Yash Papers Limited | Annual Report 2014-15

YASH papers

EFFICIENT

EBIDTA growth improved by 14.86%.

EFFECTIVE

Paper and Pulp realisations improved by 6.68%.

ECONOMIC

Operating costs tightly controlled to 81.29% of Total Revenue.

In fond memory

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

CONTENTS

Disclaimer

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 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.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

MEET YASH

- Founded in the year 1981, Yash Papers is a global provider of innovative consumer, industrial and protective packaging solutions.
- We own and operate three paper machines that manufacture low grammage MG industrial bleached and unbleached grades of paper. Our grammage ranges from 30 - 80 GSM.
- We produce specialised paper grades for wrapping, packaging, interleaving, food and pharmaceutical uses.
- Our total paper production capacity is 39,100 MT PA with accumulative pulp mill capacity of 130 TPD; our chemical recovery unit has a capacity of 145 BDMT solids.
- Our two power plants have an output of 2.5 MW and 6 MW and both have extraction-cum-condensing turbines and rice husk-based Fluidised Bed boilers.
- We possess a robust R&D setup that focuses on creation, customisation and is solutions.

- Some of our key customers include McDonald's, Safe Pack, LIC, Tata, Pizza Hut, Suprabha, Café Coffee Day, Borosil, Waco, KFC, Maplani Group and Yum!, among several others.

KEY NUMBERS

18,077.29
Revenues, 2014-15
(₹ Lacs)

3,549.58
Export income, 2014-15
(₹ Lacs)

2,697.59
EBIDTA, 2014-15
(₹ Lacs)

43,638
Production of Pulp and Paper, 2014-15 (MT)

42,499
Sales, 2014-15 (MT)

6,099.93
Value-added paper production, 2014-15 (MT)

16.65%
Sales growth, 2014-15 (%)

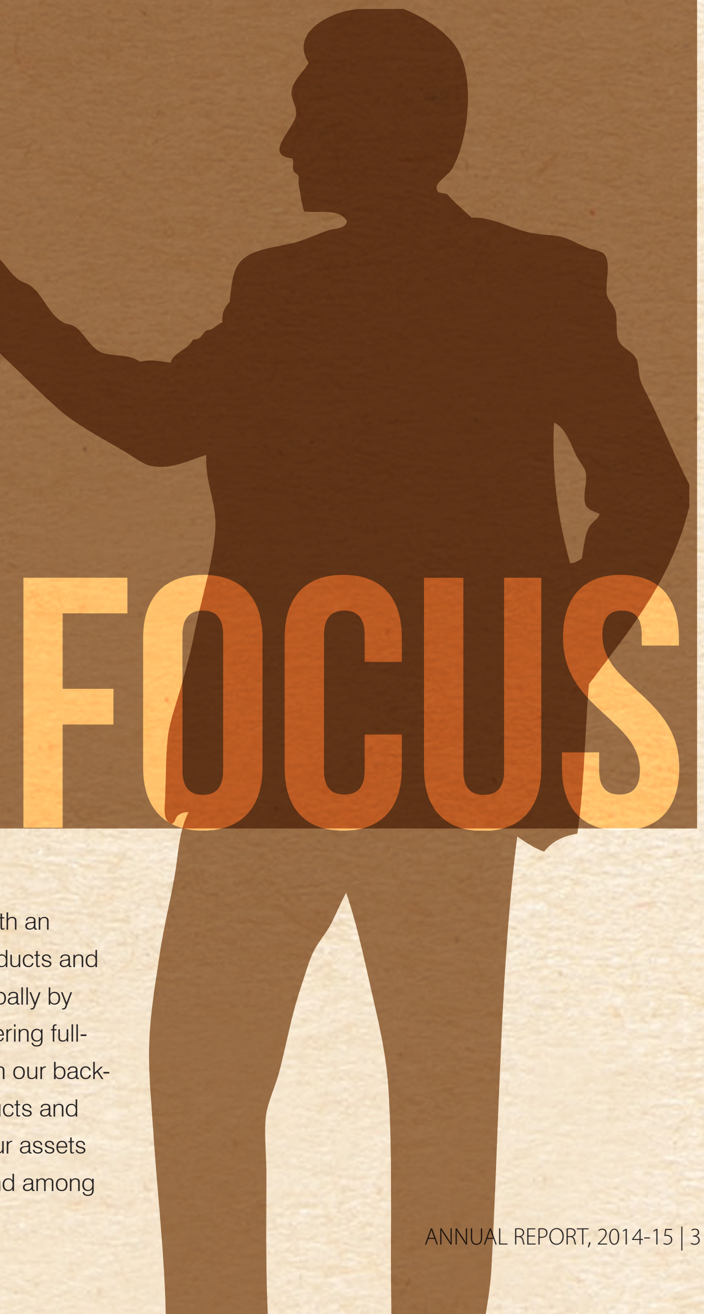
14.86%
EBIDTA growth, 2014-15 (%)

6.68%
Realisations growth, 2014-15 (%)

Update from the Chairman

Dear fellow stakeholders,

IN 2014-15, WE DELIVERED ON MANY OF OUR FINANCIAL, OPERATIONAL AND STRATEGIC COMMITMENTS WHILE CONTINUING TO FOCUS ON DRIVING INTERNAL EFFICIENCIES WITH THE SINGLE-MINDED BELIEF THAT TOMORROW WILL ALWAYS BE BETTER THAN TODAY.



The entrepreneurial zing

This hope and optimism continued to charge our Company with an entrepreneurial zing as we engaged in experimenting with products and processes, collaborating with our clients both in India and globally by going beyond just marketing products to taking steps to delivering full-fledged packaging solutions. This unique group effort between our back-end and front-end teams led to the development of new products and higher production of existing products – which ensured that our assets remain well-utilised – and increased the value of the Yash brand among our customers which led to reasonable realisation increases throughout the year.

Our sweet spot represented by rising volumes and growing mark-ups led to a surge in our total revenue, which increased 16.65% to ₹17,391.75 Lacs in 2014-15. In addition, our hawk-like focus on cost management led to a controlled increase in our operating costs (not taking into account the changes in inventory value) which ensured that our EBIDTA margin remained healthy at 14.92%. However, I am agonised by the reversal of our carbon credit income of ₹1547.59 lacs that was de-recognised by the Belgium government, leading to a net loss of ₹666.35 lacs for the year under review. This was for reasons beyond our control. If one were to do away with this item, our net profit would have grown a healthy to ₹881.24 lacs.

Rewriting our growth story

On the strategic side, I must spell out unambiguously that our intent is to emerge as a ₹500+Crore enterprise by the year 2020, a target that looks like a stretch prima facie but is not impossible to achieve. I say this because of the clear steps that we have embraced towards our destination.

We have become very clear in our focus. We shall steer the company to become a provider of advanced packaging solutions for a better environment. We shall continue to develop and provide alternatives for non biodegradable packaging that harms the earth today. We are focussing in interesting directions for the same and shall launch fresh products during the year as alternates to flexible packaging, styrofoam moulds and expanded polystyrene.

Optimism ahead

Interestingly, though India is the second-most populous country in the world, its per capita paper consumption compares poorly with global standards; while per capita paper consumption in India is only 10 kg, the world average is much higher at about 54 kg. This demonstrates that there is significant headroom for growth in paper consumption in India.From a demand perspective, every one-kg incremental per capita consumption results in the additional demand for more than one million tonnes of paper per annum.

The world moves towards a connected, internet based economy which means growth for packaging. Yash Papers is well poised to provide solutions for the same. We will work towards application research and emerging with interesting packaging solutions for a better planet.

There is a huge growth in the food and other retail segments which also augments well for us. We shall work to become a supplier of choice for the more environmentally focussed companies.

Our Yash is our people

People make us – their talent, knowledge, commitment, honesty, passion for performance and their ability to work extremely hard shines through at all levels of the organisation. Considering the challenging economic environment that our business continues to face, our people, guided by our leadership teams, are truly inspirational in the way they find solutions and deliver value in aresponsible way.

On behalf of the Board, we extend heartfelt thanks to all of our people for being determined, innovative and willing to go the extra mile. We also thank our bankers, shareholders and supply partners for reposing their faith in us.

Espirit de corps!

K.D. Pudumjee
Chairman

Discussion with Ved Krishna, Managing Director, Yash Papers Limited

"OUR CLARITY AND FOCUS FOR PROVIDING BIODEGRADABLE PACKAGING SOLUTIONS WILL GUIDE THE COMPANY TOWARDS A FRESH FUTURE AND PROVIDE THE WORLD WITH INTERESTING ALTERNATIVES TO CREATE 'GOOD GARBAGE'."

Q. Looking back, how do you appraise 2014-15?

A. Supported by our consistent strategy, we possess multiple corestrengths that allow us to remain relevant through economic cycles. Because of these strengths, we remain committed to our growth plans that we believe will ultimately unlock shareholders value. During 2014-15, despite being faced with several headwinds, we reported a 16.65% growth in our turnover to our highest-ever of ₹18,077.29 lacs, helped by credible growth in volumes as well as realisations. Our core anchor strengths also enabled us to record an operating profit margin of 14.70%. However, the unfortunate reversal in income to the extent of ₹1,547.59 lacs de-recognised as carbon credit income by the Belgium Government led to a net loss of ₹666.35 Lacs for the financial year ended 2014-15.

Q. What is the one aspect that we are most proud of at Yash?

A. We have high-quality integrated production assets that are state-of-the-art and propel us with a distinctive cost lead. This advantage translates into the manufacture of a large proportion of high-quality products, lowering rejects and wastages and enabling us to mobilise a price premium from the market. This, paired with our knowledge of the paper manufacturing technology has led to the development of a moat around our business, represented by an industry-leading operating profit margin of 14.70% that we reported in 2014-15.

What is also important to note is the fact that our paper is increasingly finding global acceptance, reflected in our expanding geographic sales beyond India. For the year ended 2014-15, our domestic to international sales ratio of paper tilted from 5.29:1 in 2013-14 to 4.82:1 in 2014-15. This clearly reflects our focus and hard work in working closely around customer requirements and providing them with value-driven solutions.

Q. On the raw materials front, did procurement continue to remain a challenging proposition?

A. Raw material procurement is always an interesting challenge in our industry as we need to procure both raw material and fuel for the year during the short season for sugar and rice production. Sugar mills can burn their bagasse to generate energy and the government incentives the same to meet the power needs of the nation. We have to compete with the same.

In order to mitigate the challenges we choose to create price parity with the income generated for the sugar mill from power production and create long term agreements. We are clear that our competition will remain with power production and we shall have to pay prices to encourage sugar mills to sell us instead of burning the fibre to use as fuel.

Q. Higher capacity utilization would have also been a reason for us to be able to optimise costs.

A. That is precisely correct. Being a responsible enterprise, we have to remain relevant in all market and economic cycles. We are continually looking to optimise raw material resource costs and a case in point is our robust ability to manage energy costs since fuel costs occupy a fairly large chunk of the operating costs (at 24.20 % for the year under review; 21.83 % in 2013-14). We operated our power plants at a high PLF of 88.38% and our paper machines at a capacity of average of 97.12%, which provided us with the accompanying benefits of scale and cost optimisation.

QA

OUR ENTIRE FOCUS IS ON DRIVING A LARGER OUTPUT OF VALUE-ADDED PAPER TO ENHANCE OUR GO-TO-MARKET STRATEGY, TO ENABLE US TO REMAIN CLOSE TO CUSTOMER REQUIREMENTS AND TO MANAGE OUR MARGINS BETTER.

Q. Can you throw some light on the paper realisation movements during the year?

A. Our entire focus is on driving a larger output of value-added paper to enhance our go-to-market strategy, to enable us to remain close to customer requirements and to manage our margins better. Besides, we also carefully studied our product basket and engaged in portfolio optimisation that has sharpened our focus on a select group of high-potential products.

On an average, cost push as well as premium mark-ups enabled us to grow our realisations by almost 6.68% for the year under report, as compared with the 7.28% growth achieved last year. I must mention that operating in a highly competitive market limits our hand in increasing prices when they should be increased; however it is to the credit of our marketing teams who work closely with our customers in providing them with smart and cost-effective solutions and our operations teams who work relentlessly on controlling costs at each step of the manufacturing chain; these two-prongs open up the prospects of higher realisations on the one hand and optimised production costs on the other.

Q. What will be the industry strategy going forward, especially with the industry tentatively looking up on the basis of stronger economic projections, especially in India?

A. According to IPMA estimates, at an industry level over the last five years, the Indian paper industry has invested close to ₹20,000 crore towards capacity enhancement, technology upgradation and acquisitions.

The same has lead to an increase in supply. The economy has been dull and demand subdued, hence, paper companies have ended up with large closing stock levels.

Companies will need to form clear strategies to deal with this downturn. There could be a potential shake up if demand does not see an upturn.

Q. Can you discuss the plans for the future?

A. Our focus will be to improve our Balance Sheet. Our focus will be to pare our debt (Rs1,271.83 lacs as on 31 March 2015) and enhance our cash and liquidity, through stronger cash flow management practices. Going ahead, we expect to grow our production capacity volumes through minor tweaks and enhancements and together with rising realisations, we expect to take our performance to even greater heights over the years to come. Overall, the big picture vision at Yash Papers is to emerge as an ₹500+crore enterprise by 2020.

We shall continue to reorient our strategy and provide the world with better biodegradable alternates for packaging. We shall create value through this focus.

OUR 10 POINT AGENDA TOWARDS CREATING SUSTAINABLE VALUE:

Investing
in the long-term growth of our business through strategic capacity and product enhancements

Developing
innovative and advanced solutions that meet our customers' dynamic packaging need and requirements

Widening
our geographic footprint to continue to offer cutting-edge products that deliver tangible value

Focusing
on achieving excellence across our enterprise and complying with all governance and regulatory standards in both letter and spirit

Providing
meaningful employment opportunities, recognising diversity and creating valuable career paths for our employees

Creating
well-laid procedures and systems to ensure the complete safety and well-being of our employees

Minimising
the environmental impact of our operations

Maintaining
active stewardship of precious raw material resources and embracing sustainable forestry to maintain biodiversity and our commitment towards the environment

Embracing
financial prudence and working diligently to meet our fiscal targets and objectives

Contributing
to capacity and capability development of the communities around our operational areas