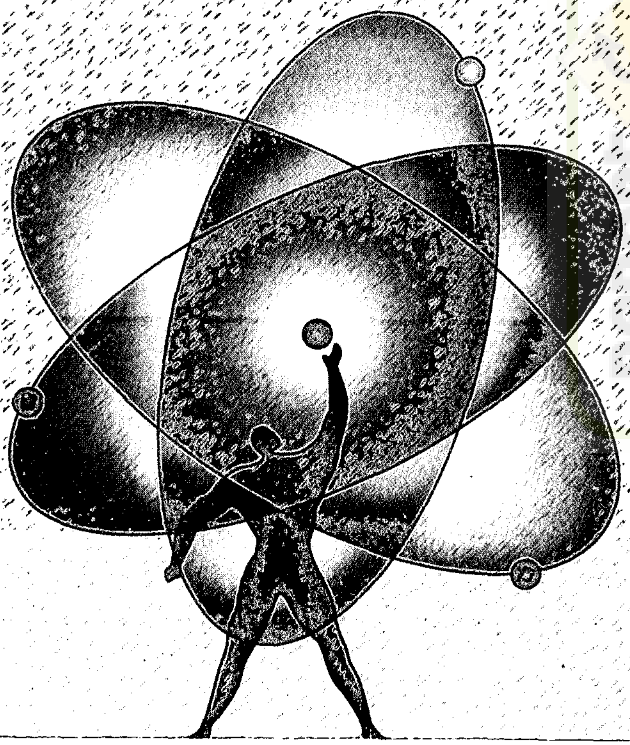
now

One of India's largest speciality paper manufacturers.

next

Higher productivity and profitability.



HOW

Enhance production. Reduce costs. Widen reach. Enrich product mix.

Yash Papers Limited • Annual report, 2008-09

In Fond Memory

A tribute to our founder member **Mr. K.K. Jhunjhunwala,** whose vision remains our guiding light.

CORPORATE INFORMATION

Board of Directors
Mr. G. Narayana, *Chairman*
Mr. Ved Krishna, *Managing Director*
Mr K.D. Pudumjee, *Director*
Mr. R.N. Chakraborty,
Executive Director
Mrs. Manjula Jhunjhunwala, *Director*
Mr. G.N. Gupta, *Director*
Dr. P. Banerjee, *Director*
Mr. Yash Krishna, *Director*
Mrs. Sheetal Jhunjhunwala,
Alternate Director to Yash Krishna
Mr. Basant Khaitan, *Director*
Mr. Ramesh Narayan, *Director*

Bankers
State Bank of India
Oriental Bank of Commerce

Auditors
Kapoor Tandon & Co.
Chartered Accountants
Kanpur

Registered office
47/81, Hatia Bazar, Kanpur 208001

Works and corporate office
Yash Nagar, Faizabad 224135,
Uttar Pradesh
Phone: 05278 326611-14
Fax No: 05278 258062
Website: www.yash-papers.com
Email: info@yash-papers.com

Registrar and share transfer agent
Skyline Financial Services Pvt. Ltd.
246 1st Floor, Sant Nagar, East of
Kailash, New Delhi 110065
Phone: 011-26292680/81/82/83
Fax: 011-26292681
Email: admin@skylinerta.com

HERE IS WHAT YOU WILL FIND INSIDE THIS ANNUAL REPORT.

FROM THE DESK OF THE CHAIRMAN

THE YEAR 2008-09 WAS THE FIRST FULL YEAR OF OPERATION FOR THE AMBITIOUS EXPANSION PROGRAMME WE UNDERTOOK IN 2005, WHICH WAS REFLECTED IN A SIGNIFICANT TURNOVER INCREASE FROM ABOUT RS. 45 CR (12 MONTH BASIS) TO RS. 88 CR.

The Company also enhanced capacity utilisation to over 62% for PM III and 76% on an overall basis. Our power plant, pulp mill and chemical recovery systems also worked well in 2008-09.

The management team led by the Managing Director Mr. Ved Krishna, a committed leader, is enthusiastic about the Company's profitability and sustainable growth, which will result in better valuations.

The following initiatives have been planned for 2009-10:

- Stabilise quality at PM III. Experts have been identified and involved
- Enhance productivity at PM III. Numerous initiatives are in process
- Reduce quality rejections and finishing losses and reduce downtime through implementation of TPM
- Increase net sales realisations of all paper varieties. The Company has targeted higher value segments and is developing qualities accordingly
- Reduce energy consumption. The Company is undergoing an energy audit and plans to implement numerous tasks that emerge
- Reduce reliance on purchased pulp by establishing a wood fibre line
- Enhance sale of pulp
- Develop paper grades in another mill
- Initiate a Voluntary Emission Reduction (VER) programme in addition to its registered Certified Emission Reduction (CER) project
- Explore possibilities to establish a specialised coating line
- Observe all policies and actions to integrate ethics, energy, excellence, economy and ecology

I am sure that these initiatives will lead us to a momentous year in 2009-10.

We are thankful for the support and confidence of all our stakeholders.

Sincerely,

G. Narayana, *Chairman*

The Company has targeted

HIGHER VALUE

segments and is developing qualities accordingly next

YASH PAPERS IS FOCUSED ON ENHANCING PROFITABILITY.

"GROWING VOLUMES AND HIGHER AVERAGE REALISATIONS SHOULD TRANSLATE INTO A RS. 125 CR TOPLINE IN 2009-10. COST OPTIMISATION AND A VOLUME-VALUE PRODUCT MIX SHOULD GENERATE A 10% NET MARGIN. THIS WILL SET THE FOUNDATION FOR ENHANCED SHAREHOLDER VALUE."

Ved Krishna, *Managing Director,* Yash Papers Limited, indicates how 2008-09 should be seen as a turning point in the Company's existence

Q. How would you describe the Company's performance in 2008-09?

A. Even though Yash Papers reported a net loss of Rs. 2.15 cr in 2008-09, we would be inclined to consider this financial year as a watershed in our existence for an important reason: the optimisation of paper machine III (PM III) and allied utilities.

Q. Why was this an important development?

For years, we were completely dependent on bagasse as our principal raw material. However, owing to huge swings in national cane production, bagasse cost management became a challenge, threatening our business plans. The result was that on a number of occasions, the management focus would be completely diverted from locating new markets or creating new products or enhancing value to sourcing bagasse at the lowest cost.

In such an environment, the PM III did not come a day too soon. We are passing through challenging times from a cane perspective; India's cane output declined from 30.60 million tonnes in 2006-07 to 24.80 million tonnes in 2008-09 while Yash Papers' PM III has been configured to consume non-bagasse- based raw material like straw and softwood. Although we face initial challenges in making the transition, once stabilised, this switch will help us source raw material cheaper than bagasse and report a higher yield. So what we achieved in 2008-09 will represent the foundation for profitably sustainable growth.

Q. What were the highlights of the Company's working in 2008-09?

A. The Company performed creditably in reporting a 62% capacity utilisation from its PM III in the first full year of operation. The PM III production of 14,297 MT in 2008-09 was almost equivalent to the cumulative output of PM I and PM II (15,454 MT). In other words, we compressed the achievement of 24 years and two machines into three years and one machine.

There was another creditable achievement. We commenced our 130-TPD pulp mill, caustic recovery plant and 6-MW cogeneration plant. The combined effect of the integration was reflected in the numbers: manufacturing expenses, power and fuel costs and employee charges declined to 16.20% from 19.02%, 18.45% from 21.49% and 5.55% from 8.60% respectively, during the period.

Q. How did the Company strengthen its product appeal?

A. We moved closer to customer developments through an understanding of the precise paper specifications required by each, so that any conversions required on the customer's end could be carried out with ease. In 2008-09, we exported nearly 4.95% of our production with correspondingly attractive realisations. Aggregate sales and net sales realisations of paper surged 61% and 26% respectively, vindicating market selection.

Q. How do you explain the mismatch between the Company's pulp and paper capacities?

A. We invested in enhanced pulp capacity to provide for prospective paper capacity expansions. In the last year, we marketed 405 MT of pulp in the open market with an average per tonne realisation of Rs. 19,404 in 2008-09. Not only did this line of business contribute to the total income from operations in 2008-09 but, going ahead, pulp sales will enhance our total income and stabilise our cash flow, until

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such time when we expand our paper capacity and consume all the pulp within.

Q. What challenges did the Company counter in 2008-09?

A. Any transition creates teething issues and the switch from bagasse to straw and soft pulpwood was no different. In addition to this switch, the scaling to a state-of-the-art pulp mill and advanced paper machine led to process disruptions. At such junctures, even a minor variation in yield – difference between input and output – can be the difference between profits and losses. Since we were dealing with a completely different fibre source, our R&D had to be done onsite with some low-cost modifications in assets and processes. I am pleased to state that we were able to bring yields to manageable levels in late 2008 going up to the first half of 2009.

During this phase, paper quality declined. We resisted making distress sales that could potentially have eroded our brand. Today, I am happy to state that we have stabilised our operations based on the new fibre sources and expect to enhance yield by 300–400 basis points in 2009-10.

Q. How do you read the Indian paper market?

A. The economic downturn has not affected India as much as large developed economies. With a surge in global commodity prices during the first half of 2008-09, our cost of operations went up, driving paper prices up by 10–20%. However, despite a moderation in key raw material resource costs, paper prices, particularly those required for packaging and speciality paper grades, held firm owing to robust demand. With the FMCG and pharmaceutical industries remaining largely insulated from the slowdown, the paper demand from these sectors and realisations remained strong and in some grades, actually strengthened. Overall, speciality paper prices remained firm even as commodity realisations declined in 2008-09. It is expected that almost 600,000 TPA of writing and printing paper will come on stream in 2009-10, creating temporary oversupply. Since we are not present in these segments, we expect to remain insulated.

On the pulp side, the demand–supply mismatch continues, strengthening pulp prices. Consequently, a number of paper manufacturers are looking to diversify their sourcing from virgin fibre towards agro-based alternatives. However, the high switchover cost – equipment and credit — is deterring.

Q. How is Yash Papers managing under the circumstances?

A. At Yash Papers, we were proactive in selecting to manufacture niche varieties relatively insulated from commodity end vagaries. With a swift changeover from bagasse to straw — now 90% of our total fibre intake — we have not only protected ourselves from unavailability and price volatility, but also saved ourselves from bagasse inventory costs arising from its seasonal availability. By the virtue of our location in east Uttar Pradesh, we enjoy adequate access to wheat straw and bamboo sources.

Q. What is the outlook for 2009-10 and beyond?

A. At Yash Papers, we are focused on products that fetch us the highest value and the largest volumes, reflected in the following initiatives:

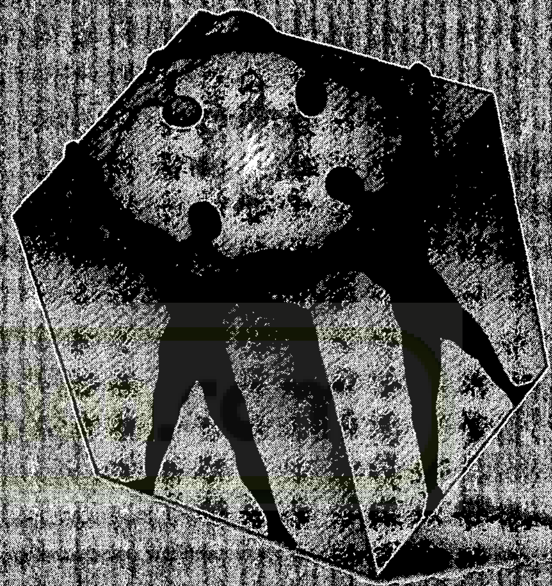
- Commission a coating line at our Faizabad facility by October 2009 for the manufacture of special coated varieties. At a near 100% capacity utilisation, this asset has the potential to contribute 25% to our bottomline in 2009-10 based on a mere five months of operations. The unit will also enhance realisations to around Rs. 70,000 per tonne
- Lease a 500-TPM poster paper capacity from a proximate manufacturing unit. The arrangement will comprise the supply of pulp converted into poster paper at the vendor's end. This initiative will enable us to maximise the incremental availability of pulp for conversion into products, fetching the highest possible realisations. The output will be marketed under the Yash brand and will provide us with a least-cost option of accelerating our entry into the market and strengthening our market share
- Undertake a number of energy optimisation programmes leading to a 10% reduction in the average per unit energy cost by the close of 2009-10
- Strengthen plantation activities by extending cultivation across 4,000 hectares in 2009-10
- Reinforce our manufacturing and operational excellence culture using tools such as TPM and other self-developed systems for the establishment of required skill sets, training and development of our people
- Enlist for voluntary emission reductions (VER) and hired Deloitte to assist us in

this regard. VERs are carbon credits developed by carbon offset providers, which are not certified. Although certification of carbon credits (Certified Emissions Reductions) are backed by an international framework and institutions – for example the UN's Clean Development Mechanism – voluntary offset schemes can be defined as those generating GHG emission reductions not required by Kyoto Protocol's derived regulation. Through these schemes, industries and individuals voluntarily compensate their emissions or provide an additional contribution to mitigating climate change. Together with the CERs, we expect to derive almost Rs. 3 cr free cash flow from this at the end of 2009-10

- Explore the feasibility of consuming bamboo pulp to mitigate our dependence on softwood pulp, which witnessed price fluctuations. This will enable us to capitalise on lower forex exposure, lower raw material cost and bamboo availability.
- Strengthen our caustic recovery from 88–91%, resulting in better environment management
- Strengthen our capacity utilisation from 76% to around 80%, spreading overheads across a larger production

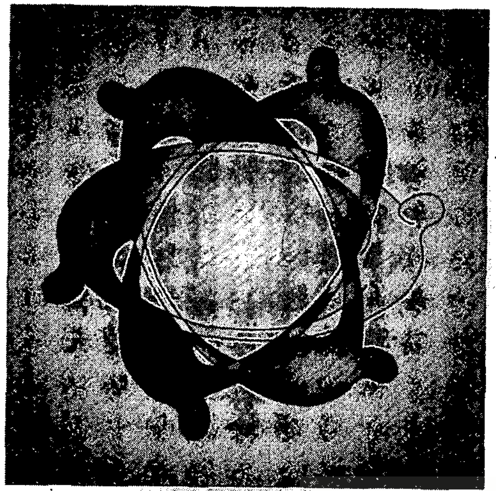
Q. How will this translate into the numbers for 2009-10 and beyond?

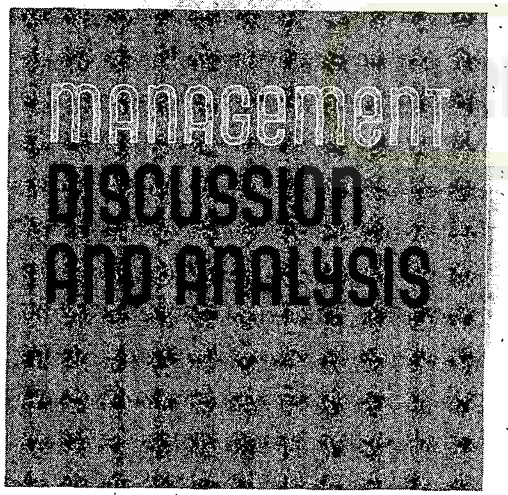
A. We expect to achieve a topline of Rs. 125 cr in 2009-10. With the adoption of cost optimisation programmes and the flexibility to produce higher value kraft output from PM I and PM II and high-value poster paper from PM III, we expect to turn in a net profit margin of 10%. This should drive our EPS to Rs. 5 in 2009-10, building a strong case for the re-rating of our stock market price at the close of 31st July, 2009 at Rs. 5.20.



OUR MEASURES TO COUNTER THE SLOWDOWN

- Squeeze more cash from the system
- Enter into long-term raw material sourcing contracts
- Enhance production and capacity through de-bottlenecking
- Invest in innovation to facilitate our product's performance on the customer's production machines
- Invest in new products that enhance realisations and returns





Global paper and board industry

Overall, the global paper industry de-grew 1.8% in 2008-09 compared with the previous year, while the paper market in developed countries grew 2% during the same period. The economic crisis affected global paper demand, moderating realisations from a high of USD 1,000 per tonne to USD 750 per tonne in 2008-09. Demand growth was stagnant in the US, Europe and Japan, while it remained vibrant in Latin America, Commonwealth of Independent States (CIS) and Asia. The growing popularity of electronic communication modes affected paper demand (primarily cultural paper), while packaging paper found increasing preference over plastic in the industrialised world. Traditional paper manufacturing destinations – the US, Canada and Scandinavia – gradually yielded ground to emerging hubs like Brazil, India, Chile, Indonesia and China.

European Union: The Euro zone reported a moderate GDP growth of 2% in 2008, with a large proportion emanating from the first half of the year under review. During the last quarter of calendar year 2008, the Euro zone witnessed the maximum impact of the economic downturn with GDP in Euro countries declining 0.7%. Forecasts suggest continued weakness with the probability of subdued recovery in 2010.

The big story in Europe in 2008 was an across-the-board moderation in paper and pulp production, depressing capacity utilisation. The temporary and permanent reductions in production capacity improved demand–supply balances, a scenario witnessed in newsprint, magazine and coated fine papers. Some of the larger paper producers in the region sought to retain discipline on the supply side with aggressive curtailments or complete capacity closures.

The ensuing hike in realisations, though moderate, offset losses arising out of low capacity utilisation levels to some extent. Indications suggest that this will remain the core strategy in 2009 as well. While these actions will make it possible for the industry to return to a natural demand–supply equilibrium, once demand recovers a sudden ramp-up might not be immediately possible, creating a drag on operating profits and the occurrence of notional losses. Large-scale consolidation failed to materialise in Europe in 2008. Consequently, aggregate paper and pulp trading volumes declined 10% from 2007 to 2008.

United States of America: The United States of America was perhaps the worst affected in the financial crisis. US GDP growth slowed from 2.1% in 2007 to 1.1% in 2008 with a significant decline in the second half. The fourth quarter experienced contraction at an annualised rate of as much as 6.3%. In addition to sluggish domestic demand, the economic downturn caused US producers to face a marked drop in demand from not only the US but also from emerging markets leading to a corresponding decline in exports.

As in Europe, many US paper and pulp companies reduced or shifted capacity to lower-cost destinations. According to the American Forest and Paper Association (AF&PA), one of the oldest and most respected major trade groups, American paper and pulp reported an overall capacity reduction of 0.8% for 2008; paper and paperboard capacity contracted by a significant 7.3% since its peak witnessed in 2000.

Recently, the American paper and pulp industry focused upon a provision of the