

A N N U A L R E P O R T 1 9 9 9 - 2 0 0 0



THE CENTRAL PULP MILLS LIMITED



One feels a sense of pride at the accomplishments of The Central Pulp Mills Limited during the year, reflected in the increased margins in all key areas of operation. The growth in net profit at 138 % is certainly a landmark in the Company's history. It clearly highlights the manner in which the Company was managed in a competitive environment.

To meet competition in the emerging global environment, size and scale of operations, maintaining, and indeed improving quality, creating new products, fine-tuned for the increasingly discerning customer, is an imperative. Therefore, today, it has to gear itself for the future, with a vision to emerge as a world class, internationally competitive Paper Company. I have faith in the management and in the employees of the Company that they will rise further to the occasion. They have proved themselves capable of taking on challenges and meeting them. I sincerely thank each and every one of the Members of the CPM family for their unstinted cooperation.

Hari Shankar Singhania
Chairman

Board of Directors

Hari Shankar Singhania

Chairman

B.T. Sridharan

Harsh Pati Singhania

Om Prakash Goyal

Rajiv Memani

Shailendra Swarup

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Chief General Manager (Commercial) & Company Secretary

S. K. Agarwal

Auditors

S.S. Kothari & Co.,
Chartered Accountants
New Delhi

Registered Office

P.O. Central Pulp Mills
Fort Songadh - 394 660
Dist. Surat, (Gujarat).

Bankers

State Bank of India
Bank of Maharashtra
Canara Bank

Directors' Report

To the Members,

The Directors have pleasure in presenting the Annual Report and the audited Accounts of the Company for the year ended 30th June, 2000.

FINANCIAL RESULTS

| | Rupees in Crores | | Growth |
|------------------------------------------------------------------|------------------|---------|--------|
| | 1999-2000 | 1998-99 | |
| Sales and other income | 140.88 | 122.66 | 15% |
| Profit before interest, lease rent & depreciation | 25.70 | 19.62 | 31% |
| Profit before depreciation | 14.19 | 8.06 | 76% |
| Net Profit | 10.07 | 4.24 | 138% |
| Investment Allowance Reserve created earlier, no longer required | 0.60 | — | |
| Surplus/deficit() brought forward | 0.10 | (4.14) | |
| Surplus available for appropriation | 10.77 | 0.10 | |

APPROPRIATIONS

The Directors propose that the available amount of Rs.10.77 crores be appropriated as under:

| | Rs.in crores |
|----------------------------------|--------------|
| General Reserve | 4.00 |
| Dividends including Dividend Tax | 3.21 |
| Surplus carried to Balance Sheet | 3.56 |
| | <u>10.77</u> |

DIVIDEND

The Company paid an interim Equity Dividend of 5% in May this year. In view of improved overall performance, the Directors are pleased to recommend a Final Equity Dividend of 5% for approval of the members at the forthcoming Annual General Meeting, which together with the Interim Dividend already paid, aggregates to 10% dividend for the year. The Dividends would absorb a sum of Rs.2.76 Crores.

During the year under review, the Paper Industry witnessed a rise in demand, leading to improvement

in offtake and net sales realisation. The Company adopted a multi-pronged approach for enhancing profitability including improving operational efficiencies, continuous cost reduction, enriching product-mix and developing value added products.

PERFORMANCE REVIEW

The Company achieved highest ever production of Paper 46,839 tonnes as against 43,440 tonnes in the previous year, registering a growth of 7.8%. The Capacity Utilisation was almost 100%. Sales were also higher at 47,119 tonnes (Previous year 43,942 tonnes) reflecting better demand for the Company's products. Sales thus grew by 7.2%. It is heartening to note that there were no Finished Goods Stocks at the year-end. The Company continues to sell surplus Pulp in the market. Pulp Mill Capacity is being further enhanced by 2000 tonnes by de-bottlenecking, which includes retrofitting of recovery boiler and installation of modern drum chipper.

Major cost cutting measures undertaken during the year included installation of a 12 MW Turbo Generator Set which was commissioned well ahead of schedule. The TG Set will result in near self-sufficiency of power for the Company, at a much lower cost. The Company took further measures to reduce power and coal consumption besides rationalisation of manpower and better working capital management.

Your Company continues to manufacture and market its products viz. Maplitho, Copier, Parchment Paper, Base Paper, Ledger Paper etc. under the reputed brand and logo of "JK Paper", maintaining the specified quality parameters. SS Maplitho Super CG with higher brightness was introduced in the market. Mill packed Copier Paper under the brand "Easy Copier" achieved significant growth of 86% due to aggressive marketing, good customer service and its perceived value for money among consumers.

The Company has also started offering some of its products through the internet.

In the Union Budget of February 2000, the excise duty on Paper increased from 8% to 16% for mills using non-conventional raw material (bagasse, agricultural residue and waste paper). Your mill, which utilises conventional raw material (bamboo & wood), will thus no longer suffer from the earlier excise disadvantage, and its competitiveness will improve in the market place.

CONSOLIDATION OF PAPER BUSINESS

With a view to strengthen the Company's position in the highly competitive conditions prevailing in the Paper Industry, your Directors consider it desirable to expand/augment manufacturing capacity of the Company.

JK Corp Limited (JKCL), one of the promoters of the Company, has proposed transfer of its undertaking 'JK Paper Division' with an integrated Pulp and Paper manufacturing capacity of 90,000 t.p.a. to this Company, comprising all its assets and all its liabilities aggregating Rs.470 Crores, as a going concern, by way of slump sale for a lumpsum consideration of Rs.262 Crores. Your Board consider this as an excellent opportunity to expand and consolidate its business. By the proposed acquisition of 'JK Paper Division' of JKCL as aforesaid, the Paper manufacturing capacity of your Company will increase from the existing 47,000 t.p.a. to 1,37,000 t.p.a with substantial economies of synergy.

Steps are being taken to acquire JK Paper Division of JKCL through a Scheme of Arrangement under sections 391-394 of The Companies Act, 1956 to be approved by the shareholders/creditors of both the companies and sanctioned by the High Courts of Orissa and Gujarat.

AWARDS

The Company has always been conscious of its responsibility towards the environment, and has always endeavoured to meet the highest standards of pollution control. With a great pride your Directors report that during the year, your Company received the prestigious award for "Outstanding Pollution Control Programme" for the year 1999-2000 conferred by Golden Jubilee Memorial Trust of the Southern Gujarat Chamber of Commerce & Industry.

SOCIAL FORESTRY

Your Company continued its thrust on expanding its raw material base through Social Forestry Programmes. About 2.5 million high quality seedlings of Eucalyptus have been distributed during the year. The Company has distributed a total of 5.4 million seedlings in the last four years. With the encouraging response from the farmers, it is proposed to increase the distribution of seedlings to 3.0 million during the current year. This will benefit the Company in terms

of availability of raw material at reasonable cost and at the same time enable the farmers to improve their income by productive use of otherwise wastelands.

YEAR 2000 (Y2K) COMPLIANCE

All the IT related activities (both hardware and software) in the Company were made Y2K compliant and the rollover to the year 2000 was smooth. All systems/ equipments are functioning in a normal manner.

DIRECTORS

Shri O.P.Goyal ceased to be President and 'Manager' of the Company under Section 269 of the Companies Act, 1956 w.e.f. 1st January 2000. Shri B.P. Biyani, Chief Executive (Works) has been appointed Manager u/s 269 of the Companies Act 1956 for a period of 5 years w.e.f. 1st January 2000 subject to approval of the members at the forthcoming Annual General Meeting.

Shri B.T.Sridharan and Shri O.P.Goyal retire by rotation and being eligible, offer themselves for re-appointment at the forthcoming Annual General Meeting.

AUDITORS

M/s S.S.Kothari & Co., Chartered Accountants, the Auditors of the Company, retire and are eligible for re-appointment for the year 2000-2001. The observations of the Auditors in their Report on Accounts read with the relevant notes, are self-explanatory.

CONSERVATION OF ENERGY ETC.

Conservation of energy is an ongoing activity in the company and is held at the top priority. Following measures were taken by the Company during the year for energy conservation:

- (a) Installation of 12 MW TG Set based on co-generation principle.
- (b) Installation of Variable Frequency Drive for fans in Chemical Recovery Boiler.
- (c) Installation of vacuum pump at evaporator to replace steam jet ejector.
- (d) Optimising the power frequency of generator.
- (e) Further addition of energy saving devices for lighting circuits.

The details as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1998 are annexed at Annexure-A.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

- (a) Separate fan provided for primary air alongwith air heater of Recovery Boiler for better performance.
- (b) Consistency controller (radio - controller) provided at Bleached Pulp High Density Tower to reduce fluctuation in consistency of bleached pulp supplied to stock preparation.
- (c) SS Maplitho CG manufactured with improved chemical formulation. This paper has 1 Deg PV higher brightness and lower reversion compared to regular SSML (CG).
- (d) Introduction of special surface sizing chemical at Size Press to reduce starch consumption and to improve stiffness and wax pick.
- (e) Imported coal with 4% ash is used to improve economy of evaporation ratio and reduce fly ash.

EXPORT, FOREIGN EXCHANGE EARNINGS AND OUTGO

| | (Rs. in lakhs) |
|-----------------------------|----------------|
| (a) Foreign exchange earned | 244.10 |
| (b) Foreign exchange outgo | 735.10 |

(It includes Rs.731.39 lakhs being CIF value of imports on capital goods, stores and spares)

HUMAN RESOURCE DEVELOPMENT

The Company continued efforts in the direction of developing knowledge and skills as well as reinforcing a positive attitude among employees through training activities at all levels.

Your Company continues Total Productive Maintenance (TPM) activities to motivate and involve the employees for enhanced efficiency. Cross-functional involvement of employees and team working has been promoted to bring about synergy and development of multi-disciplinary approach to growth. During the year several Programmes were conducted to improve skills of employees to help them perform better and reorient themselves in the emerging competitive environment.

Industrial Relations remained cordial throughout the year.

PARTICULARS OF EMPLOYEES

Information in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 as amended regarding employees is given in Annexure-B to the Directors' Report. However, as per the provisions of Section 219 (1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all the shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Secretary at Company's Regd. Office address.

ACKNOWLEDGEMENTS

Your Directors wish to thank its Customers, Dealers, Bankers, Financial Institutions, Government Authorities, Shareholders and the Promoter Companies for their continued co-operation and support. They also wish to place on record their appreciation of the dedicated and sincere services of the employees at all levels, which have been instrumental in the growth of your Company.

On behalf of the Board

New Delhi
The 31st August 2000

H.S. SINGHANIA
Chairman

Auditors' Report

To The Members,
THE CENTRAL PULP MILLS LIMITED

We have audited the attached Balance Sheet of **THE CENTRAL PULP MILLS LIMITED** as at 30th June, 2000 and the Profit and Loss account annexed thereto for the year ended on that date and report that :

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order 1988, issued by the Central Government under Section 227 (4A) of the Companies Act, 1956, as per the information and explanations given to us during the course of our audit and on the basis of such checks and verifications as were considered appropriate, we give our comments in the annexure on the matters specified in the said order to the extent applicable to the Company.
2. Attention is invited to Note No. B-19, of Schedule 18, regarding non-provision of diminution in value of long term investments as in the opinion of the management, such diminution is temporary in nature. The impact on the profits for the period, if any, is not determinate.
- 3
 - i) The amount of Rs. 101.39 lacs receivable from a Company whose case is pending before Board for Industrial & Financial Reconstruction of India (BIFR) has been considered as good and no provision has been made (Refer Note No. B-10, of Schedule 18). Had provisions been made, the Reserve & Surplus and Current Assets would have been lower by the aforesaid sum.
 - ii) Provision for additional liability on account of foreign exchange fluctuation of Rs 442.39 lacs (approx.) as at 30.06.2000 on the import of materials of earlier years has not been made (Refer Note No. B-6, of Schedule 18). Had the liability been provided, the Reserve & Surplus would have been lower by Rs.442.39 lacs and Current Liabilities would have been higher by the same amount.
 - iii) The parties with whom the Company had entered into Memorandum of Understanding in the pretakeover period for procurement of

inputs and for providing finance for operations are reported to have made payment to the suppliers and to have collected payments from the customers on behalf of the Company. Some of the amounts so paid and collected are subject to confirmation from the original parties. Net amount payable/receivable from these parties is also subject to reconciliation/ verification and settlement of disputes.

Subject to 3 above, we further report that :

- a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
- b) The Balance Sheet and the Profit and Loss Account dealt with by this Report are in agreement with the Books of Account.
- c) In our opinion, proper Books of Account as required by Law have been kept by the Company so far as appears from our examination of the books.
- d) In our opinion, the Profit & Loss Account and Balance Sheet comply with the mandatory Accounting Standards, specified by the Institute of Chartered Accountants of India, referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
- e) In our opinion and to the best of our information and according to the explanations given to us by the management, the said Accounts read together with the Accounting Policies and Notes on Accounts thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:
 - (i) In the case of Balance Sheet, of the state of affairs of the Company as at 30th June, 2000 and
 - (ii) In case of the Profit and Loss Account, of the Profit for the year ended on that date.

For S.S. KOTHARI & CO.,
Chartered Accountants

New Delhi
The 31st August 2000

ATUL SEKSARIA
Partner

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in Paragraph - 1 of our Report of even date on the Accounts of THE CENTRAL PULP MILLS LIMITED for the Accounting Year ended on 30th June, 2000).

- (i) The Company is maintaining records of fixed assets showing particulars including quantitative details and location thereof. We have been informed by the Management that major portion of the fixed assets have been physically verified and no discrepancy was found.
- (ii) None of the fixed assets have been revalued during the year.
- (iii) We have been explained by the management that the stock of finished goods, stores and spares and raw materials have been physically verified at reasonable intervals during the year.
- (iv) In our opinion, the procedure of physical verification of stock followed by the management is reasonable and adequate in relation to the size of the Company and the nature of its activities.
- (v) As far as we can ascertain and according to the information and explanation given to us by the management, the discrepancies whenever material noticed on the physical verification of stocks as compared to book records were properly dealt within the books of account.
- (vi) The valuation of stocks is fair and proper in accordance with the accounting policies followed by the Company as per the note A-4 of Schedule 18. Pursuant to Accounting Standard -2 "Valuation of Inventories" issued by Institute of Chartered Accountants of India, the Company has changed the method of computation of conversion cost of process stock and finished goods by excluding certain overhead expenses and has also amortised the machinery spares of irregular use over the residual life of respective Plant & Machinery. Due to this the inventories are lower by Rs. 10.84 lacs and consequently profit is also lower by the same amount.

Similarly, the Company has also valued its inventory of raw material and process stock at

lower of cost or net realisable value instead of at cost hitherto followed which however had no impact on the profit for the period. Further, in respect of uncleared finished goods the excise duty is included in the valuation of finished goods to meet the requirement of recently revised Guidance Note on Accounting Treatment of Excise Duty issued by the Institute of Chartered Accountants of India. This too however, had no impact on the profit for the period.

- (vii) In our opinion, the terms and conditions on which the loans obtained from the companies, listed in the register maintained under section 301 of the Companies Act, 1956, are not prima-facie prejudicial to the interest of the Company. In view of amendment in the Companies Act, Section 370 (1B) is no longer applicable to the Company w.e.f. 31.10.1998.
- (viii) In our opinion, the terms & conditions on which the loans given by the Company to the parties listed in the register maintained under section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interest of the Company.
- (ix) Loans & Advances given to employees and other parties during the year are being generally recovered as per stipulations.
- (x) There are reasonable internal control procedures commensurate with the size of the Company and nature of its business for the purchase of stores, raw material, spares, plant and machinery, equipments and other assets and with regard to sale of goods.
- (xi) According to the information and explanations given to us, the transaction of purchase of goods and materials and sale of goods, material and services made by the Company in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956, and aggregating during the year to Rs. 50,000/- or more in respect of each party are reasonable having regard to prevailing market price of such goods, materials and assets.
- (xii) As per explanations given to us the Company has the procedure of regularly determining the unserviceable or damaged stores, raw materials