

A series of concentric, curved lines in shades of green, blue, cyan, red, orange, and yellow, starting from the top left and curving towards the right.

turnaround!

Yash Papers Limited ▶ Annual report, 2009-10

A series of concentric, curved lines in shades of green, blue, cyan, red, orange, and yellow, starting from the top left and curving towards the right, ending in arrowheads pointing to the right.

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. R. N. Chakraborty,
Executive Director

Mrs. Manjula Jhunjhunwala,
Director

Mr. G. N. Gupta, *Director*

Dr. P. Banerjee, *Director*

Mr. Yash Krishna, *Director*

Mr. Basant Kumar Khaitan, *Director*

Mr. Ramesh Narayan, *Director*

Mr. K. D. Pudumjee, *Director*

Bankers

State Bank of India

United Bank of India

Oriental Bank of Commerce

Union Bank of India

UCO Bank

Auditors

Kapoor Tandon & Co.

Chartered Accountants

24/57, Birhana Road

Kanpur – 208001

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.

D-153/A, 1st Floor

Okhla Industrial Place Phase – 1,

New Delhi – 110020

Phone: 011-226292682/ 83 / 84

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What we are.
What we do.
What we stand for.

Presence

- Our manufacturing plant is located in the Faizabad district of Uttar Pradesh, one of India's largest wheat producers, facilitating the easy procurement of wheat straw (primary raw material).
- Our products are distributed through a national network comprising 37 dealers; exports are being made to more than 20 countries.
- Listed on Bombay Stock Exchange Limited, Mumbai.

Innovations

- One of the first Indian paper manufacturers to invest in captive cogeneration.
- The smallest unit in the world with a conventional chemical recovery system.
- One of the earliest to use AC variable frequency drives on re-winders and paper machines.
- One of the few to use rice husk as fuel and agro-residues as raw material.
- One of the earliest paper mills with a CDM-registered project.
- Developed numerous paper grades.

Products

- Manufacture of unbleached kraft paper including different wrapping grades (30-60 GSM) used in interleaving, bidi wrapping, matchboxes, tobacco pouches, PE coating, wax coating, bituminisation, bangles and glassware, brassware, gum tape, among other uses; Packaging, bag and stationery

grades (60-80 GSM) are used in the manufacture of envelopes, grocery bags, book covers, gift wrap, metallised paper and other stationery materials

- Manufacture of Bleached MG poster paper (30-80 GSM) used in the pharmaceutical industry and FMCG industry with usage in soaps, detergents, food packaging, tea, sugar and salt sachets, cigarette inner liners, tubelight packaging, among others. These grades are also used as base paper for thermal, chromo and metallised grades; PE coating, foil lamination and wax coating are other uses for the MG poster grades

- Manufacture of coloured like orange grades (48-80 GSM) which are used in envelopes and book covers: golden shade (32-40 GSM) is used in envelope and wrapping grades

- Bleached and unbleached pulp to different paper mills

Equipment

- Three paper machines, manufacturing low grammage MG industrial bleached and unbleached grades; Grammage range extends from 28 GSM to 80 GSM; Total production capacity of 39,100 MTPA
- An integrated pulp mill produces bleached and unbleached pulp grades from agro-based raw material, total capacity: 130 TPD
- Two power plants; one with an output of 2.5 MW and the other with an output of 6 MW; Both with extraction-cum-condensing turbines and rice husk-based FBC boilers
- A chemical recovery plant with capacity of 145 MT BD Solids

Milestones

1981

- Established by promoter Mr. K. K. Jhunjhunwala

1983

- Set up Paper Machine I with an installed capacity of 1,940 MT per annum
- Commenced production of low grammage kraft grades
- Created additional capacity of about 2,000 MTPA

1991

- Setup Paper Machine II with installed capacity of 10,000 MTPA
- Continued to address the low grammage kraft segment

1995

- Set up a 2.5-MW Power plant with an Extraction-cum-Condensing Turbine
- Enhanced Paper Machine II capacity to 16,000 MTPA

2007

- Installed Paper Machine III with installed capacity of 23,100 MTPA
- Entered the market of bleached MG grades
- Commissioned integrated infrastructure comprising state-of-the-art 130-tpd pulping stream
- Set up a 6-MW Power Plant and Chemical Recovery Unit of capacity 145 TPD

2009

- Focused on specialty products and quality, reinvesting in additional capacity
- CII conducted an Energy Audit to optimise energy consumption
- Implemented TPM to enhance productivity and efficiency
- Emerged the largest manufacturer of wrapping paper grades in brown and white varieties (installed capacity 39,100 tons per annum)
- Implemented Quality Control Systems to stabilise product quality

From the desk of the Chairman



THE INDIAN ECONOMY GREW BY 7.4% in the fiscal year 2009-10 and this scenario presents an exciting opportunity for a company like ours since paper is an essential commodity and rides national GDP growth.

Yash Papers Limited is a niche market player as most of its products are in the wrapping segment, influenced by retail and FMCG trends. These sectors are on an upswing marked by rising income levels, increasing affordability, favorable demographics, low penetration, increased product availability and wider distribution.

Yash Papers expects to capitalise on this reality through quality upgradation on the one hand and the development of new products to the growing needs of these sectors. The Company is attractively placed in this regard: our integrated

facilities serve as an edge over competitors. For instance, our integrated pulping facilities produce products of a consistently high quality. Besides, our ability to customise products according to customer specific needs has translated into superior and timely innovation.

Yash Papers expects to strengthen its business through the following initiatives in 2010-11:

- Develop higher value grades of paper
- Supply excess power to UPPCL
- Increase sales realisations across all varieties by targeting higher value segments
- Reduce dependence on purchased pulp by setting up a captive wood fibre line
- Enhance the sale of unused pulp
- Enhance productivity in PM3

In the coming years, we aspire to grow in the speciality paper segment as it is a high value-added segment, enjoying premium realisations and leading to higher profits, asset utilisation and revenue growth.

We also expect to enter into joint ventures for the manufacture of high-grade products, leveraging on our strengths to grow laterally in the power and plantation segments.

I am confident that these initiatives will help us reinforce our presence and profitably in a sustained manner over the coming years.

Sincerely,

G. Narayana, Chairman

Managing Director's review

"We expect to sustain this turnaround through better profits during the current financial year."

Ved Krishna reviews the Company's working in 2009-10



How would you describe the Company's performance in 2009-10?

The financial year under review was challenging but due to the commitment of the Yash Papers team, we succeeded in getting into the black with a post-tax profit of Rs. 7.94 lacs as against net losses in the previous two years. If one studies the performance of the Company across the five successive quarters (starting the first quarter of 2009-10 and ending in the first quarter of 2010-11), one will notice the gradual increase in the Company's bottomline and cash profit. We expect to sustain this turnaround through better profits during the current financial year.

What challenges did the Company face during the turnaround in 2009-10?

The Yash Papers management

addressed a number of challenges during the year under review:

Raw materials: We encountered a sharp increase in the cost of our raw materials, especially wheat straw, on account of increased demand and a delay in the monsoons.

Loan: We incurred an interest outflow of Rs. 10 cr on our book debt of Rs. 87 cr during 2009-10. Our interest accounted for 59.85% of our EBIDTA, depressing our bottomline.

Quality issues: We encountered quality issues during the course of the year – making paper with wheat straw and matching the quality of paper made from wood fibre using controlled technology – which affected our realisations, margins and profits.

PM 3: The capacity utilisation of our Paper Machine 3 declined from 61.85%

in 2008-09 to 51.17% due to the MG cylinder coating and grinding which warranted machine shutdown for 45 days.

How did the Company respond to these challenges?

With passion, commitment and innovation which was reflected through the following initiatives:

Customised: We worked even closer with customers to offer customised products and strengthen our quality. As a result, customer issues declined and we generated a larger number of orders from our existing clients.

Product mix: We evolved our product mix towards unbleached paper with higher margins, used extensively in brown paper bags, wrapping bags, gum tape, VCI coated anti-rust papers, automobile wrapping, tobacco packaging

and other specialised products. The proportion of unbleached paper increased from 56.13% of our production in 2008-09 to 72.16% in 2009-10.

Value-addition: We countered the increase in raw material costs through the increasing manufacture of value-added grades that fetched higher realisations. As a result, our average realisation increased 9.13% from an average Rs. 28,756 per ton in 2008-09 to Rs. 31,645 per ton in 2009-10.

Value engineering: We strengthened the design of our digester related to PM 3, which we expect the uptime of PM 3 to increase from 74.60% in 2009-10 to 93% in 2010-11.

Raw material management: We embarked on the exercise to establish a wood source line to enhance product quality and reduce our dependence on wheat straw, which will be reflected in our working from 2010-11 onwards.

Gearing: We repaid a part of our loan, which will help us save Rs. 1 cr in interest costs in 2010-11 on a larger turnover.

You indicated an improvement in operational working. Can you elaborate?

At Yash Papers, we recognised that in a capital-intensive business, success would be derived through a more efficient

sweating of our assets on the one hand and a more responsible use of energy and chemicals on the other. In view of this, the Company reinforced its focus on operational excellence through the following initiatives:

- CII performed an energy audit to help us balance our energy inputs and quantify energy use with the objective of onward rationalisation. The audit helped us assess energy consumption across different manufacturing stages with the objective to target onward reduction and arrive at a prudent energy mix. The result was that the audit helped us rationalise the use of power per ton of paper manufactured by 12% – from 1,350 kwh in 2008-09 to 1,220 kwh in 2009-10 – which resulted in an annual notional saving of Rs. 45 lacs.

- We installed an electrostatic precipitator in our chemical recovery boiler, which helped us achieve two things: control emissions and enhance our chemical recovery from 88% to 93%. This not only reinforced our positioning as a clean company but also strengthened our competitiveness. As a result, our manufacturing expenses declined by 21.33% from Rs. 14.23 cr in 2008-09 to Rs. 11.20 cr in 2009-10.

- We implemented Total Productive Maintenance, which helped reduce the downtime in PM2 by 1.20% and in PM3

by 2%. This correspondingly strengthened our asset utilisation, enabling us to cover our fixed costs more effectively.

There has been a rebound in the country's paper industry. Will it sustain?

The global market has been volatile with huge fluctuations in pulp and waste paper prices. The Indian industry is also affected by the same. There has been a significant increase in capacity; the same may have an effect in the short-term. Overall, the growth in per capita income and the education shall both continue to fuel paper demand.

How much of this industry turnaround will translate into the Company's financials?

We expect that the combination of a favourable external environment and stronger internal working will translate into superior numbers for the Company in 2010-11. Some of the initiatives that we are taking to strengthen our performance are:

One, we are reinforcing our focus on contribution over volumes, which should strengthen our margins and financials. Besides, our average realisations climbed 8% during the first quarter of 2010-11.

Two, we expect to achieve a topline of Rs. 110 crores in 2010-11 through a

production increase by 10% following improved capacity utilisation of PM3 to 70%.

Three, generate additional revenues through the enhanced marketing of pulp (installed capacity 39,000 TPA). We marketed 3,150 tons of unconsumed pulp in the open market for an average realisation of Rs. 19,819 per ton in 2009-10, which accounted for 7.68% of our total income in 2009-10, which we expect will sustain during the current year.

Four, we expect to market products in geographies with greater respect for our environmental-friendly products.

Five, we expect to reinforce our revenues through the sale of excess power (generated from our cumulative 8.5 MW capacity) to the state electricity grid.

Six, we expect to increase the export of our end products to Japan, Australia and the US following an increase in wood pulp prices from USD 664 per ton in March 2009 to USD 974 per ton in May 2010, which makes our speciality products – manufactured from wheat straw – increasingly competitive.

A combination of the developments is likely to reinforce the vigour of our turnaround and strengthen our bottomline during the current financial year.



Our strengths

1 Distribution network

The Company possesses a marketing team supported by pan-India dealers.

2 After-sales service

The Company's technical team interacts with customers after product sale for feedback and analysis.

3 International presence

The Company exported products to 20 countries across the Middle East, Australia and South-East Asia.

4 Competitive edge

The Company is an agriculture-based paper manufacturer using wheat straw as raw material.

5 Integrated

The Company's captive pulp mill represents a backward integration.

6 Environment friendly

The Company's focus is towards achieving a positive carbon footprint and environment friendly company, which is evident from the operation such as paper production from agri-residue, power generation from biomass, complete chemical recovery and the proper treatment of effluent to use it in ponds and in farming.

7 Enduring customer relationships

The Company has lasting relationships with its customers which is, made possible by web-based CRM, highly trained technical services and product development teams and transparent functioning of the business.

8 Niche player

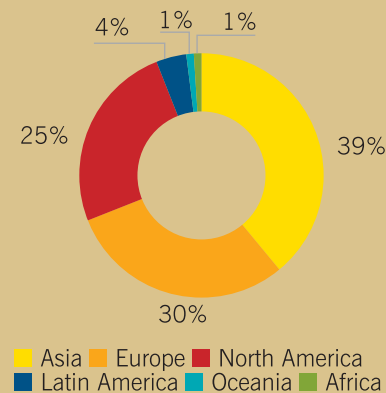
The Company's understanding of the market and its focus in niche products has made it a significant player for each of the niches targeted such as food and pharmaceuticals, wrapping, grocery bags and anti rust etc.

Management discussion and analysis

Global paper industry

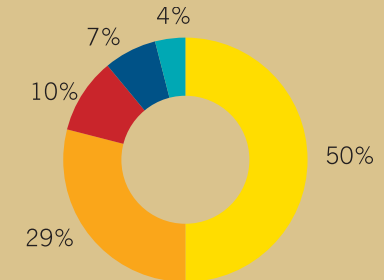
The global paper and paperboard industry is dominated by North America, Europe and Asia. Global paper and paperboard production stood at around 380 million tons in 2008, the US leading with over 100 million tons and accounting for nearly a third of the world's production. With a large number of paper production capacities shutting down in North America and growing capacity creation in Asia (especially China), the latter accounts for over a third of global paper production, while Europe and North America account for about 30% and 25% respectively. Interestingly, even as per capita paper consumption in the US is 300 kg, it is 35 kg in Asia, implying excellent growth prospects.

Global paper and paperboard production by region



(Source: ForesSTAT, FAO)

Global paper and paperboard production by grade



■ Wrapping & packaging paper and board
■ Printing and writing paper
■ Newsprint
■ Household and sanitary
■ Other paper and paperboard

(Source: ForesSTAT, FAO)

Paper demand is unevenly distributed as 72% of the world's paper is consumed by 22% of the world's population – in the US, Europe and Japan (Source: wrm.org.uy). The world demand for the material is expected to grow by around 3% annually, reaching an estimated 490 million tons by 2020, with significant growth coming out of Asia and Eastern Europe (Source: pulpandpaper.net).

Asia dominates the demand for paper and paperboard; consumption increased at a CAGR of 7% across 2003-08 (Source: Paperage.com). China is now the world's second-largest household paper consuming nation (Source: Chinadaily.cn).