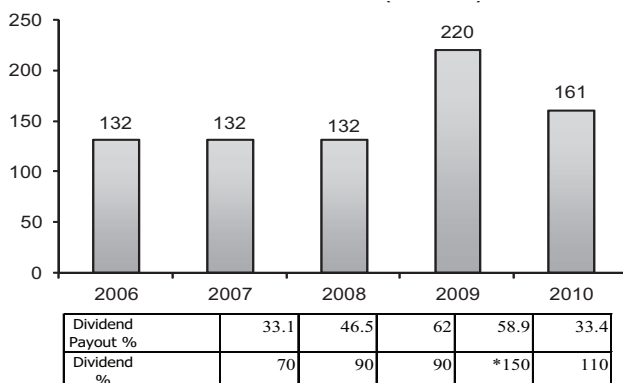
We in PPL are committed to continue on our Journey to profitable growth and seek the support of our esteemed shareholders in all our endeavours.

Wishing you all the very best in 2011 and in the years to come.

- M K Srinivasan

FINANCIAL PERFORMANCE INDICATORS

TURNOVER (Rs. Mns)

PROFIT BEFORE TAX, EXCEPTIONAL & EXTRAORDINARY ITEMS (Rs. Mns)

EXPORT TURNOVER (Rs. Mns)

PROFIT AFTER TAX, EXCEPTIONAL & EXTRAORDINARY ITEMS (Rs. Mns)

EARNING BEFORE INT & TAX (EBIT) (Rs. Mns)

CASH PROFIT (Rs. Mns)


EPS AND BOOK VALUE PER SHARE**CURRENT RATIO (Times)****DEBT EQUITY RATIO (Times)****NET WORTH GROWTH (Rs. Mns)****DIVIDEND PAYOUT (Rs. Mns)**

* Includes 50% Platinum Jubilee Dividend.

FINANCIAL HIGHLIGHTS

	(Rs. in Million)									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
OPERATING RESULTS										
Net Sales	7040.1	5776.9	6120.9	5320.6	4646.7	3982.9	3617.8	3525.3	2988.9	2511.6
Other Income	83.2	91.1	117.3	107.4	114.8	96.6	56.6	44.5	34.9	35.4
EBDIT	792.7	818.6	609.0	676.8	665.0	643.7	568.9	615.4	608.6	456.9
Depreciation & Amortisation	324.0	311.5	286.2	288.6	230.7	249.8	224.7	223.5	211.1	201.1
EBIT	468.7	507.1	322.8	388.2	434.3	393.9	344.2	391.9	397.5	255.8
Profit before Tax, Exceptional & Extraordinary Items	462.7	495.8	297.7	369.7	428.1	386.8	336.5	379.1	357.7	194.7
Exceptional & Extraordinary Items- Net of Tax	153.3	—	—	(31.8)	120.8	(8.0)	—	—	—	(3.6)
Provision for Tax	134.8	122.0	84.8	54.1	149.7	102.1	95.4	100.0	106.2	39.4
Net Profit after Tax	481.2	373.8	212.9	283.7	399.2	276.7	241.1	279.1	251.5	151.7
EBDIT to Sales %	11.26%	14.17%	9.95%	12.72%	14.31%	16.16%	15.72%	17.46%	20.36%	18.19%
EBIT to Sales %	6.66%	8.78%	5.27%	7.30%	9.35%	9.89%	9.51%	11.12%	13.30%	10.18%
PBT to Sales %	8.75%	8.58%	4.86%	6.35%	11.81%	9.51%	9.30%	10.75%	11.97%	7.61%
Earning Per Share	7.68	5.96	3.40	4.53	6.37	4.41	3.85	4.45	4.01	2.29
Cash Earning Per Share	12.84	10.93	7.96	9.13	10.05	8.39	7.37	7.89	7.17	5.34
Equity Dividend %	110	**150	90	90	90	70	60	*150	50	35
FINANCIAL POSITION										
Equity Share Capital	125.4	125.4	125.4	125.4	125.4	125.4	125.4	125.4	125.4	125.4
Reserves & Surplus	2811.2	2490.1	2336.3	2257.3	2113.1	1842.4	1669.8	1514.2	1499.7	1242.8
Shareholders Funds	2936.6	2615.5	2461.7	2382.7	2238.5	1967.8	1795.2	1639.6	1625.1	1368.2
Loan Funds	225.3	239.3	498.1	671.5	337.8	162.9	130.2	102.6	91.8	284.2
Deferred Tax Liability (Net)	52.6	67.7	69.0	85.2	83.9	60.2	89.9	96.2	75.0	133.5
Net Fixed Assets (Incl. Capital Work in Progress)	1786.9	2033.5	2105.5	2145.1	1967.0	1351.5	1365.0	1142.1	1277.9	1239.4
Investments	394.5	310.3	169.8	138.1	5.2	82.5	98.0	311.0	3.6	2.0
Net Working Capital	1033.2	578.7	753.5	856.2	688.0	757.0	551.8	381.2	482.8	503.8
Miscellaneous Expenditure	—	—	—	—	—	—	0.5	4.2	27.6	40.5
Capital Employed	3214.6	2922.5	3028.8	3139.4	2660.2	2191.0	2015.3	1838.5	1791.9	1785.7

** Includes One Time Dividend @ 50%

* Includes One Time Dividend @ 100%

DIRECTORS' REPORT

Your Directors have pleasure in presenting the 61st Annual Report along with the Audited Statement of Accounts for the year ended 31st December 2010.

PERFORMANCE DURING THE YEAR

Your company's performance during the year is summarized below:

(Rupees in Million)

	2010	2009
Net Sales	7040.1	5776.9
Profit before Tax & Extraordinary Items	585.5	495.7
Less: Provision for Current Tax	152.8	122.0
Provision for Deferred Tax	(18.0)	(1.2)
Provision for Fringe Benefits Tax	–	1.2
Extraordinary Items (Net of Tax)	30.5	–
Profit after Tax	481.2	373.7
Add: balance of profit for earlier years	966.2	849.9
Excess provision for dividend tax for earlier year	0.8	–
Profit available for appropriation	1448.2	1223.6
Transfer to General Reserve	48.1	37.4
Proposed Dividend on Equity Shares & Dividend Tax thereon	160.8	146.7
One time Platinum Jubilee Dividend on Equity Shares & Dividend tax thereon	–	73.3
Balance Carried forward	1239.3	966.2

During the year under review, the net sales were Rs. 7040.1 mn as compared to Rs. 5776.9 mn in the previous year. Profit Before Tax & Extraordinary Items was Rs. 585.5 mn as compared to Rs. 495.7 mn in the previous year.

After providing for Income Tax of Rs. 134.8 mn, Net Profit after Tax & Extraordinary Items was Rs. 481.2 mn. Further after transferring an amount of Rs. 48.1 mn to General Reserve, the amount available for appropriation was Rs. 1400.1 mn including amount brought forward of Rs. 966.2 mn of previous year. The Earning per Equity Share (EPS) including extraordinary items was Rs. 7.68 and the Earning per Equity Share (EPS) excluding extraordinary items was Rs. 7.19.

EXCEPTIONAL ITEMS

During the year, the Company sold the assets of its Nagpur factory which had ceased manufacturing in April 2008. Your Company realized a net gain of Rs. 139.8 mn (tax impact Rs. 28.6 mn) on this sale.

During the year Company offered a Voluntary Retirement Scheme at its Hyderabad plant to rationalize manpower and make operations lean. 30 employees opted for Voluntary Retirement and have been paid aggregate compensation of Rs. 17.0 mn.

EXTRAORDINARY ITEMS

During the year the Company has reversed balance provision amounting to Rs. 28 mn (net of tax) created in earlier year towards repairs of certain machines damaged by flood in 2005, as the same is no longer required.

During the Q1 2010 there was a fire at Thane plant & certain machines were damaged. Insurance Claim was lodged. Pending settlement an advance payment of Rs. 10 mn was received during the year. Surplus of Rs. 2.8 mn net of tax of Rs. 2.9 mn after adjusting the cost of repairs & book value of damaged assets has been included in the operational results of the year.

DIRECTORS' REPORT (contd.)

CORPORATE GOVERNANCE

A separate report on Corporate Governance forms part of this report.

Certificate from the Statutory Auditors of the Company regarding compliance with the Corporate Governance requirements as stipulated under Clause 49 of the Listing Agreement is attached.

DIVIDEND

Your Directors recommend payment of dividend of Rs. 2.20 per equity share, i.e. @ 110 % on the Equity Capital for the year ended 31st December 2010. The said Equity dividend will absorb a sum of Rs. 160.8 million including the dividend distribution tax & cess thereon.

FIXED DEPOSITS

The Company did not invite or accept deposits from public and/or shareholders during the year under review. As of 31st December 2010 there was no fixed deposit pending with the Company.

STATUTORY DISCLOSURES

The information relating to conservation of energy, technology absorption and foreign exchange earnings and outgo as required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rule, 1988 forms part of this report as Annexure I.

In terms of the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees are set out in the annexure to the Directors' Report. However, as per the provisions of Section 219 (b) (iv) of the said Act read with Clause 32 of the Listing Agreement, the Annual Report excluding the aforesaid information is being sent to all the members of the Company and others entitled thereto. Any member interested in obtaining such particulars may write to the Company at the registered office of the Company.

DIRECTORS

Mr. K. C. Narang and Mr. Arunkumar Gandhi, retire by rotation at this Annual General Meeting and being eligible have offered themselves for re-appointment.

Mr. Suresh Gupta, Managing Director of the Company was re-designated as the Chairman & Managing Director with effect from March 10, 2010. In terms of Clause 49 of the Listing Agreement where the Chairman of the Board is an Executive Director, at least one half of the Board should comprise of Independent Directors and this needs to be complied within 180 days of any change in status. However, the Board was reconstituted only on December 8, 2010, where Mr. C N Murthy, Executive Director & Mr. Johann Sippel, a Director nominated by the parent company, stepped down from the Board to comply with the aforesaid requirement of the Listing Agreement. Consequent upon the stepping down of Mr. Johann Sippel as a Director, Mr. Juha Salonen also ceased to be his Alternate Director forthwith.

Your Directors at their meeting held on March 16, 2011 have appointed Mr. S K Palekar as an Additional Director of the Company. He is also an Independent Director within the meaning of Clause 49 of the Listing Agreement.

Pursuant to section 260 of the Companies Act, 1956 and Article 122 of the Articles of Association of the Company Mr. S K Palekar holds office up to the date of the ensuing Annual General Meeting. The Company has received the requisite notice under Section 257 of the Companies Act, 1956 and accordingly necessary agenda item relating to his appointment forms part of the Notice convening the 61st Annual General Meeting.