Waste.Redefined.

Resilience & Refresh

N R Agarwal Industries Limited

Annual Report 2020-21

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

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Resilience & Refresh

At N R Agarwal, we reported creditable results in FY 20-21 in view of the challenging nature of the markets following the outbreak of the COVID-19 pandemic.

The Company was proud to report a revenue of ₹1145.64 Cr and a profit after tax of ₹57.23 Cr in FY 20-21.

The performance of the Company is a validation of its deep resilience while its commitment to expand capacity will refresh its positioning, personality and prospects across the foreseeable future.

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 background

N R Agarwal Industries Limited has been engaged in the business of paper manufacture and marketing for over 28 years (established 1993). The Company was one of 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 in top 7 paper companies in India in terms of size.

Our portfolio

Duplex boards: The Company manufactures quality duplex boards, which is suitable for offset printing, embossing and foil stamping. The products are manufactured with low levels 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 gravure printing.

Copier paper: The Company launched copier paper in May 2019, which was well received by the market.

Our locations

The Company has its headquarters in Mumbai. All manufacturing operations are conducted in Vapi, Gujarat.

Our sales footprint

The Company generated 78.63% of its revenues from sales within India and 21.37% from exports to more than 27 countries.

Our capacity

The Company's writing & printing paper and duplex board capacity were 180000 TPA each at the close of FY 20-21.

Our competitive advantage

Environment integrity

The Company moderated the use of finite resources through enhanced operating efficiency, moderated power and water consumption per ton of paper, increased water recycling by introducing reverse osmosis plant to convert effluent water into fresh water (this technology being one of the rarest in paper industry).

Infrastructure

Large land infrastructure: The Company works out of 57 acres of its manufacturing facility at Sarigam. By the close of FY 20-21, 16.50 acres of the facility had been utilised, leaving the Company with a large acreage for prospective expansion, moderating the Company's speed of expansion on the one hand and costs on the other.

Port proximity: The Company's manufacturing unit is 165 kms from the Mumbai port. The proximity has helped moderate the landed logistics cost of waste paper. Besides, the port proximity makes it possible for the Company to export products across 27 countries.

Products

Portfolio: In the duplex board segment, the Company produced White Back and Grey Back varieties across GSMs, addressing the widest market requirements. During the last one and a half years of Covid, we utilised 100% of our production capacity due to the consistent demand for FMCG and pharmaceutical products. In the writing & printing segment, the Company produced Surface Size SS and Non SS maplitho variety catering to text book and publishing applications.

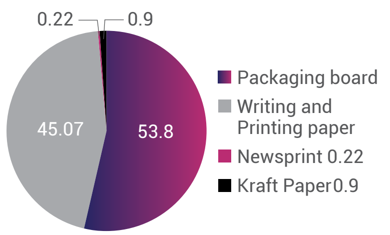
Profitable portfolio: The Company refurbished the equipment dedicated to the manufacture of newsprint to produce writing & printing and fluting medium kraft for export markets. This switch was implemented with the objective to exit from a volatile segment to one generating increased realisations. This flexibility helped the Company create a suitable product mix for a fragmented market.

Manufacturing

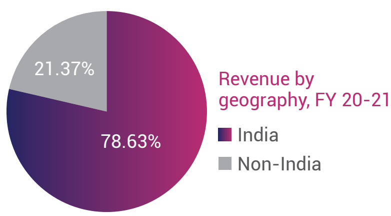
Capacity expansion: The Company has progressively invested in enhancing its paper / board manufacturing capacities, strengthening its brand and dependability.

Throughput productivity: The Company focused on the generation of a high productivity from its longstanding equipment through continuous up-gradation and modernisation. The result is that the Company's equipment delivers the highest productivity, efficiency, quality and competitiveness.

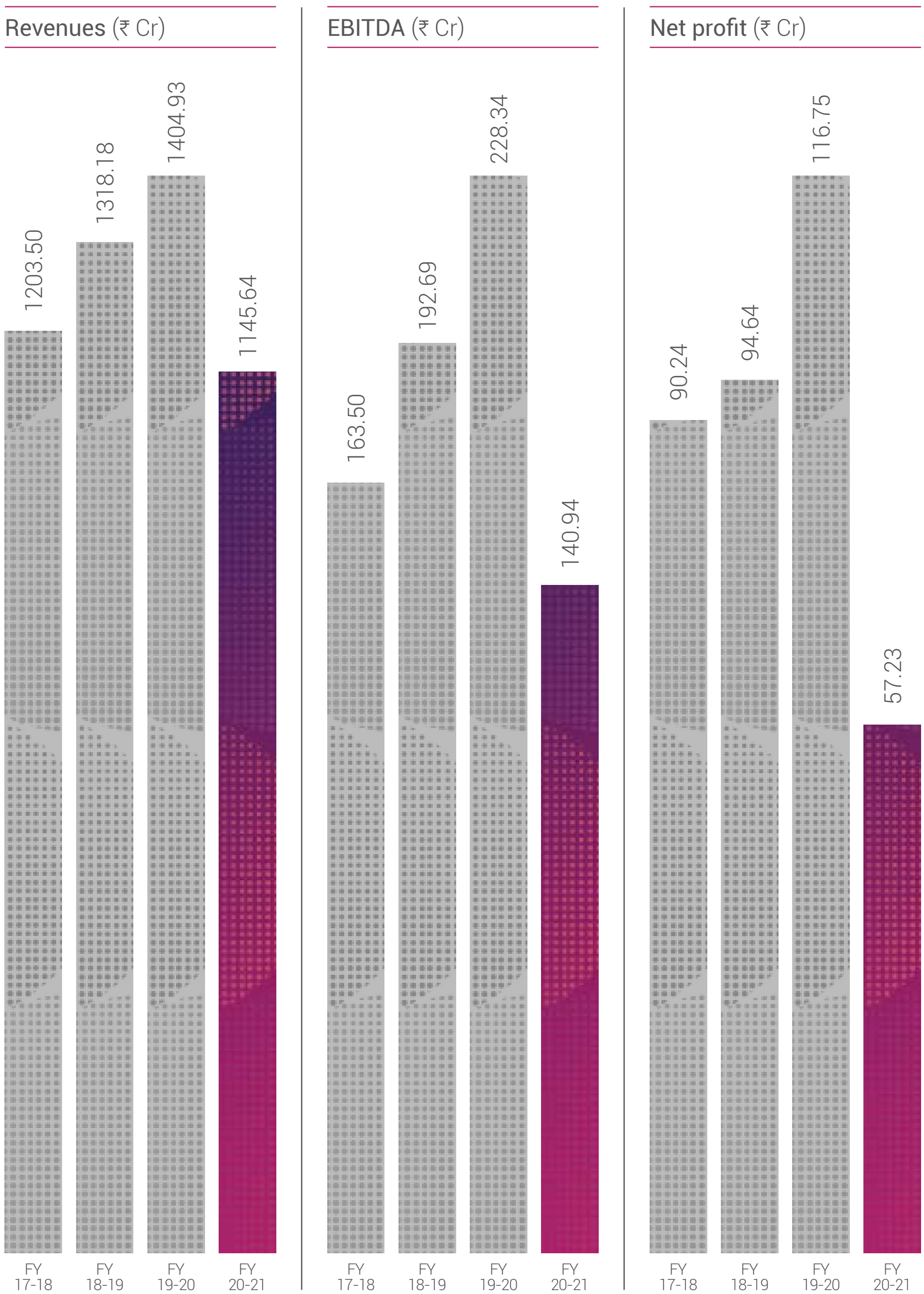
Revenues by product
(as % of overall revenues, FY 20-21)



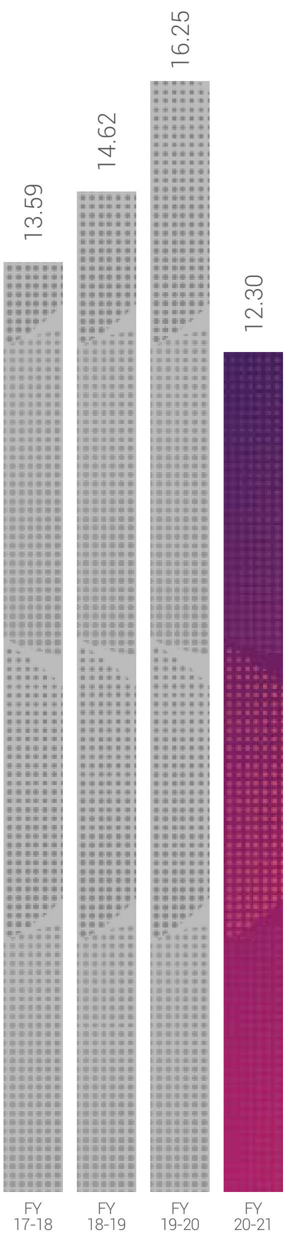
Revenue by geography,
FY 20-21



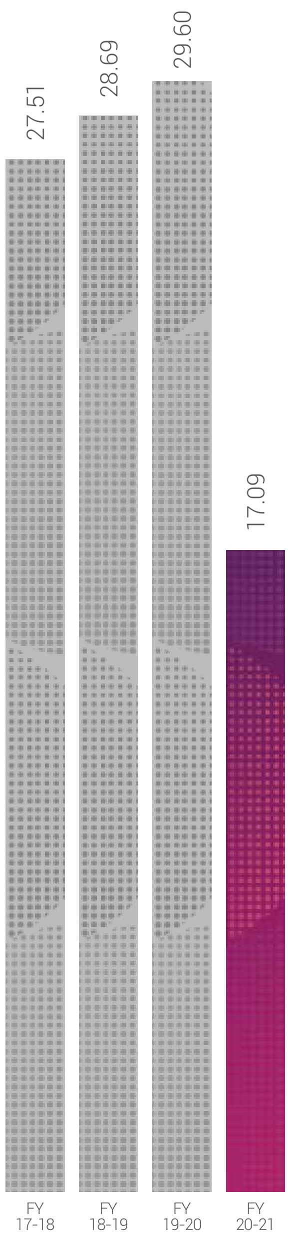
This is how we have grown in the last few years



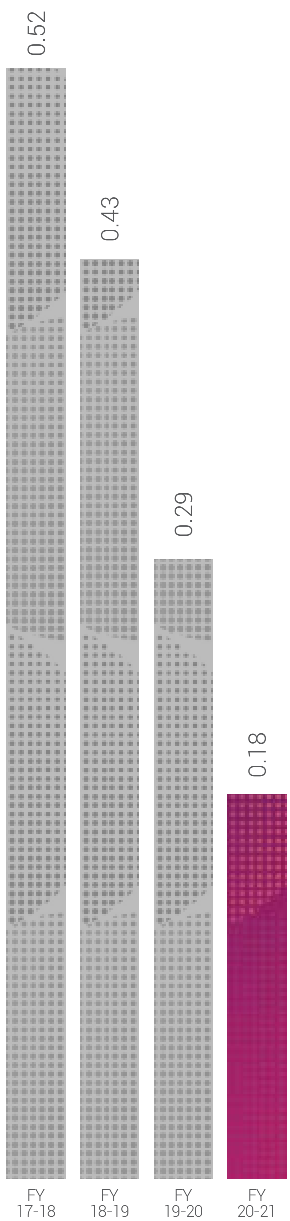
EBIDTA margin (%)



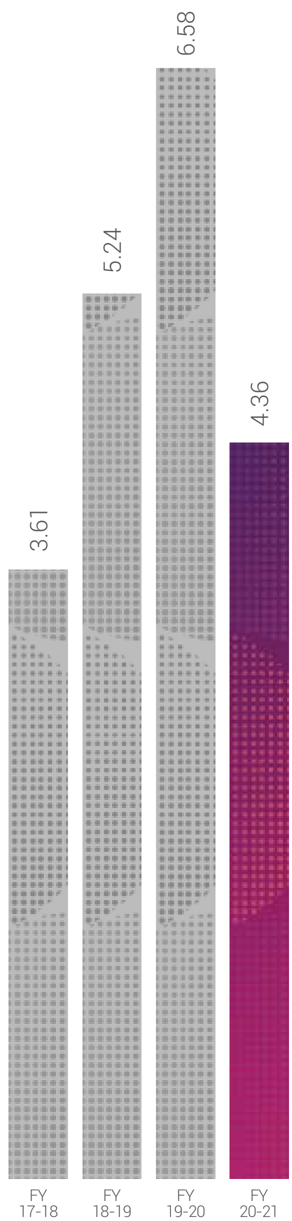
RoCE (%)



Gearing (x)



Interest cover (x)



STRATEGIC OVERVIEW

A combination of two R's of – Resilience and Refresh – will address the needs of the moment and the future

R N AGARWAL,
MANAGING DIRECTOR

Overview

I am pleased to present the performance of N R Agarwal Industries Limited in 2020-21 despite a decline.

Revenues declined 18.46% and profit after tax weakened by 50.98%; the fact that the Company reported a cash profit of ₹97.19 Cr and a profit after tax of ₹57.23 Cr is a credit to the Company's resilience.

The fact that we moderated our debt, proceeded towards zero long-term debt, strengthened our liquidity and reported a profit in all the four quarters during the last year represents validation of the way we have run our business.

The principal message that I wish to communicate is that if the Company could remain profitable during its most challenging year, then we are optimistic of our prospects across the foreseeable future.

The two R's of our business

In my communication to you in the last annual report, I wrote about the two defining C's of our capital-intensive business - Capital Allocation and Capital Efficiency.

In this communication, I would like to tell you about the two R's of our business – Resilience and Refresh.

During the last few years, we continued to focus on our operating efficiency. We did not just reinvest selectively in our business; we focused on getting the most out of whatever we had invested. The result is that over a period of time, our plants were resources being sweated to their maximum, amortising fixed costs better than peer waste paper-based paper plants in the country and reporting the lowest resource consumption per ton of the end product.

When I look back, I realise that our team did all this during the growth phase of our existence when usually one is engrossed in reinvesting in getting the asset to achieve stable output rather than examining every process parameter with the objective to get more out of less. The bottomline is that by the time the pandemic affected India from the last quarter of the last financial year, we had virtually maximised all that we could generate from our manufacturing units. In view of this, we announced a 650 TPD new packaging board plant expansion in our capacity at that juncture with the objective to enter into our next phase of growth.

However, the outbreak of the pandemic, the announcement of the lockdowns and the closure of educational institutions disturbed our immediate performance and our prospective blueprint: during the first quarter of the last financial year when the country was virtually locked down, the management reviewed its decision to expand capacity, selected to wait and watch and seek a more favorable market environment.

The result is that during the last financial year, your management continued to focus on sweating its assets most efficient by with the singular objective of enhancing its resilience in an uncertain market. As it turned out, the writing & printing paper segment of our business was extensively affected: this market (based on waste paper) declined and realisations weakened. The decline was majorly due to the shutting down of educational institutions and office spaces. We were fortunate that the paper board segment of our business performed better after that first quarter of slowdown; volumes rebounded, riding the consumption engine of the country coupled with improved realisations.

The result is that even as our writing & printing paper business finished the year under review with a 33% decline in revenues, our paperboards segment saved the year by almost giving us the same amount of revenues as in the previous year.

The dual nature of our business contributed to our resilience during the year under review.

The Company deferred the announcement of its capacity expansion to the later part of the financial year under review. Here too, we appeared jinxed; just when we were about to announce the launch of our 650 TPD expansion plan, India was affected by a second pandemic surge, which deferred decision-making.

I would like to assure shareholders that while the deferment represents a disappointment at one level, this is a blessing in disguise. At the start of the financial year under review, the Company possessed a consolidated (short-term and long-term) debt of ₹173.43 Cr; by the year-end, the debt had declined to ₹111.60 Cr. At the year-start, the Company had ₹131.21 Cr of long-term debt on its books; by the year-close balance was ₹46.07 Cr. This can be considered virtually repaid.

The result is that our Company is considerably more de-risked. In an uncertain world, we have strengthened our capital structure; our interest outflow during the last financial year declined from ₹28.85 Cr to ₹23.09 Cr; our interest cover was 4.36 and our debt/EBIDTA was a comfortable 0.79.

This brings me to the second R that I wish to talk about – Refresh. We are fiscally comfortable; we believe that having marginal long-term debt on our books only enhances our capacity to add a corpus by the time our new expansion comes into play in the last quarter of FY 22-23. Our ability to generate cash during our project commissioning phase should make it possible to finance a larger portion of our proposed capacity expansion through accruals. Besides, we expect to graduate to a better credit rating on account of our superior liquidity position, which should empower us to mobilise debt at a relatively low cost. This will make it possible to reduce the debt and interest load on our expansion, strengthening our capacity to break-even faster than we could have done otherwise. The fact that this proposed expansion will focus on duplex board and value-added paper will shrink our payback and accelerate our virtuous cycle.

Outlook

The message that I wish to communicate to our stakeholders is that the outlook for our writing & printing business could remain sluggish during the current financial year on account of a relatively low demand from the education sector, while we continue to capitalise on our paper boards segment, which rides the country's FMCG consumption.

N R Agarwal will continue to protect the integrity of its Balance Sheet and repay debt until the pandemic fear recedes, demand returns and the Company is better placed to enhance value for its stakeholders.

Transfor-mation stories

The Company needed to enhance overall competitiveness

- The Company focused on enhancing manufacturing excellence
- The Company made extensive investments to moderate resource consumption
- Pulp yield improved; power and water consumption declined per ton of output
- The decline in costs helped strengthen margins

The Company needed to broadbase its portfolioeness

- This need increased following the exit from newsprint
- The Company introduced virgin grade writing and printing paper and premium copier paper (derived from writing & printing paper machines) under the grade Shine Maplitho and Brilliance Copier
- The product will enhance the Company's retail engagement and realisations
- The Company is also working on a value-added product in line with Government's vision to 'ban on single-use plastics'