



The West Coast Paper Mills Limited
Your partner in progress...

Annual Report 2011-12

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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.

Management discussion and analysis



THE INDIAN PAPER INDUSTRY CURRENTLY HAS A TURNOVER OF OVER RS. 30000 CRORES AND CONTRIBUTES OVER RS. 3000 CRORES TO THE NATIONAL EXCHEQUER.

A) INDUSTRY STRUCTURE & DEVELOPMENT

Paper Division

There are about 750 - 1000 paper mills (organised & unorganised sector) in the country out of which large integrated units are only 14-15 nos. with a production share of about 28% and balance comprises of medium (Agro-based) and Small (Waste paper based) paper mills with production share of 72%.

The Indian paper industry is an integral part of the Nation's economy and contributes to its growth and development. It is in this spirit that the Indian paper industry has continued to upgrade its capacities and technologies, in spite of huge challenges like shortage of raw material, highly capital intensive nature of the industry, threat of cheaper imports from China, Indonesia etc. From a situation where most paper mills were relatively small and with old technologies, we have now reached

a stage where almost all major paper mills have adopted world class technologies and are fast progressing towards world scale of operations as well.

The Indian paper industry currently has a turnover of over Rs. 30000 crores and contributes over Rs. 3000 crores to the national exchequer. Even more importantly it is providing employment opportunities to over 1.5 million people, mostly in rural areas.

The domestic demand for all varieties of paper in India is estimated at around 11.6 million tonnes per year. Of this, writing & printing paper accounts for approx. 4.2 million tonnes, packaging grades for approx. 5.05 million tonnes and newsprint for about 1.75 million tonnes apart from speciality grade about 0.60 million tonnes.

Even though our domestic paper consumption has been growing





**TO MEET THE
DEMAND, THE INDIAN
PAPER INDUSTRY
EXPANDED ITS
CAPACITY RECENTLY
CLOSE TO 1 MILLION
TONNES**

steadily, it is still only 10/11 kg per capita, which is abysmally low when compared to even highly populated and developing economies. For example, per capita consumption in China & Indonesia is estimated at 42 kgs and 23 kgs, respectively.

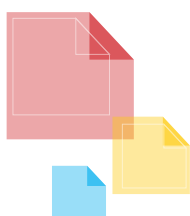
We have no doubt that given India's projected GDP growth, the renewed thrust on universal education through Sarva Shiksha Abhiyan and Right to Education and the consequent changes in lifestyle, paper demand per capita will gradually move to at least 20 kgs per capita or 20 million tonnes by 2020 in our country, requiring more than double quantity of paper that we currently produce and consume.

To meet this demand, the Indian paper industry expanded its capacity recently close to 1 million tonnes, however recession set in 2008 slow down fresh capacity expansion coupled with uncertainty on raw material front particularly for wood based units. The capacity additions initially resulted into over supply situation, which has now been absorbed in the market.

Industry has upgraded process

technologies, installed most modern fibre lines and high-speed paper machines with shoe press to boost the production, conserve energy & water and improve financial performance. Many mills have adopted extended delignification processes, ECF bleaching to modernise the fibre lines. In the area of paper making, adopted alkaline sizing, replacing clay & talk with GCC & PCC fillers and increase the ash content in paper to reduce usage of fibre. Industry has progressed in spite of challenges, improved environmental performance in terms of reduction of effluent volumes, reduction in terms of usage of steam, power, AOX reduction, apart from many other successful achievements in process technologies.

Ministry of New & Renewable Energy, Government of India vide its letter dt. 09.01.2012 has confirmed that Black Liquor Dry Solids (BLDS) is a Renewable Biomass Source which is a byproduct of wood, generated in the Pulp & Paper Industries and accordingly the integrated Pulp & Paper Mills are eligible for Renewable Energy Certificates for power generated by



using steam from recovery boilers wherein, Black Liquor Dry Solids are fired which will generate additional revenue for these Mills.

Further, Ministry of Power, Government of India has notified unit-specific “energy use norms” for the paper industry vide Notification dated 30.03.2012 and the industry has to comply the same by the target year 2014-15. Non-compliance of the same will lead to penalties whereas improvement over the norms will be rewarded by issue of Energy Saving Certificates.

The major challenge for the Indian paper industry is raw material (wood) shortage. While the social forestry model adopted by the industry has helped improve plantations and pulpwood availability to some extent, these are by no means sufficient to meet the growing need for capacity expansions. Indeed lack of stable and viable sources of raw materials is a major impediment to the industry’s survival and growth and wood rates are going out of control apart from availability for sustained production becoming a major concern. Import of pulpwood logs & chips is being explored by the Paper Mills.

Major paper producing countries of Latin America, Europe and Asia, including China, Indonesia, Malaysia etc., have adopted a policy of granting forest concessions to large paper mills to plant, protect and harvest pulpwood in a cost effective manner. In absence of similar enabling policies, paper mills in India have to necessarily depend upon small and scattered plantations developed through Industry’s social forestry initiative or Government controlled forests. In the process, the cost of collection and transportation works out to be greater than cost of the pulpwood itself. As a result, cost of raw materials in India has been continuously going up and has become most uncompetitive in

comparison to the major paper producing countries in the world.

In the Union Budget for 2012-13, Excise duty on paper and paperboard has been increased from 5% to 6% with effect from 17.3.2012.

Cable Division

There are 12 Manufacturers of Optical Fibre Cables having installed capacity of around 700000 km. BSNL has released total 42000 Cable km of order for supply of 24F optical Fibre cables in the current year. BSNL is expected to release further OFC orders for different circles for their O&M requirement as there was a long gap in the last procurement and the current tender. Besides this, RAILTEL / Railways will come up with a requirement of 4000 kms in this year. Other major private telecom players like Aircel, Reliance Communication, Bharti, Tata Teleservices, VSNL, Vodafone etc., will also expand their network after successful launch of 3G, which will generate additional requirement of cables. Considering growing demand for bandwidth in telecom network, the Company is focussing on high fibre count Optical Fibre cable. The Company has got 2000 Kms of BSNL order after a long gap of nearly 4 years.



**IN THE UNION
BUDGET FOR 2012-
13, EXCISE DUTY
ON PAPER AND
PAPERBOARD HAS
BEEN INCREASED
FROM 5% TO 6%**



THE COMPANY HAS FOCUSSED ON CONTRACT FOR FARMING WITHIN A RADIUS OF 300 KM AND IT IS HOPED THAT 50% OF WOOD REQUIREMENT WILL BE MET BY THE SAME.



B) OPPORTUNITIES AND THREATS

Paper Division

The low per capita consumption of paper/paperboard in the country is bound to increase with the growth in the GDP, rising income of middle class, increasing demand for computer stationery and spending by Government on education sector and ban on plastic packaging starting with Gutka manufacturing units.

The availability of raw material has always been a matter of concern for the industry and it has been requesting the Government to allot degraded revenue and forest lands so that not only the requirement of raw material is met but also employment for rural unskilled population is generated. However, the government has not considered the request. Nevertheless, the industry in general has taken initiatives by taking up Farm/Social Forestry & Contract for Farming programme whereby plantation is taken in a big way on the unproductive private revenue land and thus generating not only income to the farmers but also providing employment to the rural unskilled population and ensuring fibre security.

The Company has focussed on Contract for Farming within a radius of 300 km and it is hoped that 50% of wood requirement will be met by the same. The Company is also distributing high yielding seedlings to the farmers at concessional rates so that plantations are taken up by them without any commitment for its supply to the Company. However, this is bound to increase the overall availability of raw material for the industry.

Cable Division

With robust machinery infrastructure with qualified factory manpower, this division is capable of catering to substantial market share. The increase in demand due to slowdown in past years and rolling out 4G networks will result in less competition thus price realisation is expected to be better than past two years.

Recent regulatory developments, which have led to uncertainty, could have significant implications for the future of telecom sector and in turn on demand of OFC.

C) SEGMENT-WISE PERFORMANCE REVIEW

The Company operates in two business segments – paper/paperboard (including duplex board) at Dandeli and telecommunication cables at Mysore, apart from having wind mills of 1.75 MW capacity in Tamilnadu for power generation. Detailed segment-wise performance has been indicated in the Directors' Report.

D) OUTLOOK

Paper Division

The paper industry is understood to be cyclical in nature and its performance depends on the global pulp and paper demand supply situation. The industry has also witnessed cyclical impact from May 2011 to February 2012 and has not been able to revise the prices to pass on part of the cost increase to the market. The Company has well-diversified product base which also insulates it from the cyclical impact. However, given the growth potential, outlook of paper industry is promising.

Over the past few months, the corporate sector is abuzz with news on expansions, acquisitions and fund-raising by Companies in Paper Industry. The M&A activity is catching up in paper industry as well. India is the fastest growing paper market in the world with growth in the range of 8-10%. The acquisition of controlling stake in The Andhra Pradesh Paper Mills Ltd. by International Paper Company, USA, is likely to lead to revamping of paper industry with a positive outlook.

Cable Division

Reliance Industries is rolling out 4G network in 22 circles utilising high fibre count OFC & their demand

is expected to be approximately 250000 cable kms in next 2-3 years. Apart from Reliance Industries, other players like Bharti has also commenced work on 4G.

Government of India has planned to set up SPV called Bharat Broadband Network Ltd., for implementing Rs. 20000 Cr National Optical Fibre cable Network (NOFN). The Network is expected to be operational by Nov'13. The demand of OFC will be 2500000 cable km for next 3-4 years.

E) RISKS AND CONCERNS

The Company is deriving 97% of its revenue from paper/paperboard and duplex board business and 3% from cable business. Not only the availability of conventional raw material is a matter of concern but also increasing rates of wood due to competition among the paper mills per se and other user industries.

Paper industry has been removed from Core Sector for supply of coal by subsidiaries of Coal India Ltd. This may increase rates of coal substantially. However, power plants are covered under core sector for supply of coal to them.

The paper industry is one of the 18 highly polluting categories of industries and the executives of the industry, Central and State Government Agencies, Pollution Control Boards and others have prepared a Charter on Corporate Responsibility for Environmental Protection (CREP), which was launched in a National Seminar on 12-13 March 2003. The Charter enlists time-bound action points to be implemented by the paper industry for progressive up-gradation of technologies and in-plant practices for reduction in effluents and emissions as well as improvement in waste management systems.

The Company has state-of-the-art Effluent Treatment Plant and has gone for 100% ECF bleaching from 14.02.2010. It is also meeting all the norms as prescribed under

Environment Protection Act, 1986 and other environmental laws as well as CREP requirements consistently.

F) INTERNAL CONTROL SYSTEM & TECHNOLOGY

The Company has adequate system of internal control to safeguard and protect from loss, unauthorised use or disposition of its assets. All the transactions are properly authorised, recorded and reported to the Management. The Company is following all the applicable Accounting Standards for properly maintaining the books of accounts and reporting financial statements. The Company has a full-fledged Internal Audit department. The audit reports are reviewed by the Management and the Audit Committee of the Board from time to time. Implementation of Oracle ERP has also strengthened the internal control systems of the Company.

G) DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

This has been dealt with in the Directors' Report.

H) MATERIAL DEVELOPMENTS IN HUMAN RESOURCES INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED

The Company has entered into Tripartite long term wage revision settlement with Joint Negotiation committee of unions on 29.03.2012 for the period from 01.01.2011 to 31.12.2014. The Company's industrial relations are cordial. Your Directors acknowledge the support and co-operation from employees at all levels.

The Company has drawn specific programme to improve the skills of the workers so as to rationalise the manpower. Further, it is providing necessary training to the manpower both locally and abroad with suppliers. There is

continuous interaction between the Management, Unions and Labour for improving the knowledge and training of the workers.

The Company employs 2442 people as on 31.3.2012 as against 2628 people employed as on 31.3.2011.

I) CAUTIONARY STATEMENT

Statements in this report on Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward-looking statements" within the meaning of applicable securities laws or regulations. These statements are based on certain assumptions and expectations of future events. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and domestic demand supply conditions, finished goods prices, raw material cost and availability, changes in Government regulations, tax regimes, economic developments within India and other factors such as litigation and industrial relations. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.



Directors' report

THE COMPANY
POSTED GROSS
PROFIT OF RS. 158.66
CRORES AS AGAINST
RS. 189.18 CRORES IN
THE PREVIOUS YEAR
DESPITE ADVERSE
MARKET CONDITION
AND ALL ROUND
COST PUSH

Your Directors are pleased to present the 57th Annual Report of the Company, together with the audited accounts for the year ended 31st March 2012

FINANCIAL RESULTS:

Gross Profit
Balance brought forward

ALLOCATIONS:

Finance Cost
Depreciation
Exceptional items
Taxation - Current
 - MAT Credit Entitlement
 - Deferred
Capital Redemption Reserve
General Reserve
Proposed Dividends - Preference Shares
 - Equity Shares
Tax on Dividends
Balance carried forward

(Rs. in Lacs)

	2011-12	2010-11
Gross Profit	23015.14	24523.62
Balance brought forward	2815.39	3301.74
	25830.53	27825.36
Finance Cost	7149.57	5605.73
Depreciation	14315.46	9610.55
Exceptional items	6219.78	-
Taxation - Current	-	1898.50
- MAT Credit Entitlement		(1809.22)
- Deferred	(1313.84)	209.88
Capital Redemption Reserve	-	6500.00
General Reserve		900.82
Proposed Dividends - Preference Shares	80.23	552.50
- Equity Shares	125.50	1254.98
Tax on Dividends	33.37	286.23
Balance carried forward	(779.54)	2815.39
	25830.53	27825.36

DIVIDENDS

Preference Shares were redeemed on 24th May 2011 and Interim Dividend @ 8.5% for the period 01.04.2011 to 23.05.2011 on 65,00,000 Cumulative Redeemable Preference Shares of Rs.100 each was declared and paid along with redemption amount. Further, your Directors recommend a dividend of Rs. 0.20 per equity share (10%) on 6,27,48,908 Equity Shares of Rs. 2/- each, subject to members' approval for the accounting year 2011-12. Payment of dividend is made out of balance in Profit & Loss Account as on 31.03.2011.

PERFORMANCE

The working results of the Company is a meta-narrative saga of a strong and solid performance in the physical parameters of expanded capacity of production of Pulp & Paper Board subverted by adverse conditions. The full fruitioning of the capacity in terms of the achievement of production of Pulp and Paper & Paper Board is significantly witnessed. However, the working results of the Company were adversely affected by the overriding

sluggish market conditions coupled with a steep hike in the cost of raw materials, chemicals, coal, furnace oil, finance charges etc., and the incidence of the settlement with unions for the period of 15 months i.e., from 01.01.2011 to 31.03.2012. This was compounded by the breakdown of 34.5 MW Turbine for a period of about two months as well as trippings during the year not only affected the production but also resulted in higher power and fuel cost. Remedial measures and corrective actions have been initiated by the company to avoid such technical snags in consultation with machinery suppliers.

However, Paper market has taken positive turn from February 2012 and Company expects that results for the current year should improve, barring unforeseen circumstances due to higher sales realisation and increased production of Paper & Paperboard.

The Company posted gross profit of Rs. 158.66 Crores as against Rs. 189.18 Crores in the previous year - lower by Rs. 30.52 Crores (16%) whereas there was a net loss of Rs. 33.56 Crores as



**TOTAL TURNOVER
OF CABLE DIVISION
DURING THE YEAR
WAS RS. 33 CRORES
AS AGAINST
RS. 29 CRORES
DURING THE
PREVIOUS YEAR.**

against profit of Rs. 90.08 Crores in the previous year due to change in method of calculation of depreciation on new fibre line & chemical recovery island of Paper & Paperboard division resulting in higher depreciation/exceptional item by Rs. 104.42 Crores.

DIVISION-WISE PERFORMANCE

A) PAPER AND DUPLEX BOARD DIVISIONS

The production of paper, paperboard and hardwood pulp was 3,08,230 MT (96.32% capacity utilisation) (including 1,43,990 MT on new Paper M/c No.VI) against 2,67,005 MT in the last year (83.44% capacity utilisation) (including 95,475 MT on new Paper Machine No.VI) i.e., higher by 41,225 MT. The sale of paper, paperboard and hardwood pulp was 3,05,818 MT against 2,67,992 MT in the last year i.e., higher by 37,826 MT.

The turnover during the year was Rs. 1,322.77 Crores as against Rs. 1,079.41 Crores in the previous year (both inclusive of excise duty), i.e., higher by Rs. 243.36 Crores, due to increased production/sale.

Excise duty on paper and paperboard has been increased from 5% to 6% with effect from 17.3.2012, which was passed on to the market.

B) CABLE DIVISION – MYSORE

Production and sales of optical fibre cable in terms of quantity has reduced during the year under review to 20184 km and 20308 km, as against 27951 km and 27985 km in the previous year, respectively. Sale of optical fibre cable in terms of value, was of Rs. 28.82 crores as against Rs. 27.78 crores (both inclusive of excise duty) during the previous year. During 2011-12, the production was lower on account of manufacture of more high fibre count which however, increased realisation compared to previous year.

Part of the facilities of the non-operating PIJF plant were utilised for manufacturing Control Cable and its production and sale was 341 kms and 337 kms respectively as against both production & sale being 248 km in the last year. Total turnover of cable division during year was Rs. 33.46 Crores as against Rs. 29.03 Crores (both inclusive of excise duty) during the previous year.

EXPORTS

Export of paper, paperboard and duplex board increased from 13650 MT worth Rs.53.07 Crores (FOB) in 2010-

11 to 23404 MT worth Rs.98.07 Crores (FOB) in 2011-12. Further, 876 km of Cable worth Rs.2.12 Cr was exported in 2011-12 compared to 1519 km of Cable worth Rs.1.57 Cr in 2010-11.

RAW MATERIALS

The Company has procured 10.31 lakhs MT of wood and bamboo as against 6.89 lakhs MT in the previous year, with the Company geared to source more than 10 Lakhs MT of raw material per annum on sustained basis for ensuring smooth operations for expanded capacity.

Enhanced costs of procurement by 13% compared to previous year was influenced by various factors including diversion of pulp wood as commercial poles & as bio fuel; redefining of tariff parameters by railways resulting in an upward revision of freight by almost 21.5% in 2011-12, continued inadequacy of harvesting & debarking labour, Logistics issues (transport) on account of Petroleum prices revisions as well as single axle trucks fading from operations causing cost additions for haulage of harvested wood from plantation sites to motorable roads, upward revisions of royalty by forest departments, forest corporations and procurement rates by APMCs, caused strain on the sourcing of pulpwod.

The “Thane” cyclone which hit coasts of Tamilnadu and Pondicherry in December 2011 has had its own share of strains on the supply side. The adverse impact of “Thane” is likely to spill over for another harvesting rotation.

Import of wood is also being explored by the Company. Internationally wood for pulping is in the process of being traded in chip form. Our ports are yet to be equipped for handling chips, so also the process equipments in the works of different pulping units. Large corporations have taken up high tech pulpwood plantations in south East Asia, Australia, South America & African continents to offer chips as a product. Like the pulpwood marketing India has taken a Pan India status the pulpwood in chip form would be ‘Product’ of coming years.

Notwithstanding all these constraints, procurement of pulpwood has been consistent and commensurate to the process and stocking requirements at optimum costs on par with market standards.

The Company, having envisaged this situation many years earlier had taken up Contract for Farming in the local region of within 300 Kms radius of our works at Dandeli. The fruits of this endeavour have realised in as much as the first rotation harvesting have contributed around 13,000 MT within the two months of beginning of harvesting. The tempo has gathered

momentum. The land owners are happy and are renewing the contracts for farming.

PLANTATIONS

The Company’s long term vision of harnessing the degraded, unproductive and barren lands within the vicinity of 300 Kms of Dandeli for augmentation of raw material and for the benefits for all stake holders have proven to be a boon to the communities in this region. They have the fruits in their hands now of the consistent & sustained perseverance of the company in this unique Contract for Farming model. The faith of the communities has multiplied and expressed in the form of renewed contracts and farmers vision has changed from poverty to prosperity under the Contract for Farming Project.

As of now, 30,375 acres are under Contract for Farming with crop of different ages and year to year 10,000 acres are being added.

This proactive scheme of the Company, tailor made for the specific situations of this region, with an understanding of the socio-economic conditions of the land owning families, their resources, their regional culture, geographical conditions - be it steep slopes of degraded lands in south western Maharashtra or barren abandoned lands of Koppal areas of Karnataka - and agricultural practices has synergised with their life in such a way that they own the scheme.

The land owning families were constrained on account of their economic weakness to grow and sustain with their own finance the multi year gestation crops. The alternate vocation/ commercial crop to engage them was a challenge too. Our scheme has mitigated all these issues to their fulfilment.

The national forest policy’s vision of wood based industries sourcing their raw material from encouraging agro forestry amongst the farming community and phasing out of sourcing the raw material from the forests are rightfully achieved from this scheme.

FARMERS VISION HAS CHANGED FROM POVERTY TO PROSPERITY UNDER THE CONTRACT FOR FARMING PROJECT.

