Waste.Redefined.

N R Agarwal Industries Limited

Annual Report 2018-19

CULTURE
OF NO COMPROMISE

Contents

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.
We cannot guarantee that these forward looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.
We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

CULTURE OF NO COMPROMISE

There are two principal messages that we wish to communicate in this report.

One, we believe in a broadbased business model where a presence across diverse geographies, products, grades and downstream customer applications has enhanced our business sustainability.

Two, we expected to emerge as the largest Indian recycled resource-based paper company and among the five largest paper companies in the next few years.

These priorities reflected in the highest revenues and EBIDTA in our existence during the last financial year, which provides us with a robust business foundation.

N R Agarwal Industries Limited: Attractive proxy of the growth in India's packaging and writing / printing segments.

Now perched at the cusp of sizable growth.

Our vision

To be recognised as a global manufacturer of innovative paper products to our valued customers

Living our core values

Providing a fair return to our stakeholders

Our mission

N R Agarwal Industries Limited is committed to achieve highest stakeholder satisfaction by way of technological innovation, cost effectiveness and excellent work culture.

Our portfolio

Duplex boards: The Company manufactures quality duplex boards suitable for gravure printing, embossing and foil stamping. The products are manufactured with a low level of heavy metals, used in multi-purpose post-print applications and certified by Central Food Technology Research Institute of India.

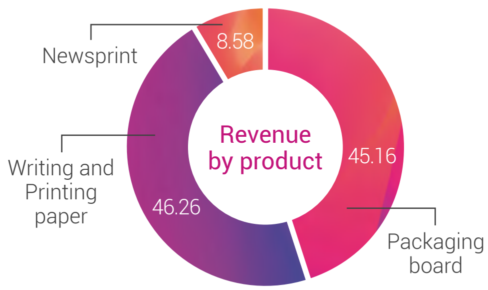
Writing & printing paper: The Company manufactures writing and printing paper products respected for their high brightness, shade stability and smoothness across GSM ranges. The products comprise high tensile strength and surface properties suitable for high-speed multi-color printing. The Company launched copier paper in May 2019.

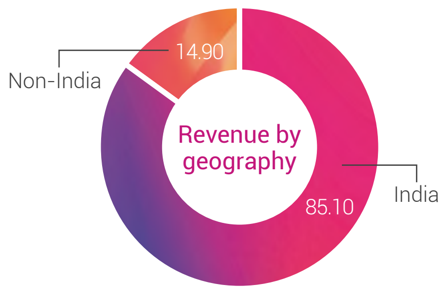
Our background

N R Agarwal Industries Limited has been engaged in the business of paper manufacture and marketing for more than two-and-a-half decades (established 1993). The Company was among the first to manufacture quality paper products through the use of waste paper in India. The Company is among the largest manufacturers of waste paper-based paper companies in India and among the seven largest paper companies in India.

Our management

N R Agarwal Industries Limited comprises a balance of promoter and professional competence. The promoters engaged in the business comprise Mr. R N Agarwal (Chairman & Managing Director) who possesses more than two decades of sectoral experience, Mr. Raunak Agarwal (Promoter Director) who spearheads the Company's presence in the Indian and international markets, and Ms. Reena Agarwal (Executive Director). The Company comprises 45 senior employees with diversified capabilities and 1461 workers.





(as % of overall revenues, 2018-19)

Our capacity

The aggregate manufacturing capacity of the Company was 354000 TPA at the close of 2018-19. The Company commissioned a 108000 TPA unit for manufacturing writing and printing paper in 2014 followed by a switch in capacity from newsprint to writing & printing paper that enhanced the latter capacity to 174000 TPA. The total duplex board capacity was 174000 TPA at the close of 2018-19.

Writing & printing paper

9000 TPM (Unit 5)

5500 TPM (Unit 2)

Duplex board

8000 TPM (Unit 1)

3500 TPM (Unit 3)

3500 TPM (Unit 4)

Our locations

The Company is headquartered in Mumbai. All manufacturing operations are conducted in Vapi and Sarigam, Gujarat.

Our sales footprint

The Company generated 85% of its revenues from sales within India and 15% from exports to more than 30 countries.

Our listing

The Company is listed on the Bombay Stock Exchange and National Stock Exchange Limited.

73.31
Promoters' holding, March 31, 2019 (%)

1.73
Institutional holding, March 31, 2019 (%)

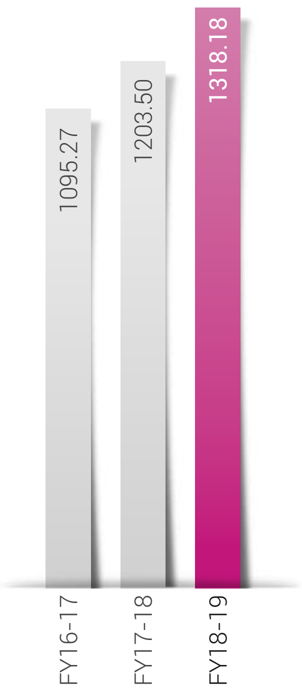
531.76
Market capitalisation, March 31, 2019 (₹ crore)

1505
Team size, March 31, 2019

This is how we have grown in the last few years

Revenues

(₹ crore)



Definition
Growth in sales net of taxes, duties, rebates and discounts (including other operating revenue).

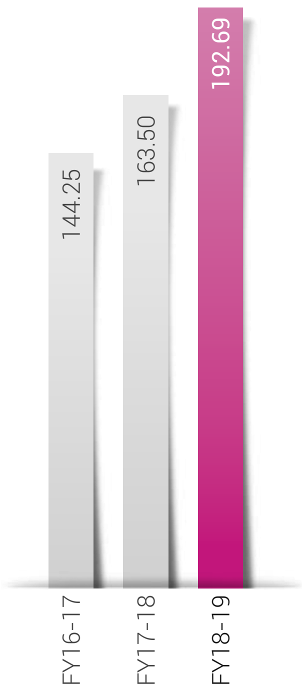
Why this is measured
It is an index that showcases the Company's ability to maximise revenues, which provided a basis against which the Company's success can be compared with sectoral peers.

What this means
Aggregate revenue increased 9.53% to ₹1318.18 crore in FY2018-19 due to increased product offtake.

Value impact
Improved product offtake enhanced the Company's respect and provided increased room to cover fixed costs.

EBIDTA

(₹ crore)



Definition
Earning before the deduction of fixed expenses (interest, depreciation, extraordinary items and tax).

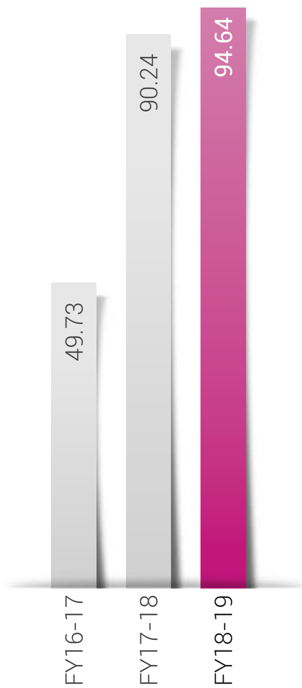
Why this is measured
It is an index that showcases the Company's ability to generate a surplus after optimising operating costs, providing a base for comparison with sectoral peers.

What this means
Helps create a robust growth surplus-generating engine that enhances reinvestment.

Value impact
The Company reported a 17.85% increase in EBIDTA in FY 2018-19, an outcome of painstaking initiatives in improving operational efficiency.

Net profit

(₹ crore)



Definition
Profit earned during the year after deducting all expenses and provisions.

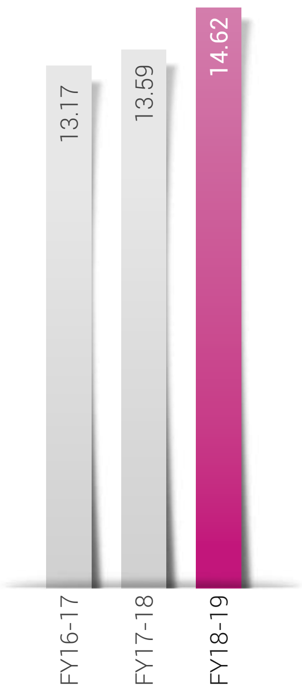
Why this is measured
It highlights the strength of the business model to enhance value for shareholders.

What this means
This ensures that adequate cash is available for reinvestment, leading to business sustainability.

Value impact
The Company reported an improvement in net profit in FY2018-19, reflecting the growing attractiveness of the business model.

EBIDTA margin

(%)



Definition
EBIDTA margin is a profitability measure to ascertain a company's operating efficiency.

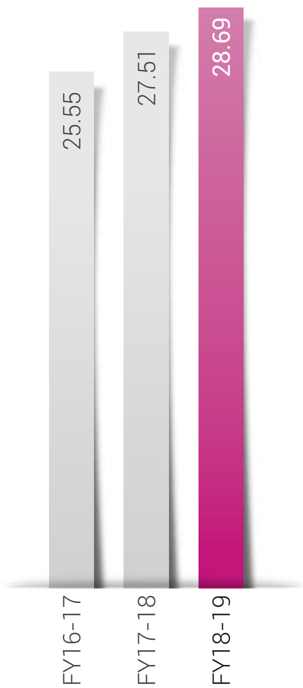
Why this is measured
The EBIDTA margin provides an idea of how much a company earns (before accounting for interest, depreciation and taxes) on each rupee of sales.

What this means
This measure demonstrates the buffer in the business, which when multiplied by scale, can potentially enhance the surplus.

Value impact
The Company reported a 103 bps increase in EBIDTA margin in FY2018-19.

RoCE

(%)



Definition
This is a financial ratio that measures efficiency with which capital is employed in the Company's business.

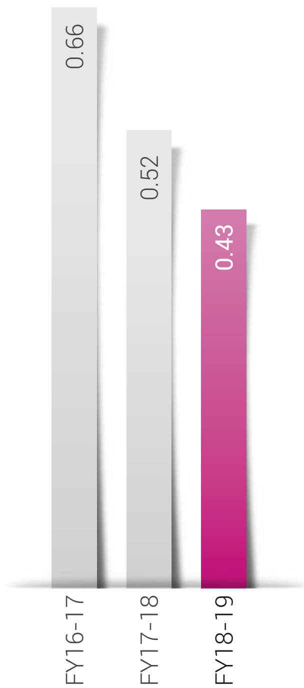
Why this is measured
RoCE is an insightful metric to compare profitability across companies based on their respective capital efficiency.

What this means
Enhanced RoCE can potentially drive valuations and market perception.

Value impact
The Company reported a 118 bps increase in RoCE in FY2018-19.

Gearing

(x)



Definition
This is the ratio of debt to net worth (less revaluation reserves).

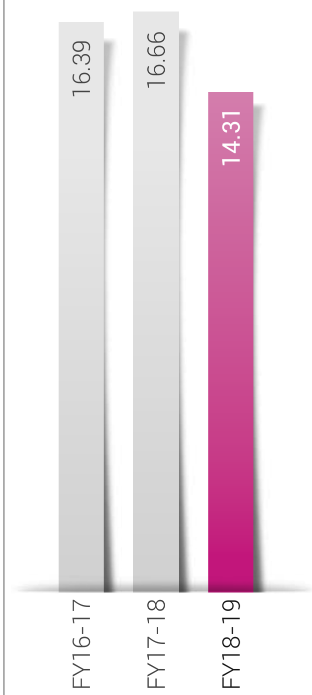
Why this is measured
This is one of the defining measures of a company's financial solvency.

What this means
This indicates whether the Company enhances shareholder value by keeping the equity side constant and progressively moderating debt.

Value impact
The Company's gearing stood at 0.43x in FY2018-19 compared to 0.52x in FY2017-18. This ratio should ideally be read in conjunction with net debt/operating profit (a reduction indicating greater ease in terms of servicing debt).

Debt cost

(%)



Definition
This is derived through the computation of the average cost of the consolidated debt on the Company's books.

Why this is measured
This indicates the Company's ability in convincing debt providers of the robustness of our business model and negotiating a lower debt cost (leading to higher margins).

What this means
This translates into enhanced cash flows and strengthens credit rating leading to successive declines in debt cost.

Value impact
The Company's average debt cost declined from 16.66% in 2017-18 to 14.31% in FY2018-19. This ratio should ideally be read in conjunction with net debt/operating profit (an increase indicating higher liquidity).

Culture of no compromise

Overview

N R Agarwal Industries Limited reported its best ever annual performance from a revenue perspective in 2018-19. The Company reported a 9.53% increase in revenues while EBIDTA grew 17.85% during the year under review, validating the Company's profitable growth.

The Company's pre-tax profit for 2018-19 was 34.63% higher than in the previous year, while a larger tax outgo of ₹36.05 crore in 2018-19 (compared with ₹6.83 crore in the previous year) accounted for a decline in the Company's post-tax profit.

The Company's superior competitiveness was reflected in an increase in EBIDTA margin from 13.59% in 2017-18 to 14.62% in 2018-19. Besides, the Company reported a 118 bps increase in Return on Capital Employed in 2018-19 over the previous financial year.

The big message that I wish to send out to our stakeholders is that this performance was not a sudden unexpected spike but the outcome of a number of proactive business-strengthening initiatives undertaken in the last few years. Besides, this performance represents the foundation on which the Company expects to grow larger and faster across the foreseeable future.

Decisive investments

At N R Agarwal, the management made a decisive change in its product mix a couple of years ago. The Company selected to invest ₹72 crore in its business with the objective of converting its erstwhile newsprint manufacturing capacity to writing & printing capacity on the one hand and making timely investments in balancing equipment with the objective to moderate resource consumption and reinforce environment commitment on the other.

I am pleased to communicate that the investment was made at the right time and the benefits became visible during the last financial year. The Company's decision to switch from newsprint proved timely; in the

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9.53%

Revenue growth, 2018-19

Culture of no compromise

72

₹ crore, investment in converting the newsprint capacity to writing & printing

months that followed, newsprint realisations turned volatile and eventually headed downwards while the writing & paper realisations strengthened. We also believe that the long-term prospects of the newsprint market appear to have plateaued with an increasing number of readers turning to online news equivalents; the prospects of the writing & paper segment continue to provide optimism on account of growing literacy and increased use of paper arising out of increased incomes and commercial activity.

The Company commissioned its expanded writing & printing capacity during the current financial year, strengthening the surplus derived from this business segment. The full benefit of this switch will be visible from the current financial year onwards.

Strengthening processes

The other significant upside that we generated during the last financial year was from additional and selective investments that we made in our operational processes.

At N R Agarwal, we have always believed that in a large, multi-process and competitive paper sector, growth would need to be derived from improving efficiencies within and not necessarily passing cost increases to customers.

During the last couple of years, the management invested ₹120 crore