



Tough times  
still **moving on**



**THE WEST COAST PAPER MILLS LIMITED**

*Your partner in progress...*

ANNUAL REPORT 2012-13

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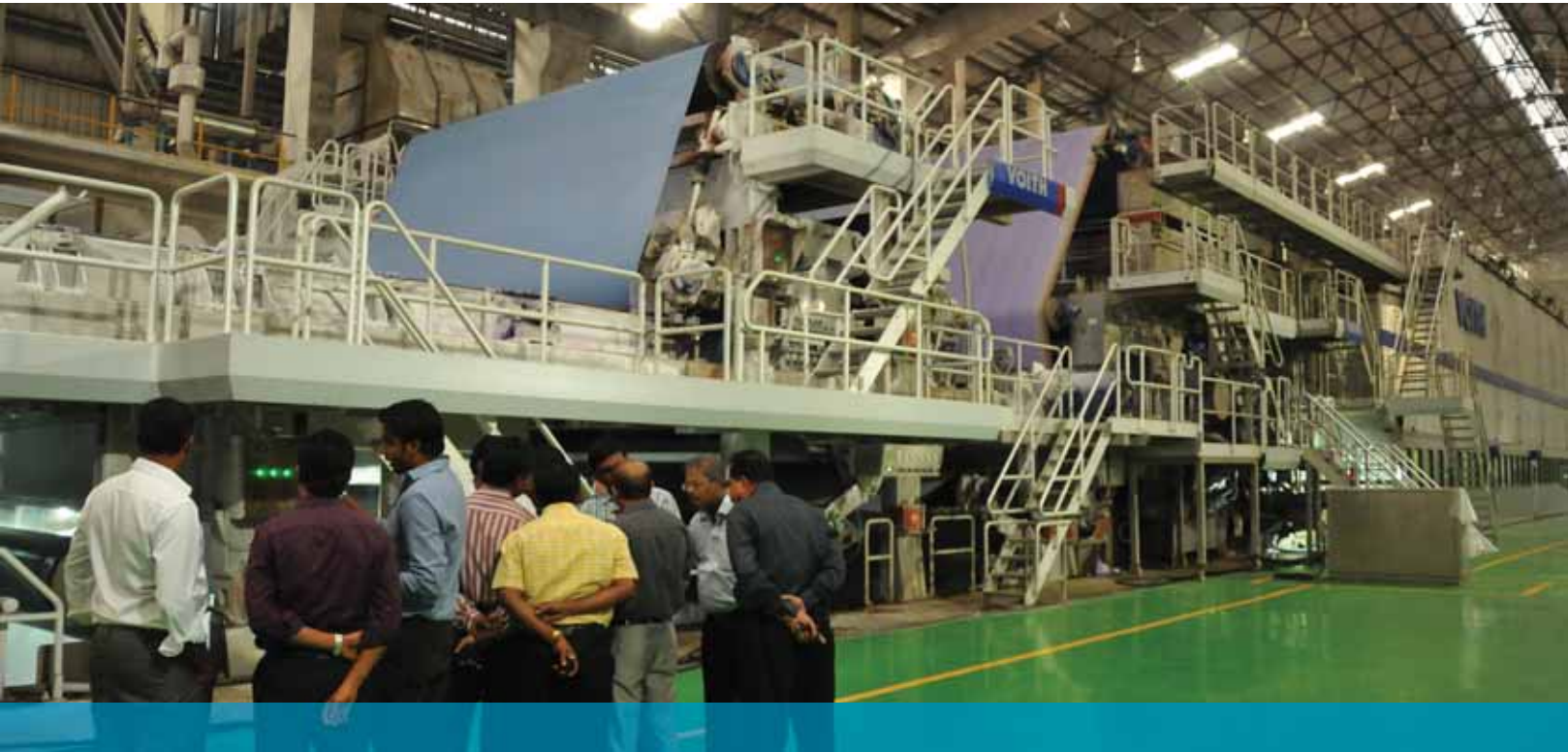
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### FORWARD LOOKING STATEMENT

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 forwardlooking 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 & Analysis

## A) INDUSTRY STRUCTURE & DEVELOPMENT

### Paper Division

There are about 750 - 1000 paper mills (organized & unorganized 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 being highly capital intensive in nature of the industry and a threat of cheaper imports from China, Indonesia etc. From a situation where most paper mills were relatively smaller 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.43,000 crores and contributes over Rs.4,300 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 11.60 million tonnes per year which is less than 3% of global demand of 400 million tonnes even though population of 121 crores as per 2011 census is 17% of world population. Of this, writing & printing paper accounts for approx. 4.20 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 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 kg per capita or 20 million tonnes by 2020 in our country, requiring more than double quantity of paper that we currently produce and consume.

However, there are concerns about growth in writing & printing segment as demand globally is declining by 2.5 million tonnes every year and, going forward, we may not be isolated from the same given the growth of I.C.T. (Information & Communication Technology).

Growth in paper industry during 2012-13 is insignificant being 0.6% in Q1, 1.4% in Q2 and 0.3% in Q3 as per economic survey 2012-13.

To meet this demand, the Indian paper industry expanded its capacity close to 1 million tonnes, however recession set in 2008 slowed 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.

The economic survey of 2012-13 clearly highlights drying of investment in projects in the economy and the paper industry is not isolated from the same, as there are no major projects in pipeline which may change the demand-supply equilibrium in time to come.

Industry has upgraded process technologies, installed most modern fiber 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 modernize the fiber 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 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 Company has performed very well on these norms and will be able to get substantial credits post 2014.

To meet the demand, the Indian paper industry expanded its capacity close to 1 Million tonnes



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 and there is no change in Union Budget 2013-14.

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 programmes whereby plantation is taken in a big way on the unproductive revenue land and thus generating not only income to the farmers but also providing employment to the rural unskilled population.

The Company has also focused on social forestry and has cultivated 44,056 acres of land so far within a radius of 250 km and it is hoped that 50% of wood requirement will be met by the same from 2015-16. The Company is also distributing 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.

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 the 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.

Given the above status of availability, the industry is facing severe shortage of wood apart from continuously increasing cost of procurement particularly in the context of unplanned expansion by the industry without raw material back-up and focusing only on Andhra Pradesh for sourcing the requirement.

Wood rates have increased by 20.29% (Rs.7.70 crores p.m.) during the current year and there is no end to it. This has forced the mills to look for sourcing the wood logs & chips from abroad and the Company has already placed order for procurement of chips/logs from abroad and its quality will be far superior than locally sourced.

#### **Cable Division**

There are 13 OFC manufacturers having a total capacity of approximately 6 lacs cable Kms p.a. The capacity of the industry is expected to become approximately 9-10 Lacs Cable Kms p.a. after expansion plan underway.

The OF Cable industry is likely to witness considerable growth with emergence of new technologies and Government initiatives under National Telecom Policy (NTP) 2012. Some of the major expected projects are as follows:

National Optical Fibre Network (NOFN) connecting 2.5 Lacs Gram Panchayats on fibre based broadband network. The



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project is being executed through newly formed SPV incorporated "Bharat Broadband Nigam Limited" (BBNL). The network shall be shared by Railtel, Power Grid Corporation and BSNL. The project is funded by Universal Obligation Fund (USOF) and all State Governments and Central Government controlled territory shall provide free ROW for laying OFC. NOFN total requirement will be in the range of 5 Lacs cable Kms (24 F OFC). The present tender is expected to be of 4.0 Lacs cable Kms. The OFC cable is expected to be supplied in 8 months time.

Reliance Jio Infocom Ltd., (formerly HFCL Infotel Broadband) 4G network envisaged OFC network of 3.5 Lacs cable Kms with mostly high count ribbon cables and ADSS cables. The network is to be in operation within 3 years.

Reliance Infocom is also expanding its network with external funding to roll out new network for better revenue generation. The demand of OFC will be in the range of 30K Cable Kms with only 3-4 approved vendors.

Network for Spectrum project (NFS) has requirement of 58K Cable Kms (turnkey contract). ASCON has projected requirement of 16K Kms for the financial year 2013-14 whereas Railtel has projected requirement of 3K-4K Kms for the financial year 2013-14. Other than above currently there are no major projections from private 2G/3G telecom operators.

Considering the above factors currently Company is focusing on the tender business with high fibre count Optical Fibre cable of 24F.

## **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 a 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 programme whereby plantation is taken in a big way on the unproductive revenue land and thus generating not only income to the farmers but also providing employment to the rural unskilled population.

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### **Cable Division**

With robust machinery infrastructure and with qualified factory manpower, this division is capable of catering to substantial market share. The increase in demand due to slow down in past years and rolling out 4G networks projects from Reliance GIO & new projects from BBNL will result in less competition thus price realization is expected to be better than past two years.

Recent regulatory developments, which have led to huge 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 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 a revamping of paper industry with a positive outlook.

#### Cable Division

Reliance Industries has rolled out 4G network in 22 circles utilizing high fibre count OFC & their demand is expected to be approximately 3,50,000 cable kms in next 2-3 years.

Tender from Government of India set up SPV called Bharat Broadband Network Ltd., for implementing Rs.20,000 Crore National Optical Fibre Cable Network (NOFN). The Network is expected to be operational by end of 2013. The demand of OFC will be 25,00,000 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 a state-of-art Effluent Treatment Plant and has gone for 100% ECF Pulp 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 requirement consistently.

#### F) INTERNAL CONTROL SYSTEM & TECHNOLOGY

The Company has adequate system of internal controls to safeguard and protect from loss, unauthorized use or disposition of its assets. All the transactions are properly authorized, 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 and yearly audit programme is submitted to the Audit Committee of the Board. 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.



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#### **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 31.02.2014. 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 rationalize 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 2,414 people as on 31.3.2013 as against 2,442 people employed as on 31.3.2012.

#### **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.



Hi-tech Mist Chambers for Clonal Plants Propagation





# Directors' Report

Your Directors are pleased to present the 58th Annual Report of the Company, together with the audited accounts for the year ended 31st March 2013.

## FINANCIAL RESULTS

(Amount in Rs. Lacs)

|  | 2012-13          | 2011-12          |
|--|------------------|------------------|
| Gross Profit                           | 27,341.25        | 23,015.14        |
| Balance brought forward                | (779.54)         | 2,815.39         |
|  | <b>26,561.71</b> | <b>25,830.53</b> |
| <b>Allocations :</b>                   |                  |                  |
| Finance Cost                           | 7,257.21         | 7,149.57         |
| Depreciation                           | 13,635.33        | 14,315.46        |
| Exceptional items                      | 3,993.95         | 6,219.78         |
| Taxation - Current                     | 371.65           | -                |
| - MAT Credit Entitlement               | (335.03)         | -                |
| - Deferred                             | 606.85           | (1,313.84)       |
| General Reserve                        | 181.13           | -                |
| Proposed Dividends - Preference Shares | -                | 80.23            |
| - Equity Shares                        | 660.49           | 125.50           |
| - Shortfall of 2011-12                 | 6.60             | -                |
| Tax on Dividends                       | 112.25           | 33.37            |
| - Shortfall of 2011-12                 | 1.07             | -                |
| Balance carried forward                | 70.21            | (779.54)         |
|  | <b>26,561.71</b> | <b>25,830.53</b> |

## DIVIDENDS

Your Directors recommend a dividend of Re.1/- per equity share (50%) on 6,60,48,908 Equity Shares of Rs.2/- each, subject to members' approval for the accounting year 2012-13.

## PERFORMANCE

The working results of the Company were satisfactory on a robust performance reflected in the full utilization of expanded capacity of production of Pulp & Paper Board coupled with favourable change in the product mix. However, the working results of the Company continued to be adversely affected by the overriding sluggish market conditions coupled with a steep hike in the cost of raw materials together with deteriorating quality, chemicals, coal and furnace oil. The upward revision in minimum wages, hike in VDA, finance charges etc., also affected the buoyancy of the working results.

However, Paper market has taken a positive turn from December 2012 and the Company expects that results for the current year should improve, barring unforeseen circumstances due to higher sales realization.

The Company posted gross profit of Rs.200.84 Crores as against Rs.158.66 Crores in the previous year - higher by Rs.42.18 Crores (27%) whereas there was a net profit of Rs.18.13 Crores as against loss of Rs.33.56 Crores in the previous year.

### DIVISION WISE PERFORMANCE

#### A) Paper and Duplex Board Divisions

The production of paper, paperboard and hardwood pulp was 3,17,808 MT (99.32% capacity utilization) (including 1,47,110 MT on new Paper M/c No.VI) against 3,08,230 MT in the last year (96.32% capacity utilization) (including 1,43,990 MT on new Paper Machine No.VI) i.e., higher by 9,578 MT. The sale of paper, paperboard and hardwood pulp was 3,21,018 MT against 3,05,818 MT in the last year i.e., higher by 15,200 MT.

The turnover during the year was Rs.1,499.07 Crores as against Rs.1,322.77 Crores in the previous year (both inclusive of excise duty), i.e., higher by Rs.176.30 Crores, due to increased production and sale and revision in sales prices.

There was no change in excise duty on paper & paperboard which was last revised from 5% to 6% on 17.03.2012.

#### B) Cable Division - Mysore

Production and sales of optical fibre cable in terms of quantity was 20,242 kms and 20,160 kms during the year as against 20,184 kms and 20308 kms in the previous year, respectively. Sale of optical fibre cable in terms of value, was higher at Rs.41.67 crores as against Rs.28.82 crores (both inclusive of excise duty) during the previous year due to execution of more fibre count cable.

The production in control cable plant was started in 2010-11 however the production & sales during the year was NIL as against 341 kms & 337 kms with sales value of Rs.4.64 crores in the previous year. Total turnover of cable division during the year was Rs.41.67 crores as against Rs.33.46 crores (both inclusive of excise duty) during the previous year.

### EXPORTS

Export of paper, paperboard and duplex board reduced from 23,404 MT worth Rs.98.07 Crores (FOB) in 2011-12 to 10103 MT worth Rs.49.07 Crores (FOB) in 2012-13 due to unremunerative prices. Further, 437 km of Cable worth Rs.0.75 crores was exported in 2012-13 compared to 876 km of Cable worth Rs.2.12 crores in 2011-12.

### RAW MATERIALS

The Company has procured 7.92 Lacs MT of pulpwood and bamboo as against 10.31 Lacs MT in the previous year, with the Company geared to source more than 10 Lacs MT of raw material per annum on sustained basis ensuring smooth operations for expanded capacity.

In the past one year, the raw material costs have risen by about 20% due to demand-supply imbalance; upward revision of Railway freight in 2012-13, urbanization, diversion of land for agricultural purposes, diversion of labour on Government Schemes (MNREGA) to attain social security, shortage of man power for pulpwood extraction, transportation cost on account

