



Kquantum Papers Ltd

The Paper Makers

23rd Annual Report 2019-2020



BOARD OF DIRECTORS

Jagesh Kumar Khaitan
Pavan Khaitan
D S Sandhawalia
Vivek Bihani
Shireen Sethi
Bhavdeep Sardana
Yashovardhan Saboo*
*Ceased w.e.f. 07.08.2019

Chairman
Managing Director

SENIOR EXECUTIVES

Roshan Garg
R P Puri
D P Dhiman
Manoj K Agarwal
Bharat Bansal
Sanjay Khosla
Suresh Kumar Sain
Suman Sarkar
Sanjay Thakur
Puneet Verma
Bhupendra Kumar
Suresh Babu

President-Finance & CFO
President-Technical
Associate President-Engg
Sr. Vice President-Process
Chief Strategy Officer
Vice President-Marketing
Vice President-Finance
Vice President-Finance
Vice President-Corporate
Vice President-Human Resource
Vice President-Process
Vice President-Business Excellence

COMPANY SECRETARY STATUTORY AUDITORS

Vivek Trehan
M/s B S R & Co. LLP
Chartered Accountants
Chandigarh

COST AUDITORS

M/s R J Goel & Co
Cost Accountants
Delhi

SECRETARIAL AUDITORS

S K Sikka & Associates
Company Secretaries
Chandigarh

INTERNAL AUDITORS

A Gandhi & Associates
Chartered Accountants
Panchkula

BANKERS

Punjab National Bank
State Bank of India
Axis Bank Ltd
HDFC Bank Ltd
RBL Bank Ltd
Yes Bank Ltd
Indusind Bank Ltd
The Federal Bank Ltd

REGISTERED OFFICE & WORKS

Paper Mill
Saila Khurd 144 529
Distt Hoshiarpur Punjab (India)

CORPORATE OFFICE

W1A FF Tower A Godrej Etemia
Plot 70 Indl Area 1 Chandigarh 160 002
Sector 8-C Chandigarh 160 009

CIN & CONTACT DETAILS

CIN- L21012PB1997PLC035243
Ph. : 01884-502737 Fax : 01884-502700
Email : kuantumcorp@kuantumpapers.com
Website : www.kuantumpapers.com

CONTENTS	Page
Directors' Report	01
Management Discussion & Analysis	26
Report on Corporate Governance	33
Business Responsibility Report	51
Independent Auditor's Report	63
Balance Sheet	72
Statement of Profit & Loss	73
Statement of Changes in Equity	74
Cash Flow Statement	75
Significant Accounting Policies	76
Notes to the Financial Statements	90

DIRECTORS' REPORT

To the Members,

Your Directors take pleasure in presenting the 23rd Annual Report on the business and operations, together with audited statements of Accounts of the Company, for the financial year ended 31 March 2020.

FINANCIAL HIGHLIGHTS

The summarized financial results of the Company for the financial year 2019-20 are given hereunder.

	(Rs. in lacs)	
	2019-20	2018-19
Sales & other income	75,350.53	80,230.95
Operating Profit	12,732.74	16,439.44
Interest	3,043.39	2,837.97
Gross Profit	9,689.35	13,601.47
Depreciation	3,170.16	2,512.53
Profit before tax	6,519.19	11,088.94
Provision for		
- Current Tax	1,206.96	2,476.08
- Deferred Tax	(1,868.17)	818.98
Net Profit after tax	7,180.58	7,793.88
Other comprehensive Income (Expense)	(12.97)	(11.25)
Total comprehensive Income (Expense) for the year (Net of Income Tax)	7,167.61	7,782.63

DIVIDEND

Your Directors have proposed a dividend of Rs. 2.50 per share (previous year Rs. 5.00 per share of Rs. 10/-* each) on the Equity Shares of Rs. 10/- each, and Re. 1.00 per share (previous year Re. 1.00 per share) on the Non-Cumulative Redeemable Preference Shares of Rs.10/- each, for the financial year ended 31 March 2020 amounting to Rs. 518.16 lacs (previous year Rs. 887.67 lacs).

*As the shareholders have approved the Sub-division of each equity share having nominal value of Rs.10/- (Rupees Ten Only) into 10 (Ten) equity shares having nominal value of Re. 1/- (Rupee One Only) each in EGM held on 10.06.2020. The face value of share will be Re. 1/- (Rupee One Only) each with effect from the record date i.e. 15 July 2020.

OPERATIONS

During the year under review, your Company has achieved a production of 1,26,633 metric tonnes, as against 1,27,756 metric tonnes in the previous year. The quantitative figure for the sale of paper was 1,25,267 metric tonnes this year, leaving 1,730 metric tonnes as closing stock, as against the sale of 1,27,390 metric tonnes in the previous year.

From the 2nd quarter onwards, there had been a slowdown in the economy, though considered temporary at time but the economy did not recover and the markets were challenged by consumption and demand and fairly high effect of a liquidity crunch. The sales realization has been impacted by about 10% after the first quarter over the previous year. There has also been increase in the material and input costs. Despite this, improved operational efficiencies, better productivity and product quality, higher volumes of premium quality paper products like copier and surface sized paper, and enriched product mix coupled with better operating parameters have contributed to better sales as well as profitability.

Towards the fag end of the year, the performance did get impacted due to COVID-19 pandemic outbreak, resulting in a Nationwide lockdown and curfew imposed in the various parts of the country during March 2020 to

prevent novel coronavirus (COVID-19) from spreading in the country. This clearly affected our chance to get past the quantitative figures of the previous year.

The figures given in the Financial statements for the current year under review show the following:

The company recorded a net sales turnover (net of GST) and including other income, at Rs. 75,350.53 lacs; operating profit at Rs. 12,732.74 lacs; Profit before Tax at Rs. 6,519.19 lacs. Net profit after tax and other comprehensive income (expense) is Rs. 7,167.61 lacs. The profit after tax for the year under review is higher due to the lower income tax culminating from the reduced tax rates announced by the Govt. in September 2019 in order to offer tax stimulus to the industry. Further, "Section 115 BAA of the Income Tax Act 1961, introduced by Taxation Laws (Amendment) Ordinance, 2019 gave a one-time irreversible option to Domestic Companies for payment of corporate tax at reduced rates. In view of the MAT Credits, the Company determined that it will continue to recognize tax expense at the existing income tax rate as applicable to the Company. Accordingly, the Company had evaluated the outstanding deferred tax liability (net) as at 31 March 2019, and based on current estimates, re-measured the deferred tax assets/liabilities likely to be reversed at the time the Company would opt for new tax regime which had resulted in write back of deferred tax liability amounting to Rs. 1,956.22 lacs using the revised annual effective income tax rate."

The initiatives taken by your company in the recent years in improving productivity and operational efficiencies have led to achieving the above operational performance, despite the odds set out in the marketplace. The company has continued to take up projects in focused areas for operational improvement and this has also led to improved operational efficiencies, productivity, reduction in operational costs, and sizeable increase in savings.

The results of cost reduction initiatives and operational efficiencies will continue to be even more visible in the current financial year 2020-21 as your company has continued these initiatives to optimize capacity utilization, cost reduction, new products, optimizing production of better margin products by further undertaking modification and up-gradation of the pulp mill, the chemical recovery plant and a captive 20 MW power plant at a large outlay of Rs 440 crores for improving the cost effectivity, process efficiency, product quality and betterment in operations.

Your company has also launched an extensive array of branded Specialty Papers, which have been well received in the market. Kuantum now has amongst the largest portfolio of paper products available to a company in India. The company sells its products through its wide distribution network by way of dealers located and spread across the country, and maintains a strict policy over collections. The company produces entirely against orders collected in advance which is reflected in the extremely low, sometimes even nil, level of finished stock inventory.

These initiatives have made your company not only one of the most cost competitive paper mills, but is also positioned competitively amongst the large paper player in the writing and printing segment. Furthermore, continuous research & development have enabled the company to manufacture papers of distinctive prime quality and broader product mix, which is competing with the premium quality of other large paper mills.

The detailed performance of Company's operations for the year ended 31 March 2020 has been stated in the Management Discussion & Analysis, which appears as a separate statement in the Annual Report.

INDUSTRY STATUS

In the calendar year 2020, demand for paper and board (writing and printing or W&P, paperboard and newsprint) is expected to be subdued on account of the Covid-19 pandemic-led disruptions across the globe. In China, which had almost one-third of paper demand, it is expected to fall too due to strict shutdown coupled with lower export opportunities. The US and the EU, which together account for almost 40% of global demand, are also

expected to witness demand contraction due to the pandemic-driven lockdown. In 2020, CRISIL expects paper and board to de-grow due to moderation of global growth leading to lower demand from end-user industries. However, in 2021, CRISIL expects demand to rebound to 5-6%, driven by strong growth in the paper and paperboard segment.

CRISIL Research expects paper and paperboard capacity to increase to about 22-23 million tonne by fiscal 2025, an increase of 1% CAGR from fiscal 2020. Key players are expected to add an aggregate of 0.5-1.5 million tonne of capacities over the next 5 year period in the paper and paperboard segment. However, on account of a sudden plunge in the demand environment, CRISIL expects players to defer capacity additions until demand improves.

The Indian paper industry accounts for about 4% of the world's production of paper. The estimated turnover of the industry is INR 70,000 crore (domestic market size of INR 80,000 crores) and its contribution to the exchequer is around INR 5,000 crore. The industry provides direct employment to 5,00,000 persons, and indirectly to around 1.5 million.

Most of the paper mills are in existence for a long time and hence present technologies fall in a wide spectrum ranging from oldest to the most modern. The mills use a variety of raw material viz. wood, bamboo, recycled fibre, bagasse, wheat straw and agro residues. In terms of share in total production, approximately 25% are based on wood, 58% on recycled fibre and 17% on agro-residues. The geographical spread of the industry as well as market is mainly responsible for regional balance of production and consumption.

Consumption of paper is closely linked to the economic development of a country. In India, though the per capita consumption of paper is low, 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 key contributing factors.

The individual segments are expected to grow as follows:

CRISIL Research expects paper and board (including newsprint) demand to de-grow in fiscal 2021, because of the Covid-19 pandemic-led lockdown. The specialty segment is the only one expected to grow 8-11% on-year, driven by increased tissue demand.

CRISIL Research estimates moderation in industrial activity as well as exports to have moderated paper demand to a muted 1-3% in fiscal 2020. Nevertheless, we expect demand to recover and grow at a faster paced 5 year CAGR of 5-6% to ~22 million tonne by fiscal 2025.

- Demand will be led by healthy growth in paperboard volume, which is expected clock 4.5-5.5% CAGR over the next 5 years. This growth would be driven by increased volumes in end-user segments such as household appliances, fast-moving consumer goods (FMCG), ready-made garments, pharmaceuticals, and e-commerce.
- W&P demand is expected to increase at 4-5% CAGR, on the back of increased government (on education sector) and corporate spending.
- Specialty paper (majorly tissue and thermal paper) is expected to continue to log a robust 10-12% CAGR. Players are likely to focus towards such segments where demand is expected to remain robust in the medium term.
- Demand for copier paper (20% of the W & P segment) is expected to increase at 7-8% CAGR through fiscal 2025.
- Demand growth for coated paper is expected to remain moderate at 2-3% CAGR.

Printing and Writing segment demand is expected to grow on account of pick-up from the education sector with improving literacy rates and universalization of education through legislative steps like Right to Education, government measures i.e. Sarva Shiksha Abhiyan, mid-day meal schemes, Girl Education Programme (GEP), growing enrolment as well as increasing number of schools, colleges and institutions, rising enrolment numbers and increased spending on education by all sections of the society is expected to lead to an increased expenditure on textbooks, notebooks.

The industry is classified into four segments, Printing & Writing (P&W), Packaging Paper & Board, Specialty Papers & Others, and Newsprint. The Printing and Writing (P&W) paper segment forms 30% of domestic paper market, Packaging Paper & Board segment accounting for 51% in India and is the largest segment in the industry. Specialty paper & others is the smallest segment, accounting for only 4% of the industry and the Newsprint segment comprises 15% of the Indian Paper Industry.

FINANCE

(a) PROJECTS AND TERM LOANS

The members were informed in the last report that the company has taken up implementation of Capex projects for modification, up-gradation of paper machines and other equipment and cost reduction initiatives at a project cost of Rs. 192.00 crores (later on revised to Rs. 200.57 crores) and is funded by Term Loans of Rs. 144.00 crores and internal accruals of Rs. 48.00 crores (revised to Rs. 56.57 crores). These projects have been commissioned during the year under review.

The members were also informed that considering the strong fundamentals of the paper Industry and its growth potential, the company has taken up the implementation for expansion and enhancement of the production capacity to 148500 TPA, expanding its agro pulp and hard wood pulp streams, setting up an additional chemical recovery plant and a captive power plant, thereby sustaining competitiveness in capacity and quality enhancement, cost reduction and improving margins and profitability of the Company. The project cost was envisaged at Rs. 444.04 crores, which was proposed to be financed by debt of Rs. 350.00 crores (now revised to Rs. 333.00 crores) and internal accruals of Rs. 94.04 crores (now revised to Rs. 111.04 crores). The Term Loan of Rs. 333.00 crores were sanctioned by Banks and the disbursement is under way. The capex projects were envisaged to be completed and commissioned in June 2020 but due to Covid-19 pandemic outbreak, nationwide lockdown and curfew in various states including Punjab from March 2020 to May 2020, a delay in the commissioning of the capex projects is anticipated. The work at site has resumed after relaxations in the lockdown. As per the current assessment, with the timely equipment supplies, availability of adequate workforce as also timely payment of vendors and contractors, the capex projects are now scheduled for commissioning by September 2020. Further, the company does not anticipate any cost over run in the projects and time over run is also due to reasons beyond its control. With the commissioning of these capex projects, the operational performance of the company will improve significantly.

(b) WORKING CAPITAL

Banks have sanctioned the enhanced working capital limits amounting to Rs. 14,949 lacs (fund based Rs. 5,500 lacs, non-fund based Rs. 7,655 lacs and LER/CEL limits of Rs. 1,794 lacs) during the year under review.

(c) FIXED DEPOSITS

As on 31 March 2020, your Company had Fixed Deposits of Rs. 3,969.29 lacs. There were no overdue deposits as on 31 March 2020.

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 29 May 2019 pursuant to the compliance of the provisions of Companies Act, 2013 read with the Companies (Acceptance of Deposit) Rules 2014.

Details of Deposits:

(a) Accepted (including renewals) during the year- Rs. 2,414.93 lacs

(b) Remained unpaid or unclaimed as at the end of the year- Nil

There has been no default in repayment of deposits or payment of interest thereon during the year.

EXTERNAL CREDIT RATING

During the year under review, CARE Ratings Limited (CARE) has reviewed the external credit rating for the Long term, Short term Bank facilities and Fixed Deposits of the company and has reaffirmed the rating. The facility wise rating is as under:

Facilities	Amount (Rs./Cr)	Rating
Long term Bank Facilities	634.69	CARE A-; Negative (A minus; Outlook: Negative)
Short term Bank Facilities	94.49	CARE A2+ (A Two Plus)
Fixed Deposits	45.00	CARE A-(FD); Negative (A minus (Fixed deposit); Outlook Negative)

CHANGE IN THE NATURE OF BUSINESS

There is no change in the nature of business.

MATERIAL CHANGE

No material changes or commitments affecting the financial position of the Company have occurred during the year under consideration, or after closure of the financial year till the date of this report. However, the operations for the current year FY 2020-21 will be impacted due to the closure of operation in April/May 2020 due to Covid-19 pandemic outbreak, nationwide lockdown and curfew in various states including Punjab from March 2020 to May 2020. Your company will not be able to cover the production loss in these months since it has already been operating at optimum capacity utilisation.

HOLDING/ SUBSIDIARIES/ JOINT VENTURES/ ASSOCIATES COMPANIES

Your Company does not have any subsidiary/joint ventures or associate company within the meaning of the Companies Act, 2013. Kapedome Enterprises Limited is the holding company having 66.51% equity capital of the company.

CORPORATE SOCIAL RESPONSIBILITY

Pursuant to Section 135 of the Companies Act, 2013, and the relevant rules, the Board of Directors of your Company has an existent constituted CSR Committee. The CSR Policy has been framed by the Company which is placed on its website.

In pursuance of the Companies Act, 2013 and in alignment with its vision, the Company through its CSR initiatives will continue to enhance value creation in the society and in the community in which it operates, through its services, conduct and initiatives, so as to promote sustained growth for the society and community.

During the year under review, the company has spent an amount of Rs. 96.42 lacs on the projects covered under CSR activities. The CSR expense required under the relevant provisions up to 31 March 2020 was Rs. 290.00 lacs including Rs. 87.87 lacs from the previous year. The work on several projects is already underway and the balance amount will be spent in the current year. Disclosures as per Rule 9 of the Companies (Corporate Social Responsibility Policy) Rules, 2014 are given in the Annual Report on CSR activities at 'Annexure-A'.

VIGIL MECHANISM

Section 177(9) of the Companies Act, 2013 and Regulation 22 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Inter alia, provides for a mandatory requirement for all listed companies to establish a mechanism called the 'Whistle Blower Policy' for Directors and employees to report concerns of unethical behavior, actual or suspected, fraud or violation or the Company's code of conduct or ethics policy. In line with this requirement, the Company has framed a "Whistle Blower Policy", which is placed on the Company's website.

RISK MANAGEMENT COMMITTEE

In line with the new regulatory requirements, the company has framed a 'Risk Management Policy' to identify and assess the key risk areas, monitor and report compliance and effectiveness of the policy and procedure. A Risk Management Committee has also been constituted to oversee this process.

The Company manages, monitors and reports on the principal risks and uncertainties that can impact its ability to achieve its strategic objectives. The Company's risk management systems and programs comprises of various processes, structures and guidelines which assist the Company to identify, assess, monitor and manages its risks, including any material changes to its risk profile. To achieve this, the Company has clearly defined the responsibility and authority of the Company's Management and the Risk Management Committee to oversee and manage these Programs. The company has taken Industrial All Risk Policy to insure its fixed assets and inputs, that cover known and unknown risk including fire. Details of the various risks, which can affect the Company's business and the management's perception, are more elaborately given in the 'Management Discussion & Analysis' attached to this Report.

INTERNAL FINANCIAL CONTROL SYSTEM

Effective and strong internal control systems are developed in the Company for all the major processes to ensure reliability of financial reporting, safeguarding of assets and economical and efficient use of resources as also the compliance of laws, regulations, policies and procedures.

The Company's internal control systems are reviewed by M/s A. Gandhi and Associates, internal auditors, an independent firm of Chartered Accountants. The Internal Auditor independently evaluates the adequacy of internal controls through periodic reviews that cover all the functions and processes through reviewing major transactions. The Internal Auditors reports directly to the Audit Committee to ensure complete independence.

RELATED PARTY TRANSACTIONS

All related party transactions are entered at arm's length basis and are as per the applicable provisions of the Companies Act, Indian Accounting Standards and the Listing Regulations. The company has entered into transactions towards material procurement with its holding company amounting to Rs. 4,160.74 lacs (inclusive of GST) and with another company amounting to Rs. 1,655.44 lacs (inclusive of GST) [Refer Note 40 'C to the Financial Statements] which are at arm's length. No materially significant related party

transactions have been entered by the Company with Promoters, Directors or Key Managerial Personnel, which had potential conflict with the interest of the Company at large. A statement of all related party transactions is presented before the Audit Committee on a quarterly basis duly certified by the CEO and CFO. The Related Party Transactions Policy as approved by the Board is placed on the Company's website.

The details of the related party disclosures and transactions as prescribed in Form AOC-2 are given in the Note No. 40 of the notes on Financial Statements. All the related party transactions are done at arm's length and pertain to the FY 2019-20.

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS OR COURTS OR TRIBUNALS

There are no significant and material orders passed by the Regulators, Courts or Tribunals, which would impact the going concern status of the Company and its operations in future.

CHANGE IN THE DIRECTORSHIPS

Shri Yashovardhan Saboo has resigned from the directorship of the Company during the year w.e.f. 07.08.2019. The Directors place on record their appreciation of the valuable advice and guidance given by him during his tenure.

Further, in accordance with the provisions of the Companies Act, 2013 and Articles of Association of the Company Shri Jagesh Kumar Khaitan shall retire by rotation at the forthcoming Annual General Meeting and is eligible for re-appointment.

DECLARATION BY INDEPENDENT DIRECTORS

The Independent Directors have submitted their disclosures to the Board that they fulfill all the requirements as stipulated in Section 149(6) of the Companies Act, 2013 and the applicable provisions of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 so as to qualify themselves to act as Independent Director under the provisions of the Companies Act, 2013 and SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 and the relevant rules.

INDUCTIONS & TRAINING OF BOARD MEMBERS

In terms of Regulation 25(7) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Company familiarized the Independent Directors in the following areas:

- (a) Nature of the industry in which the entity operates;
- (b) Business model of the entity;
- (c) Roles, rights, responsibilities of independent directors.

The Independent Directors have visited the Company's Plant during the year to enable themselves to be conversant with manufacturing operations and processes.

Presentations are made to the Board/Committees of the Board on regular intervals which, inter alia, cover business strategies & reviews, operations, Industry developments, management structure, quarterly and year to date financial results, budgets/business plans, review of Internal Audit and risk management framework.

Further as per Regulation 46(2) (i) of SEBI (Listing Obligations & Disclosure Requirements), 2015 the required details are as follows:

Details of familiarization programmes imparted to independent directors	FY 2019-20	Cumulative till date
Number of programmes attended by independent directors	4	25
Number of hours spent by independent directors in such programmes	6	38

PERFORMANCE EVALUATION OF THE DIRECTORS AND MEETING OF INDEPENDENT DIRECTORS

Nomination, Remuneration and Evaluation policy has been framed by the Nomination and Remuneration Committee. This Committee has laid down the criteria for performance evaluation of the individual Directors as well as the Board. The framework of performance evaluation of the Directors captures the following points:

- Performance of the directors and key attributes of the Directors that justify his/her extension/continuation on the Board of the Company.
- Participation of the Directors in the Board proceedings and their effectiveness.
- Fulfillment of the independence criteria and their independence from the management as specified in SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (including any statutory modification(s) or enactment thereof for the time being in force) in case of Independent Directors.

The Board adopted a formal mechanism for evaluating its performance as well as of its Committees and individual Directors including the Chairman of the Board. The exercise was carried out through a structured evaluation process covering various aspects of the Board's functioning such as composition of the Board and Committees, experience and competencies, performance of specific duties and obligation, governance issues, participation and effectiveness.

During the year under review, a meeting of Independent Directors could not be held due to Covid 19 pandemic outbreak, Nationwide lock down and imposition of curfew. The performance of the Non Independent Directors and the Board as a whole vis-à-vis the performance of the Chairman of the Company was reviewed by the Independent Directors.

DISCLOSURES ON BOARD EVALUATION:

i. Observations of Board Evaluation carried out for the year:

In conformity with the evaluation policy and laid down parameters, the overall contribution of each Director was assessed as satisfactory and appreciable. The suggestions, participation, involvement and constant efforts of each director in the light of improving business operations and overall growth and development of the Company was really significant.

ii. Previous year's observations and actions taken:

There was no observation of the Board with regard to the previous year. However, it has been the endeavor of the Board of Directors of the Company to attain the highest level of transparency, accountability and integrity as well as utmost applicable legal and ethical standards in the functioning of