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bigger. better.

How our timely investment in enhanced production capacity has helped create a stronger company



The West Coast Paper Mills Limited | Annual report 2010-11

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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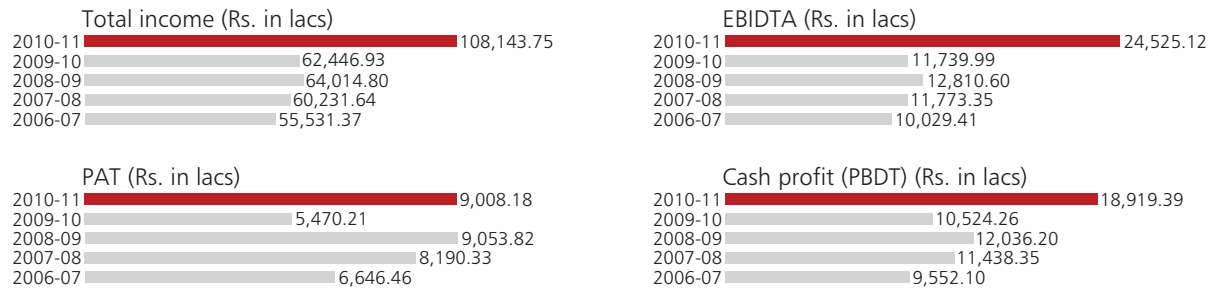
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At West Coast Paper Mills, we did not merely emerged bigger over the last year. We also achieved a higher productivity. We also enhanced our product quality. The result: 71% increase in revenues and a 65% increase in our PAT.

Emerging bigger and better.

Our growth in numbers



West Coast Paper Mills Limited (USD 250 million in revenues, 2010-11) is one of the largest integrated paper and paperboard manufacturing companies in India.

Vision

To excel in serving the growing demands of paper and paper products worldwide and enhance shareholder value with consistent and sustained performance.

Parentage

Established in 1955, a flagship Company of SK Bangur Group. Today, West Coast Paper Mills Limited is a USD 249 million turnover company (2010-11) and one of the largest integrated paper and paperboard manufacturing companies in India.

Presence

- The Company’s registered office and paper and paperboard manufacturing unit is in Dandeli, Karnataka.
- Its telecom cable manufacturing unit is in Mysore, Karnataka.
- Its corporate office is in Bangalore and zonal offices in Mumbai (Maharashtra), Kolkata (West Bengal), Chennai (Tamil Nadu) and New Delhi (Delhi)
- It is listed on The National Stock Exchange of India Limited and Bombay Stock Exchange Limited.

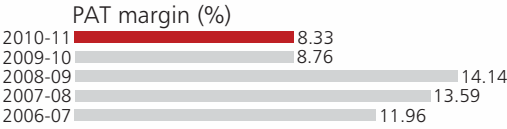
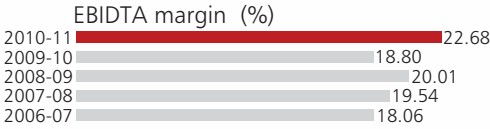
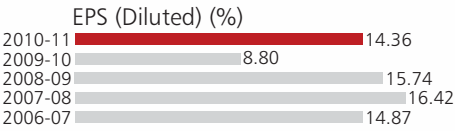
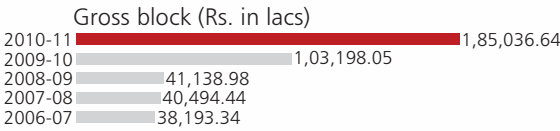
Portfolio

- Paper and paperboards – comprising uncoated paper, surface size paper, specialty paper, packaging paper and copier paper

- Optical fibre cable – comprising duct cable, Ariel fig 8 cable, ADSS cable, armoured cable, CATV cable and mini cable

Patrons

- Our products are distributed across India (all states), supported by 82 dealers
- We have a global footprint, with our products distributed in various countries
- Major customers:
 - *India Security Press, Government Of India
 - *All Security Printers
 - * State Bank of India
 - * Central Bank of India
 - * Indian Bank
 - * Bank of Baroda
 - * Housing Development Finance Corporation Bank
 - * Standard Chartered Bank
 - * The Hongkong & Shanghai Banking Corporation
 - * Indian Aluminium Co. Ltd
 - * Macmillan India Press Ltd
 - * Macmillan Publishers India Ltd
 - * Navneet Publications India Ltd
 - * Orient Press Ltd
 - * Repro India Ltd
 - * Print House (India) Pvt. Ltd
 - * Multivista Global Ltd



Highlights 2010-11

Operational highlights

- Paper production increased from 173,638 tonnes in 2009-10 to 267,005 tonnes
- Commenced and stabilised the new paper manufacturing machine within three months
- Improved the existing B2B copier paper quality

Financial highlights

- Revenue increased 70.51% from Rs. 650.50 crore in 2009-10 to Rs. 1,109.14 crore
- EBIDTA increased 108.90% from Rs. 117.40 crore in 2009-10 to Rs. 245.25 crore
- Post-tax profit improved 64.68% from Rs. 54.70 crore in 2009-10 to Rs. 90.08 crore
- Cash profit (PBDT) increased 79.78% from Rs. 105.24 crore in 2009-10 to Rs. 189.19 crore

Marketing highlights

- Introduced two copier paper brands (Copy Plus and Copy Gold)
- Exported to the Middle East, Africa and South East Asia
- Preferred supplier to major corporates



Chairman’s overview



The financial year under review represents an inflection point as we commissioned the largest capacity expansion in our existence, resulting in record revenues and profits in 2010-11.

This expansion resulted in some distinctive positives for the Company:

■ For a number of decades, we were largely an India-focused paper company; we are now a relatively global company, reflected in our superior quality that matches some of the best product standards in the world and a growing global exposure in terms of our marketing presence

■ For a number of years, we made incremental improvements in our steam and power consumption. Following the expansion, our consumption ratios declined attractively, making us globally competitive.

The result is reflected in our numbers: increase in average realisations in the writing and printing segment. Additionally, our copier product earned a premium and accounted for an attractive share in a competitive segment without any meaningful advertising budget within only two months of its launch.

“The Company’s investment in first-rate machines will benefit it for decades”



As a company that committed significant investments in capacity building in the last few years, our primary objective will be to maximise asset utilisation, to reduce operating costs and enrich our product mix.

Industry outlook

I see optimistic times ahead for the Indian paper industry for some good reasons:

One, although India is growing, and paper consumption should increase in the normal run of things, a growing investment in the country's education sector will catalyse the offtake of writing and printing paper faster than the global average.

Two, the next incremental major production capacity within the Indian industry is two to three years down the road even as paper consumption is growing, which should strengthen realisations and enable manufacturers to generate a reasonable return on their investment.

Three, a growing dearth of waste paper is likely to affect the asset utilisation of a segment of the paper industry, resulting in probable decline in availability from that industry segment and increased realisations on the overall.

Four, there is a growing shift in consumption from plastic-based

products to paper products, benefiting the paper industry.

Our response

As a company that committed significant investments in capacity building in the last few years, our primary objective will be to maximise asset utilisation, to reduce operating costs and enrich our product mix.

During the current financial year, we expect to sweat our assets to rated capacity and report an even better performance. For instance, we intend to raise our operational benchmark machine speed from 1,000 meters per minute to 1,200 metres per minute with corresponding productivity implications, among the highest such benchmarks in India.

This will also be a time when we freeze our next round of expansion. The management is inclined to consider buying a second-hand international plant that will enable us to significantly increase production capacity at a relatively lower capex. The management will also seek to expand at a non-Dandeli location, following a review of

available infrastructure.

Overview

West Coast Paper Mills stands to benefit for decades, following significant investments already made in its capacity.

The Company is attractively placed to derive sustainable benefits into the long-term on account of its utilities consumption being well below the prevailing national norms stipulated for the paper industry. This reinforced our environmental responsibility, leading to sustainability.

Starting from 2011-12, the Company's social forestry scheme will begin to generate a larger quantum of raw material from within 250 km and from contracted farmers, reducing logistics costs.

In view of these realities, I am optimistic that the Company will enhance value for its shareholders in a sustainable way over the coming years.

S. K. Bangur
Chairman

Review by the Executive Director



How would you appraise the Company's performance in 2010-11?

Let me begin with the positives.

Our new paper machine (PM VI) emerged as the major transformation driver in the Company. The machine, with an annual installed capacity of 1,35,000 tonnes, was commissioned in May 2010. It was not enough to merely commission this machine but also establish a high capacity utilisation in the shortest time to accelerate the payback. In view of this, we did well to achieve a 95% capacity utilisation in our new paper machine in the second half of 2010-11, a creditable

“We strengthened our volume-value mix and reported superior results in 2010-11”

achievement for a machine in only its first year of operation. Concurrently, we also strengthened our product mix derived from this new machine; we produced writing and printing paper of a higher bulk with the same grammage and we introduced new grammage copier paper with corresponding brands, which translated into an attractive order book in three weeks. The installation of PM VI helped us enhance volume and value, the results of which are clearly evident in our performance during the year under review.

We also modified the Drive system of PM III, which helped increase production.

We ran our new fibre line (commissioned in February 2010) for the entire year. This pulp of higher viscosity, strength index and brightness helped us produce superior paper grades. Besides, our elemental chlorine free (ECF) pulp had a lower environmental impact. Our new chemical recovery plant enabled us to improve chemical

recovery efficiency and stronger steam generation. Consequently, leading to a higher power generation.

It would only be fair to indicate that some items in our agenda remained unfinished in the previous year and are expected to be completed this year. For instance, some production bottlenecks prevented us from achieving our targeted asset utilisation; we need to enhance our pulp-cooking capacity to enjoy full utilisation of our fibre line, leading to increased paper production.

How did the various initiatives translate into your financial performance for 2010-11?

We reported a higher production, widened our product mix and made new paper varieties of superior quality that were well accepted by a discerning market. The cumulative impact of these initiatives is reflected in our 2010-11 numbers below compared to 2009-10:

*Revenues increased 70.51%



The Company Rationalised per unit water consumption; our overall water consumption increased only 20% despite a 78% increase in production capacity

*EBIDTA increased 108.90%

*Post tax profit enhanced 64.68%

*EBIDTA margin rose 388 basis points

*Export revenues increased 162%

However, considering the huge potential for further improvement and the fact that the full impact of our expansion is yet to be reflected in our financial performance, we expect to report a better 2011-12.

What were the highlights of 2010-11?

There were principally two highlights during the year under review – we made more paper and we earned a higher realisation per tonne. This is how the volume-value proposition played out:

* We increased our paper production by 53.77%, following the successful commissioning of the new paper machine VI. In my long experience in the paper industry, the successful start-up of any new machine is always challenging in view of the hundreds of variables that need to be stabilised with the objective to achieve a constant end-paper of the highest quality. We not only went into successful production in 2010-11, but gradually raised our asset utilisation to a peak 96%, – a fair index of our operational competence.

* In doing so, the proportion of value-

added grades in our overall product mix increased from 28% in 2009-10 to 40% in 2010-11. This indicated the Company's resolve in escaping the commodity end of the business. In turn, this was reflected in our EBIDTA margin, which strengthened from 18.80% to 22.68% in the last two years.

This volume-value combination translated into incremental revenues of Rs. 458.64 crore in 2010-11, the full benefits of which will accrue during the current financial year.

How did the expansion transform the Company?

We entered the paper industry in 1955 with a production capacity of 18,000 TPA, which gradually increased to 1,80,000 TPA in a little more than 50 years; then within the space of just three years we increased our capacity 78% to 3,20,000 TPA, indicating the management's faith in the long-term viability of this business.

West Coast Paper reported a 53.77% increase in paper production in 2010-11. This was achieved following an increase in paper production capacity from 500 TPD to 900 TPD. We did not just report a linear increase in our production but reinforced our operational edge in the following ways:

*Manufactured paper with higher bulk and smoothness with the same

grammage

*Manufactured writing and printing paper from 45 gsm to 90 gsm

*Manufactured ECF bleached pulp with a lower environment impact in our new fibre line

* Reduced emissions to well under defined limits in our new electrostatic precipitator

*Rationalised per unit water consumption; our overall water consumption increased only 20% despite a 78% increase in production capacity

*Enhanced paper brightness across all grades

Besides, we reported the following business initiatives that strengthened our position in a competitive marketplace:

*Introduced two brands in the copier paper segment – 80 gsm Copy Plus and 75 gsm Copy Gold

*Installed autoline, a state-of-the-art quality check equipment, to derive quality test results in less than 10 minutes, resulting in timely quality correction

*Installed in-process hi-speed sheet cutters and auto packaging equipment, resulting in quicker packaging at a lower manpower cost/involvement, benchmarked with international standards



Our exports grew 180% in 2010-11
(in terms of volume) over the previous year.

How are you meeting increased raw material requirements to service your expanded capacity?

We require around 9 lakh tonnes of raw material per annum to feed our enlarged paper production capacity, completely procured from the current market. However, a few years ago, we embarked on contract for farming scheme, wherein we identified fallow/waste land belonging to marginal farmers within a 250 km radius from our manufacturing unit. We provided clonal seedlings to these farmers, encouraging them to raise plantations from a long-term perspective with the safety net of an assured buyback. This proposition will lead to a win-win situation: provide income for wasteland owners and enhance our raw material security.

The time has come for us to reap the benefits of this high-gestation win-win initiative: we expect to derive raw materials from 661 acres (planted in 2006) of our total plantations in 21,916 acres currently. We expect to scale up with speed; our annual plan is to plant 10,000 acres, and based on an average yield of 40 to 60 tonnes per acre, we expect to secure 50% of our annual raw material requirements from these proximate plantations over the foreseeable future. This will not only protect our raw material sourcing from a volume perspective but it will also provide us with robust raw material,

leading to superior paper quality.

How is the Company placed to enhance its exports presence?

There is an attractive case for growing our international presence: we produce superior grades today, we have a larger volume to retain a consistent and serious international presence and we are cost-competitive in view of the high wages among paper manufacturers in the developed west. A growing export presence will strengthen our business model: we will reduce our dependence on the Indian market, we will be able to plug into international consumer trends that could influence our product development and allocate a section of our production abroad, that would have otherwise reduced our realisations within India.

Our existing markets of focus are the Middle East, Africa and South East Asia. Our technology upgradation helped us present superior grades in line with the requirements in these geographies. We installed automatic ream-wrapping machines and reel-packing machines to match global packaging standards. Going ahead, our proposed forest management certification under FSC will enhance the acceptability of our products in Europe.

The result – exports grew 180% in 2010-11 (in terms of volume) over the previous year. Going ahead, we expect to increase export volumes.

How will the Company protect its balance sheet integrity in a cash-intensive business?

Our project debt (ECB/FCL) cost is less than 3% p.a., which was mobilised when the global economy was in a state of slowdown. We commenced debt repayment during the year under review and expect to meet all our interest and debt commitments on schedule.

What is the outlook for the industry and the Company?

The country's paper industry is in good health; the copier and packaging paper segments are growing at an annual rate of 15%, even as the other segments are growing at 5-7% per year. The government's thrust on the education sector is likely to catalyse paper demand from a per capita consumption figure of 9.6 kg – considerably lower than the international average. Further, we feel that an increase in disposable incomes and faster rural economic growth will strengthen paper demand – even a one kg per capita consumption increase could enhance annual paper demand by about 1.2 million TPA.

West Coast Paper is attractively positioned to capitalise on this emerging opportunity through a combination of adequate capacity, superior quality, lower cost, growing raw material security and a strong balance sheet.