Kuantum Papers Ltd

17th Annual Report 2013-2014

Kuantum Papers Ltd

BOARD OF DIRECTORS	Jagesh K Khaitan	Chairman & Managing Director
	Justice (Rtd) S S Sodhi	
	D C Mehandru	
	Umesh K Khaitan	
	Yashovardhan Saboo	
	D S Sandhawalia	
	Neena Singh	
	Ashutosh Khaitan	
	Pavan Khaitan	Managing Director
SENIOR EXECUTIVES	T Kathirvelu	President
	Roshan Garg	President (Finance)
	Somesh Jawa	President (Marketing)
	Col (Rtd) Manohar Singh	Vice President (HR & Admn)
	D K Chawda	Vice President (Engineering)
COMPANY SECRETARY	Vivek Trehan	
STATUTORY AUDITORS	M/s B S R & Co. LLP Chartered Accountants Chandigarh	
COST AUDITORS	M/s R.J. Goel & Co. Cost Accountants Delhi	
PRINCIPAL BANKERS	State Bank of Patiala State Bank of India Punjab National Bank State Bank of Bikaner and Jaipur	
REGISTERED OFFICE & WORKS	Paper Mill Saila Khurd 144529 Distt Hoshiarpur Punjab	
CORPORATE OFFICE	SCO 18-19 First Floor Sector 8-C Madhya Marg Chandigarh 160 009	
CIN & CONTACT DETAILS	CIN- L21012PB1997PLC035243 Ph. : 01884-230241, Fax : 01884-230244 Email : kuantumcorp@kuantumpapers.com Website: www.kuantumpapers.com	

CONTENTS **Page**

DIRECTORS' REPORT

To the Members,

Your Directors take pleasure in presenting the 17th Annual Report on the business and operations, together with audited statements of Accounts of your Company, for the financial year ended 31 March 2014.

FINANCIAL HIGHLIGHTS

The summarized financial results of the Company for the year 2013-14 are given hereunder.

(Rs. in lacs)

	2013-14	2012-13
Sales & other income	**50,872.03**	44,797.55
Operating Profit	**7,745.24**	5,987.53
Interest	**2,159.86**	2,291.12
Gross Profit	**5,585.38**	3,696.41
Depreciation	**1,853.68**	1,569.93
Profit before tax	**3,731.70**	2,126.48
Provision for		
- Current Tax	**(790.28)**	(425.46)
- Deferred Tax charge for the year	**(813.30)**	(845.13)
- Deferred Tax charge for prior years	**436.27**	--
- MAT credit entitlement	**790.28**	425.46
Net Profit after tax	**3,354.67**	1,281.35
Balance b/f from previous year	**4,037.01**	2,807.65
Profit available for appropriations	**7,391.67**	4,089.00
Appropriations:-		
- Proposed Dividend on		
(a) Equity shares	**--**	--
(b) Preference Shares @ Rs. 1.00 Per share (Pro-rata)	**164.38**	1.71
(c) Tax on dividend	**27.94**	0.29
(d) Capital Redemption Reserve	**--**	50.00
(e) General Reserve	**--**	--
Balance carried to Balance Sheet	**7,199.35**	4,037.00

DIVIDEND

Your Directors have recommended a dividend of Rs. 1.00 per share (previous year Rs. 0.70 per share) on the Redeemable Preference Shares of Rs.10/- each, on the preference share capital, on pro-rata basis, for the year ended 31 March 2014 amounting to Rs. 164.38 lacs and to pay a dividend tax of Rs. 27.94 lacs thereon. No dividend has been recommended on the equity shares to conserve and plough back the resources for the ongoing and upcoming capex projects.

OPERATIONS

The production of paper during the year under review was 97,572 metric tonnes as against 1,00,218 metric tonnes in the previous year. The quantitative figure for the sale of paper was 97,535 metric tonnes this year, leaving closing stock of 35 metric tonnes, as against the sale of 1,00,218 metric tonnes in the previous year. The production during the year was slightly lower during the current year due to better product mix but leading to higher sales realizations as also higher production of copier and other premium quality paper compared to the previous year.

The figures given in the Financial Highlights for the current year under review show the following trends over the previous year;

Gross sales turnover and other income is up by 13.56% at Rs. 50,872.03 lacs, operating profit is up by 29.35% at Rs. 7,745.24 Lacs, Profit before Tax is up by 75.48% at Rs. 3,731.70 lacs. Net profit after tax is up by 161.80% and stands at Rs. 3,354.67 lacs.

There has been a significant improvement in the profitability during the year under review compared to the previous year which is mainly due to higher sales realizations, better product mix and brand equity, improved quality and higher volumes of premium quality paper products like copier and surface sized paper. This is despite the increase in the input costs in terms of raw materials, fuel and chemical costs, imported pulp due to the high volatility in US $ and consequent high depreciation in the Indian currency and high interest costs.

The initiatives taken by your company in increasing productivity and efficiency have led to improvement of the operational performance, which is visible from the operational performance for the year under review. The results of cost reduction initiatives and operational efficiencies will be further visible in the current financial year 2014-15 as your company has continued the initiatives to optimize capacity utilization, cost reduction initiatives, innovation of new products and is further undertaking modification and up-gradation of pulp mill and paper machines for improving the product quality vis-a-vis cost reduction initiatives. The projects are in progress and will be commissioned during the current year 2014-15.

The Mill Expansion Plan implemented in the previous years, has made your company one of the most cost competitive paper mills, as also one of the large paper player in the writing and printing segment. Further continuous innovative initiatives have enabled the mill to manufacture papers of distinctive prime quality, which is competing with the premium quality of other large paper mills.

Writing & printing paper segment have witnessed optimum capacity utilizations levels over the past few years due to significant demand growth. This led to large capacity additions in recent years and demand is taking its time to absorb these capacity accretions. Despite this trend, your company has been able to operate at almost optimum levels of production and sale, and has been able to offset the associated negatives to a large extent.

As per CRISIL estimates, the demand for Paper and Paperboard will continue to grow at a steady pace over next 5 years. Demand for Writing & Printing paper is expected to grow to 5.2 million tonnes in 2017-18, a CAGR of 6.5-7 per cent. The key drivers for this growth are the Government's emphasis on education and literacy and its spending on the education, corporate spending on stationery and advertisement, coupled with growth in organised retail and demand for better-quality paper. However, growth in demand in 2014-15 is expected to be moderate at 5.5% on the back of a weak macroeconomic environment unless substantive policy measures are undertaken by the Govt. to boost investment sentiment. Between 2015-16 to 2017-18 growth in demand is expected to be at 6.5-7%. Within the writing & printing paper segment, the demand for copier paper is expected to grow at the fastest pace at CAGR of 12.6% on account of rise in the corporate spending in stationery. This is because a rise in corporate spending on stationery has translated into considerable demand for high-quality copier paper from the office printing segment.

Demand for Creamwove Paper (the most widely-used variety in Indian school textbooks), which accounted for 44 per cent of W&P paper demand in 2012-13 compared to 50% in 2007-08, is expected to grow at a steady pace as more new educational institutions are likely to come up in the country between 2014-15 and 2016-17, as an outcome of the Indian Government's Right to Education (RTE) initiative. Creamwove continues to the largest contributor to the W&P demand. Additionally, initiatives like Rashtriya Madhyamik Shiksha Abhiyan and Sarva Shiksha Abhiyan will continue to boost the paper demand.

The detailed performance of Company's operations for the year ended 31 March 2014 has been stated in the Management Discussion & Analysis Report which appears as a separate statement in the Annual Report.

FINANCE

(a) Project finance

Punjab National Bank has sanctioned a term loan of Rs. 2,000 lacs. The disbursement of the loan has commenced during the year under review.

(b) Working capital

The enhanced working capital limits amounting to Rs. 10,325 lacs (fund based Rs. 5,000 lacs & non-fund based Rs. 5,325 lacs) have been appraised and sanctioned by the Banks.

(c) Fixed Deposits

As on 31 March, 2014, your Company had Fixed Deposits of Rs. 1,984.12 lacs. There were no overdue deposits as on 31 March 2014. There was no failure in making repayment of the fixed deposits on maturity, including interest due thereon, in terms of the conditions of your Company's Fixed Deposits Scheme.

The above deposits have been accepted for a period of 1 year to 3 years as per the Fixed deposit Scheme duly approved by the Board in its meeting held on 13 September 2013 pursuant to the provisions of Companies Act, 1956 read with the Companies (Acceptance of Deposit) Rules 1975. However, as per the provisions of Companies Act, 2013 read with the Companies (Acceptance of Deposit) Rules 2014, all the deposits accepted pursuant to the provisions of Companies Act, 1956 read with the Companies (Acceptance of Deposit) Rules 1975 are required to be mandatorily repaid within one year from the date of commencement of Act i.e. 1 April 2014 or from the date on which such payments are due, whichever is earlier.

Henceforth, the fixed deposits will be invited, accepted and renewed as per the relevant provisions of the Companies Act, 2013 read with the Companies (Acceptance of Deposit) Rules 2014 upon compliance of the procedure laid down therein. Necessary steps towards the same are underway and the deposits will be invited, accepted and renewed in accordance with the new provisions.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS & OUTGO

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

PERSONNEL

Relationship with the employees remained cordial throughout the year in the Company. The Directors express their appreciation for the contribution made by the employees at all levels to the operations and operational efficiencies of the Company during the year.

The particulars of employees as per Section 217(2A) of the Companies Act, 1956 are to be set out in the Annexure, which forms part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the said Act, the report and accounts are being sent to all the members of the Company excluding the aforesaid information. This statement shall be made available for inspection to any member during working hours for a period of 21 days before the date of the Annual General Meeting. Any member interested in obtaining such particulars may write to the President (Finance) & CFO/ Company Secretary at the Registered Office of the Company.

DIRECTORS

In accordance with the provisions of the Companies Act, 2013 and Articles of Association of the Company, Sh. D.S. Sandhawalia and Sh. Ashutosh Khaitan shall retire by rotation at the forthcoming Annual General Meeting and are eligible for re-appointment.

In compliance with the section 149 (1) of the Companies Act, 2013 with regard to the appointment of a woman director, Mrs. Neena Singh has, accordingly been appointed as director.

AUDITORS & AUDITOR'S REPORT

M/s B S R & Co., Chartered Accountants, Statutory Auditors of the company, hold office until the conclusion of ensuing Annual General Meeting and are eligible for reappointment.

The company has received a certificate from the Statutory Auditors to the effect that their reappointment, if made, would be within the prescribed limit under section 139 (1) of the Companies Act, 2013 and they are not disqualified for appointment within the meaning of Section 141 (3) (g) of the said Act.

The Notes on Accounts referred to in the Annexure to the Auditor's Report are self-explanatory and do not call for any comments.

COST AUDITORS

M/s R.J. Goel & Co., Delhi were appointed as Cost Auditors for conducting the cost audit of the Company for the year ended 31 March 2014. The Company's Cost Audit Report for the year ended 31 March 2013 was filed on 10.09.2013 (Due date 30.09.2013). The said firm has been appointed as cost auditors of the Company for the financial year 2014-15 as well.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under section 217 (2AA) of the Companies Act, 1956, your Directors confirm that:

(i) in the preparation of the annual accounts, the applicable accounting standards have been followed;

(ii) the accounting policies selected and applied are consistent and the judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for that period;

(iii) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) the annual accounts have been prepared on a going concern basis.

CORPORATE GOVERNANCE

A Report on Corporate Governance along with a Certificate from the Practicing Company Secretary regarding compliance of the conditions of Corporate Governance pursuant to Clause 49 of the listing agreement with stock exchanges is annexed and forms part of the Annual Report.

ACKNOWLEDGMENT

Your Directors convey their sincere thanks to the various agencies of the Central and State Governments, Banks and other concerned agencies for all the assistance and cooperation extended to the Company. The Directors also deeply appreciate and acknowledge the trust and confidence the vendors, suppliers, dealers, customers, shareholders and investors reposed in the Company. Your Directors also place on record their appreciation for the dedicated services rendered by the workers, staff and officers of the Company.

For and on behalf of the Board

Place: Chandigarh
Dated: 15 May 2014

Jagesh K Khaitan
Chairman & Managing Director

ANNEXURE

STATEMENT CONTAINING PARTICULARS PURSUANT TO THE COMPANIES (DISLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF DIRECTORS' REPORT

1. CONSERVATION OF ENERGY

(a) Conservation of Electrical and Thermal Energy is on the top most agenda of the Company and is regularly monitored. Various on-going measures for conservation of energy include (i) Replacement of old in-efficient and high power consuming lights with new energy efficient lighting like LED, CFLs, 40W tube set with 28W, 70W MHL with 2*18W tube sets etc. (ii) use of Solar street Lights and solar water heaters (iii) use of natural light in PM4 F.H shed and other sections of plant (iv) usage of LP steam in place of MP Steam to enhance power generation, (v) Providing thermal insulation to all steam lines in the plant (vi) installation of energy efficient pumps in place of old high power consuming pumps, (vii) Old high power consuming motors are replaced with new energy efficient motors having class IE2 and IE3 (viii) New transformers are procured with low load losses i.e. energy efficient transformers (ix) installation of VFDs (AC drives) on Boiler FD fans, PA fan, Boiler Feed Pump, Agitators, Cooling Towers Fans, Recovery Boiler CW Pump, Vacuum Pumps etc (x) automation of various processes through DCS and PLC to avoid manual operations (xi) all the Vacuum Pumps and Motors on Paper Machine no. 4 are being replaced with new energy efficient Vacuum Pumps and Motors. (xii) the Co-generation plant operations have been optimized to have maximum efficiency. (xiii) Company is buying power through the Open Access also, thereby reducing Carbon emissions and better profitability (xiv) Being a designated consumer under PAT scheme by BEE (Ministry of Power), Company has entrusted the job of consultancy and detailed energy audit to M/S Development Environergy Services Ltd, New Delhi.

(b) The Company has devised a system of regular energy audit. Energy conservation is an ongoing process and new areas are continuously identified and investments are made, wherever necessary.

(c) The adoption of energy conservation measures has helped the Company in reduction of production costs.

(d) Total energy consumption and energy consumption per unit of Production of paper for the year 2013-14 is given in the table below.

POWER & FUEL CONSUMPTION		**2013-14**	2012-13
1.	**ELECTRICITY**		
(a)	**Purchased**		
	Units (lacs KWH)	**302.22**	266.69
	Total amount (Rs. lacs)	**2,167.67**	1,766.17
	Rate/Unit (Rs./KWH)	**7.17**	6.62
(b)	**Own generation**		
	Through Steam Turbine/ Generator		
	Units (lacs KWH)	**885.58**	883.02
	Cost/Unit (Rs./KWH)	**3.81**	3.62
2	**COAL** (for Boiler)		
	Quantity (Tonnes)	**70,944**	58,530
	Total cost (Rs. lacs)	**4,005.57**	2,997.14
	Average rate (Rs.)	**5,121**	5,121
3.	**OTHERS**		
(a)	Rice Husk (for Boiler)		
	Quantity (Tonnes)	**74,344**	90,610
	Total cost (Rs. lacs)	**3,356.41**	4,018.59
	Rate/Unit (Rs. MT)	**4,515**	4,435
4.	**CONSUMPTION/TONNE OF PRODUCTION**		
	Production (Tonnes)	**97,572**	1,00,218
	Electricity/Tonnes (KWH)	**1,217**	1,147
	Furnace Oil/tonne (KL)	**0.002**	0.002
	Coal/Tonne (MT)	**0.727**	0.584
	Others Rice husk (MT)	**0.762**	0.904

II. TECHNOLOGY ABSORPTION

Research and Development

The ISO Certified R&D Division of Company has also been recognized by Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology, Govt. of India.

Binary Sizing, Ash Boosting Full Fill Technology, Pulp Mill Process Up-gradation and Product Diversification in Specialty Papers Segment, are the current focus areas of the Research and Development Division.

Apart from research activities in core paper business, the company plans to continue ongoing research on Value Addition to various process waste streams, Cellulosic Ethanol from various lignocelluloses, Integrated Bio-refinery etc. Successful implementation of Turbo Spin Flash Calcination System for regenerating lime from waste Lime sludge of Chemical Recovery Plant (CRP) has been key achievement in the area of Environmental Research.

The company has also been involved in Technology Development and Process Improvement through University-Industry Collaborations to further strengthen in-house R&D capabilities.

Conceptualization & development of project on “Management of Rice Straw in Punjab” through cellulosic ethanol production. The project for implementation of Technology on Demonstration scale is under consideration by the Centre for Science and Technology, Govt. of Punjab. If implemented, this technology will help to prevent open field burning of rice straw.

(a) The expenditure on R & D has been as follows:

(Rs. in lacs)

		2013-14	2012-13
(i)	Capital	**5.91**	4.09
(ii)	Recurring	**76.48**	55.49
(iii)	Total	**82.39**	59.58
(iv)	Total R&D expenditure as a percentage of turnover	**0.16**	0.13

Technology absorption, adaptation and innovation

The Company has not imported any technology for its products.

III. FOREIGN EXCHANGE EARNINGS & OUTGO

Particulars with regard to foreign exchange earnings & outgo appear in Note Nos. 4.16 & 4.17 to the Accounts.

For and on behalf of the Board

Place: Chandigarh
Dated: 15 May 2014

Jagesh K Khaitan
Chairman & Managing Director

MANAGEMENT DISCUSSION & ANALYSIS

1. **An overview of the Economy and Business Environment**

The year 2013-14 continues to be a challenging year for the global as well as domestic economy. Emerging markets like India faced multiple challenges: capital outflows, intense exchange rate pressures and volatile current account movements. A combination of persistent inflation, fiscal imbalances, external sector vulnerabilities and low investments resulted in sluggish domestic demand growth. Fiscal and monetary initiatives taken by Indian Government and RBI helped stabilize financial market conditions, but the domestic macro-economic environment still remains challenging.

Real GDP growth in India moderated to 5.0 per cent during 2012-13 from 6.2 per cent in 2011-12, and slackened further to 4.4 per cent during Q1 2013-14 before improving marginally to 4.8 per cent during Q2 2013-14. Sectors such as agriculture, manufacturing, electricity, construction and financing and business services witnessed an improvement in performance during Q2 vis-a-vis the corresponding period of the previous year. On the whole, GDP growth rate in the first half of 2013-14 (H1) was placed at 4.6 per cent as compared to 5.3 per cent in H1 2012-13. Supply constraints and high inflation, however, continued to weigh on the growth process.

A modest improvement in growth is envisaged in the second half of 2013-14, on the back of a good monsoon which has boosted the kharif prospects. Exports have picked up and global growth is expected to improve from 2.9 per cent in 2013 to 3.6 per cent in 2014. On the policy front, the government has initiated action in clearing projects especially in the infrastructure sector, which is expected to improve the overall investment climate. These measures would, however, take time to translate into activity at the ground-level. The downside risks to the domestic growth stem from persistently high inflation, relatively high fiscal deficit and consequent pressure on interest rates and uncertainty in the global environment. Boom period expansions that led to excess capacities and structural impediments also continue to weigh on corporate performance.

To address the inflationary concerns and to strengthen the environment for sustainable growth by fostering macroeconomic and financial stability, monetary policy was tightened in September 2013 and October 2013 by a cumulative 50 basis points hike in repo rate.

The US Federal Reserve (Fed) announced tapering in its bond purchase programme on December 18, 2013. Financial markets had been expecting this move since the first indication of such action in May 2013. Initial reaction to the tapering announcement has been positive.

India utilised the delay in tapering to bring about adjustment in the current account deficit (CAD) and built buffers by replenishing its foreign exchange reserves. Consequently, external sector risks have been considerably reduced and the effect of the tapering on the economy is expected to be limited and short lived. However, macroeconomic adjustment is far from complete, with persistence of high inflation amidst growth slowdown. Fall in domestic savings rate and high fiscal deficit continue to pose challenges. Global uncertainty and high inflation coupled with fast depreciating currency value have continued to pose challenges in maintaining the growth rate momentum of the economy.

The Government has continued its efforts to stimulate domestic growth momentum by increasing liquidity availability through measures such as catalyzing investments and by curtailing subsidy, allowing foreign direct investment in many sectors. It has also hiked the diesel prices and has reduced the subsidy.

2. **Industry structure and Development**

The paper industry has grown at a lesser than expected average 7-8 per cent over the last few years. India is the fastest growing market for paper and presents an exciting scenario. The paper consumption is poised for a big leap forward in synchronization with the economic growth and is estimated to touch 13.95 million tons by 2015-16. The futuristic view is that growth in paper consumption would be in multiples of GDP and hence an increase in consumption by one kg per capita, would lead to an increase in demand of 1 million tonnes of paper.

The total paper consumption has grown at a CAGR of around 6% over the last decade with none of the last ten years showing a decline in the consumption demand. As per CRISIL estimates, Paper and paperboard demand to grow at a steady pace over next 5 years. Demand for Writing & Printing paper is expected to grow to 5.2 million tonnes in 2017-18 at CAGR of 6.5-7 per cent. The key drivers for this growth are the government's emphasis on education and literacy and its spending on the education, corporate spending on stationery and advertisement, coupled with growth in organised retail and demand for better-quality paper. However, growth in demand in 2014-15 is expected to be moderate at 5.5% on the back of a weak macroeconomic environment unless substantive policy measures are undertaken by the Govt. to boost investment sentiment. Between 2015-16 to 2017-18 growth in demand is expected to be at 6.5-7%. Within the writing & printing paper segment, the demand for copier paper is expected to grow at the fastest pace at CAGR of 12.6% on account of rise in the corporate spending in stationery. This is because a rise in corporate spending on stationery has translated into considerable demand for high-quality copier paper from the office printing segment.

Demand for Creamwove Paper (the most widely-used variety in Indian school textbooks), which accounted for 44 per cent of W&P paper demand in 2012-13 compared to 50% in 2007-08, is expected to grow at a steady pace as more new educational institutions are likely to come up in the country between 2014-15 and 2016-17, due to the outcome of the Indian Government's Right to Education (RTE) initiative. Although maplitho, coated paper and copier paper have higher realizations, the volume of creamwove makes it the largest segment in paper. Creamwove continues to the largest contributor to the W&P demand. Additionally, initiatives like Rashtriya Madhyamik Shiksha Abhiyan and Sarva Shiksha Abhiyan will continue to boost the paper demand.

The growth and development of education in the country and strong economic growth are driving demand for writing & printing paper. Coupled with this increasing emphasis on education in the country, corporate spending on stationery and advertisements, GDP growth and the increasing presence of modern retail formats and convenience stores is also driving the demand for writing & printing paper.

However, there has been a gradual shift in demand from the traditional creamwove and maplitho to higher varieties such as copier and coated paper. Despite a gradual decline in share to 44 per cent in 2012-13 from 50 per cent in 2007-08, creamwove continues to be the largest contributor to the total W&P demand. On the other hand, demand for coated paper and branded copier has been increasing over the years.

Office printing continues to be the next biggest end-use segment after education. Demand for office stationery and printing will further increase as the performance of the Indian economy improves.

Within W&P paper, demand for copier paper is likely to record the strongest growth at around CAGR of 12.6 per cent. With rise in urbanisation and office spaces, there is a greater demand for good quality copier paper from the office printing segment. Consequently, the share of copier paper in total Writing & Printing paper demand will further increase to around 25 per cent in 2017-18 from 18 per cent in 2012-13.

Demand for specialty paper is expected to grow at 9-9.5 per cent CAGR from 2012-13 to 2017-18. The main varieties of specialty paper are: tissue paper, decor paper, electrical grade paper, fine printing paper, cigarette tissue paper, photo paper, greeting card paper and business card paper. The usage of the specialty paper has been growing in line with growth in the economy, rise in organised retail penetration, and increase in urbanisation.

The high prices of specialty paper products links their consumption to the standard of living and per capita income of consumers. For certain varieties of specialty paper (such as quality decor and electrical grade paper) increased infrastructure spending and growth in construction will be the growth drivers.

In other segments, the growth is primarily driven by the GDP growth in the overall economy. In India, though the paper capita consumption is low at 11 kg (appx), it is gradually improving with economic growth, industrial production, expenditure incurred on the print media, government spending on education, population growth and literacy levels are the other contributing factors.

Of the total paper and paper board demand, writing & printing paper accounts for about 31 per cent, industrial paper accounts for about 46 per cent, newsprint accounts for about 19 per cent, and speciality paper accounts for the balance 4 per cent.

Writing & printing paper segment have witnessed high capacity utilizations levels over the past few years due to significant demand growth in this segment. Between 2007-08 and 2012-13, capacity additions were mainly in the writing & printing paper segment. Going forward on the supply front, as per CRISIL estimates, there are limited capacity additions in the next 5 years after aggressive expansions in 2010-11 and 2011-12 coupled with moderate demand growth of 6-6.5% CAGR over the next 5 years.

Writing & printing paper consumption has been growing steadily over the years. While India accounts for nearly 15 per cent of the world's population, it consumes only 3 per cent of the global paper production. In India the per capita consumption of paper is low at about 11 kg as compared to the world average of around 55 kgs; but it is gradually improving in line with the economic growth, industrial production, print media expenditure, population growth, Govt. spending and continuous thrust on education, decline in dropout rates in educational institutions and increased literacy levels.

3. Opportunities and Threats

The Indian paper industry is expected to grow at 6.5-7 per cent CAGR between 2012-13 and 2017-18. Inspite of advancement in technology, like the advent of iPads, Galaxy Tabs, Smart Phones, the increased preference for online storage and dissemination of data, the paper industry is poised for a consistent growth in the demand for paper in next few years. Despite the higher level of technology being used in the corporate sector, there has been no decline in the paper consumption, but infact the paper demand continues to rise at a modest pace. The envisaged growth in the value-added printing & writing paper segment in India presents an invaluable opportunity, and your company plans to leverage it by tapping its institutional strength in distribution supply chain, cost competitiveness, marketing specialty paper and premium quality paper alongwith its branding image.

Growth in the writing and printing paper is linked to the economic growth, which will be slightly moderate in 2014-15. However, lower per capita consumption in India compared with the world average will drive the domestic demand for paper over the medium to long term.

The Mill Expansion Plan leading to the production capacity of over 1 lac tonnes, has made the company to be one of the most cost competitive paper mill as also a large player in the writing and printing segment. It has benefitted the company by improved product quality, enhanced product range, increased production capacity, higher operational efficiencies coupled with economies of scale. Further it has also enabled the company in the manufacture of premium quality paper, including coated paper, maplitho paper and premium copier paper, which is placed in the higher value segment, competing with quality specifications of other large paper mills.

The company has further taken initiatives to optimize capacity utilization; optimization of operational cost; innovation on specialty products, copier paper; modification and up-gradation of equipments and paper machines for further improving the product quality.

Raw material costs account for around 60 per cent of the operating income of mills in the paper industry. Wood accounted for 35 per cent of the total paper production in 2012-13. Wood and wood based pulp are the main raw materials required for manufacturing W&P paper, especially in the higher end of value chain such as maplitho and coated paper. India's wood resources are limited; therefore, cost of wood is much higher in global comparison. Since there is conspicuous absence of Government's enabling policies favouring industrial/production plantation, securing future wood supplies will be Industry's biggest challenge. However, in line with this increase in production, demand for raw materials will also go up. The different raw materials used to produce paper are - agri-residues, wood/ bamboo pulp, imported pulp and wastepaper (domestic and imported).

India has a total land area of 3.3 million sq km with forests covering only 0.7 million sq km. About 78 per cent of the total land area is non-forest area. With diminishing forest resources and limitations on enlarging man-made forests, there is scarcity of raw material for paper mills. Moreover, the limited raw material can be put to many alternative uses.

Over the last few years, imported pulp has accounted for around 10 per cent of domestic production. With increase in capacity and growing demand for paper, demand for wood is expected to grow in the next few years. With domestic wood supply being inadequate for this growing need, the mills will have to import wood in larger quantities.

Wood and wood-based pulp are the main raw materials required for manufacturing W&P paper, especially in the higher end of the value chain such as maplitho and coated paper. Production of specialty paper involves the use of different varieties of pulp, which lend special characteristics to the paper. But your company is making paper primarily from Agro pulp, and is being able to maintain the quality parameters required of these high quality papers.

The alternative source of raw material is wastepaper/recycled paper - domestic and imported. Both together accounted for nearly 40 per cent of the total paper production. However, in India, the system of wastepaper collection is not very well developed in the domestic wastepaper segment. Hence, the recovery rate is low and consequently there is lower availability. This leads to domestic mills relying increasingly on imports to meet their demand.

The third alternative source of raw material for the paper industry is agri-residues such as bagasse, wheat and rice straw, wild grass and other such agricultural wastes. Bagasse is the most widely-used agri-residue in the paper industry. However, availability of bagasse has been declining due to its increased use in power generation by sugar companies. Despite agri-residues being seasonal in nature, this is the segment of raw material which your company has mastered processing of, and has therefore gained an edge in the industry.

Paper manufacturers are finding it difficult to pass on the increase in raw material cost to end users. The operating profitably of Indian paper companies will remain under pressure due to the high input costs such as power, chemicals and manual labour. The imported raw material will also now cost dear because of high volatility in US $ and consequent high depreciation in the Indian currency.

Further, the paperless initiatives taken by the Govt. of India, coupled with Green initiatives in Corporate Governance leading to paperless compliances by the companies, is indicative of a slight threat area to the paper industry.

4. Risks and Management Perception

The paper industry is labour intensive, power intensive as well as capital intensive and is exposed to several risks i.e. changes in the government policies, environment policies, duties and taxes, technological obsolescence and external economic factors. The operating profitability of the paper companies will remain under pressure due to high input costs such as power, chemicals and manual labour. However, depreciation in the Indian currency is likely to keep raw material costs high in import dependent operations. High financial costs coupled with lower margins will significantly affect the cash flows.

Your Company adopts a comprehensive and integrated risk appraisal and mitigation process thereof as part of the process in risk management.