

Directors' Report

The Directors have pleasure in presenting the Fifty-Seventh Annual Report of the Company, along with the Audited Statement of Accounts for the year ended 30th June, 2002.

PERFORMANCE DURING THE YEAR

Your Company's performance during the year 2001-02 is summarised below:

	Rs. in Crores	
	2001-2002	2000-2001
Sales	1537.87	1567.61
Profit before interest and depreciation	307.94	308.10
Less : Interest and Finance Charges (Net)	119.82	124.17
Profit before Depreciation	188.12	183.93
Less : Depreciation	83.49	75.10
Net Profit for the year before tax and exceptional loss	104.62	108.83
Less : Provision for Taxation	33.22	8.55
Net Profit after Tax and exceptional loss	71.40	100.28
To which is added :		
The Balance brought down from the previous year	48.69	23.78
Balance	120.09	124.06
To which is added :		
Debtore Redemption Reserve no longer required	48.40	33.43
Investment Allowance Reserve no longer required	6.20	---
Capital Profit on sale of Assets	0.02	0.53
Less: Adjustments relating to earlier years (Net)	2.14	4.36
Leaving a surplus of	172.57	153.66
Which your directors recommend, be appropriated as follows :		
Transfer to Capital Reserve	0.02	0.53
Transfer to Debtore Redemption Reserve	25.42	23.33
Balance available for appropriation	147.13	129.80
Transfer to General Reserve	50.00	50.00
Payment of Dividends:		
On 61,14,700 (Previous year 59,14,700) Redeemable Non Convertible Cumulative Preference Shares of Rs. 100/- each		
Interim / final Dividend paid / provided for	6.47	6.59
On 12,85,26,341 Equity Shares of Rs. 10/- each @ 20% (Previous year 7,15,38,969 @ 30%)	25.70	21.46
Dividend Tax	0.16	3.06
Balance carried forward to next year's Account	64.80	48.69

Your Company recorded a turnover of Rs. 1537.87 crores during the financial year 2001-2002, as against Rs. 1567.61 crores in the previous year. The operating profit and net profit of the Company before tax was Rs. 307.94 crores and Rs.104.62 crores, respectively, for the financial year 2001-2002, as against Rs. 308.10 crores and Rs. 108.83 crores, respectively, for the previous year.

DIVIDEND

Your Directors have recommended payment of dividend @ 20% aggregating to Rs. 25.70 crores, on the enhanced Equity Capital, as against a dividend pay out of Rs. 21.46 crores (30%) for the previous year. Dividend has also been recommended @ 11% on 39,63,500-

11% Redeemable Non Convertible Cumulative Preference Shares of Rs.100/- each.

If approved by the Shareholders at the forthcoming Annual General Meeting, the dividend, subject to deduction of tax, shall be paid out of the profits of the Company to those shareholders whose names appear as Beneficial Owners as at the end of the business hours on 16th December, 2002, as per list to be furnished by Depositories in respect of the shares held in electronic form and as Members on the Register of Members as on 23rd December, 2002, in respect of the shares held in physical form, subject to the provisions of Section 206A of the Companies Act, 1956.

During the year, the Company has paid interim dividend on the 12%, 12.5%, 13% 14.25% and 18.25% Redeemable Non Convertible Cumulative Preference Shares of Rs.100/- each, respectively, in terms of the issue of the said Preference Shares.

CORPORATE REVIEW

In continuation with its strategy of growth through consolidation, the Company acquired 66.8% of the Equity Capital of BILT Graphic Papers Limited (BGPL). Consequently, BGPL has become a subsidiary of your Company. Formerly known as Sinar Mas Pulp and Paper (India) Limited, BGPL has a state-of-the-art paper manufacturing plant with a capacity of 115,000 tpa and is the market leader in the high-end coated art paper and art board segment in India. It was set up in India in 1993 as a part of the Asia Pulp & Paper Group of Indonesia, one of the largest pulp & paper groups in South-East Asia.

The acquisition of BGPL is expected to significantly enhance the Company's size of operations and market position, as also further expand its product mix.

The acquisition was made from the proceeds of the Rights Issue of Rs. 217 crores, made to the existing shareholders of the Company. The Issue comprised of up to 572,31,175 Equity Shares of Rs. 10/- each at a premium of Rs. 28/- per share or up to 71,53,896 9.5% Fully Convertible Debentures of Rs. 304/- per Debenture at par, with the option to the shareholders to apply for either of the instruments but not for both. The Issue got a tremendous response from the investors and was oversubscribed.

With the acquisition of BGPL, your Company will be able to control more than 50% of the coated paper market and will be able to offer a product portfolio with a comprehensive range of paper varieties including premium grade coated paper. It has resulted in your Company acquiring the status of being the only paper solution provider for high end printing applications in India.

During the year under review, your Company re-engineered its debt profile to bring it in line with the

prevalent rates for both long-term and short-term borrowings. A large part of the high cost debt was prepaid / replaced with borrowings made at lower rates. This enabled your Company to extend the debt maturity profile in line with norms of international paper Companies as well as minimise the cost of borrowing, thereby benefiting from the reduction in the overall interest rates in the country.

Your Company raised Rs. 140 crores through a credit enhanced Debenture issue, which was rated AA+ (fso) by CRISIL and Ind AA+ (so) by Fitch. It was the first dual-rated, credit-enhanced debenture to be issued in the Indian markets by any Indian company, and was partially backed by a guarantee from Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) (Netherlands Development Finance Company). A part of the issue proceeds are being utilised for the Company's environmental upgradation programme.

OPERATIONAL REVIEW

The Industry is emerging from a 12-18 month correction in demand, pricing and profits. Industry conditions are beginning to show signs of firming up, with the first round of price increases being announced and absorbed by the market in April-May 2002.

The stock movement has been good over the past five months and the system stock for paper in the Company was at an all time low of 3955 MT at the end of June, 2002. Market sentiment is buoyant and the trade channels are looking forward to a better year ahead.

The effect of prices was negative in the previous year (2001-2002), however the opening position for the next year is encouraging. It is expected that the next twelve months are going to be favorable as far as the price front is concerned and the industry is likely to be buoyant.

The unit-wise performance of the Company during the year was as under:

Unit Ballarpur:

Unit Ballarpur performed consistently well in terms of production and efficiency. It produced 1,18,066 tonnes of paper as against the last year's production of 1,15,912 tonnes. This was achieved by increasing the speed of machine nos.4 & 6 by de-bottlenecking the drying capacity and improving press efficiency. Cost of production was also reduced by diminution in chemical consumption in



bleach plant as well as in chemical recovery areas. The Unit has generated 97% of power through co-generation and only 3% was taken from the grid. Substantial savings were also made through efficient buying of inputs.

During the year, the Unit received ISO-9001: 2000 Certification for Quality Management System.

Oracle-ERP system was implemented in the Unit in the month of May, 2002 and is being stabilised. Implementation of Optimision system is in progress in the Unit.

Another A-4 line for Cut Pack Copier paper has been successfully commissioned, which will enhance copier paper production from this Unit. There was significant improvement in the quality of Copier and Maplitho NSD premium in terms of brightness and physical properties.

The Unit was awarded 'Energy Conservation Award' for the year 2000-2001, by the Ministry of Power, Government of India.

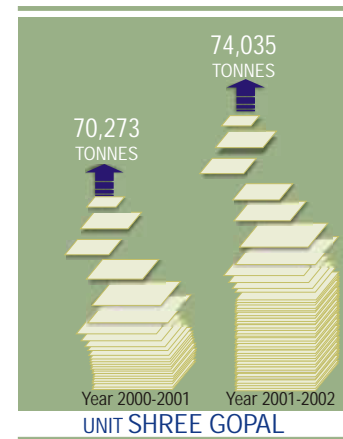
Unit Shree Gopal:

The production of paper at Unit Shree Gopal was higher at 74,035 tonnes, as against last year's production of 70,273 tonnes. This was achieved by increasing the speed of machines 1, 2 & 5 by de-bottlenecking the vacuum system. Pulp production was also improved by 4,380 tonnes during the year by de-bottlenecking the recovery boilers' capacity. The Unit has further been able to reduce costs through improved raw material yield,

chemical recovery efficiency, better fiber recovery and lesser chemical consumption in bleaching, as also reduction in purchased pulp consumption. There was also a reduction in the input cost of raw materials and other inputs.

During the year, a 2.4 metre-wide Blade Coater was successfully installed and commissioned. The commissioning of this Coater has enabled your Company to extend its product range in the wood free coated segment from playing card boards to double coated art / chromo blade coated papers. Its products like Black Centered Board, Chromo paper and Art paper have been appreciated in the market. The market demand for the retail packs of 100/500 sheets of Royal Executive Bond is also constantly increasing.

The Unit was awarded the Energy award for the year 2000 - 2001, by the Ministry of Power, Government of India.



UNIT SHREE GOPAL

Unit Sewa:

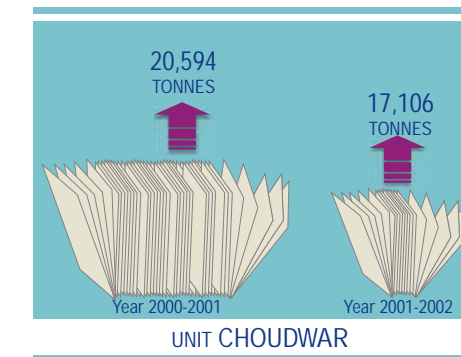
Unit Sewa produced 35,665 tonnes of paper as against the last year's production of 34,412 tonnes. This was achieved through better machine efficiency and uptime. The Unit was able to reduce cost of production through better efficiency of paper machine, fiber recovery and condensate recovery.

'Easy Print' paper which is the Unit's main offering, is very well established in the market. The production of Copier paper with the brand name 'Image Copier' also doubled as compared to last year.

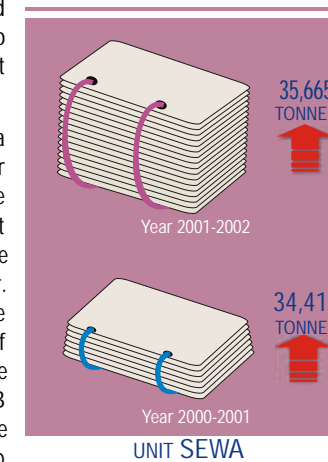
One more paper machine with a capacity of 40,000 tonnes per annum is being installed at the Unit with a BTG Coater and Soft Nip Calender, which will produce on-line one side coated paper. The machine is expected to be commissioned in the month of September, 2002. Besides the installation of an additional FCB Coal Boiler, upgradation of the ET plant and utilities, the pulp mill at the Unit has also been upgraded to produce 162 tonnes of unbleached pulp per day. The Company has further installed a chlorine dioxide stage in the bleach plant to raise the brightness from the existing level of 80 degree ISO to 85 degree ISO.

Unit Choudwar:

Production at Unit Choudwar was lower at 17,106 tonnes, as against 20,594 tonnes, during the previous year. The performance of the Unit was not up to the mark due to low demand for its products and lower profitability. PM-2 was stopped in the month of April, 2002, due to poor quality resulting in lower offtake.



UNIT CHOUDWAR



UNIT SEWA

Unit APR Kamalapuram:

During the year, total production at Unit APR Kamalapuram was 87,054 ADT comprising of 55,253 ADT of Dissolving Grade Pulp and 31,801 ADT of Bleached Hard Wood Kraft Pulp (BHKP). BHKP was exceptionally clean and has been well received by customers. The plant remained shut for 24.5 days due to lack of orders for Dissolving Grade Pulp, as one of our major customers experienced difficult market conditions and had to considerably reduce its offtake of pulp.

The Company also initiated steps to use more of juvenile wood and a DNP Tower was commissioned in order to achieve higher brightness of pulp and to optimise bleaching chemical consumption.

HUMAN RESOURCE DEVELOPMENT

Development of Human Resources continues to be one of the major thrust areas in the overall activity of the Company. In this direction, the Performance Management System was made more robust through the electronic mode with stress on Target setting, on-line appraisals and feedback.

The Company made significant progress in the areas of training and development by exposing employees to reputed training institutions like Harvard Business School, USA, IMD – Luusanne, INSEAD, ISB – Hyderabad.

The company also embarked upon an e-MBA course through Asian Institute of Management, Manila for some of the high potential employees.

Subsidiaries

As stated above, Bilt Graphic Papers Limited has become a subsidiary of your Company. In terms of Section 212 of the Companies Act, 1956, the statement and accounts of Subsidiary Companies viz., Bilt Graphic Papers Limited, Janpath Investments and Holdings Limited, Bilt Tree Tech Limited, The Paperbase Company Limited, The Pioneer Limited and Jg Containers (Malaysia) Sdn. Bhd. are attached herewith.

Directors

During the year, Mr. R K Ahooja replaced Mr. K G Vassal as the UTI nominee on the Board of Directors of the Company and Mr. S B Mathur was appointed as the LIC nominee in place of Mr. G P Kohli. Mr. S B Mathur resigned from the Board of Directors on 21st August, 2002. Your Board places on record its deep appreciation of the valuable guidance and support provided by Mr. K G Vassal, Mr. G P Kohli and

Mr. S B Mathur during their association with the Company.

Mr. M M Thapar resigned from the Board of Directors of the Company. Your Board takes this opportunity to place on record its appreciation of the guidance provided by Mr. M M Thapar during his tenure.

Mr. M J Subbaiah ceased to be a nominee of ICICI on the Board of Directors during the year. Subsequently ICICI Bank has nominated Mr. Subir Bisht as its representative on the Board. Your Board places on record its deep appreciation of the valuable contributions made by Mr. M J Subbaiah during his association with the Company.

Mr. R R Vederah Wholetime Director, was redesignated as the Deputy Managing Director of the Company with effect from 14th June, 2002. However, no change has been made in his terms of appointment, including his remuneration.

In accordance with the provisions of the Companies Act, 1956, and the Company's Articles of Association, Dr. Cherif Sedky and Vice Admiral K K Nayyar (Retd.) retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment. In terms of the requirements of Clause 49 of the Listing Agreement, a brief resumé of Dr. Sedky and Vice Admiral K K Nayyar (Retd) is provided in the notice convening the Annual General Meeting of the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements of Section 217(2AA) of the Companies Act, 1956, with respect to the Directors' Responsibility Statement, it is hereby confirmed:

- That in the preparation of the accounts for the financial year ended 30th June, 2002, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company, for the year under review.
- That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets

of the Company and for preventing and detecting fraud and other irregularities.

- iv. That the Directors have prepared the accounts for the financial year ended 30th June, 2002, on a going concern basis.

Vesting of Voting Rights with Mr. L M Thapar

Pursuant to the Family Settlement Agreement entered into between the Thapar Brothers, viz. Messrs L M Thapar, B M Thapar, M M Thapar and I M Thapar and the order of the Securities and Exchange Board of India dated 8/9 October, 2001, the voting rights in respect of 19,929,286 Equity Shares of Rs. 10/- each of the Company, constituting 15.50% of the paid up Equity Capital, have been vested with Mr. L M Thapar.

Auditors

Messrs K K Mankeshwar & Co., Chartered Accountants, the Statutory Auditors of the Company, have audited the accounts of the Company for the financial year 2001-2002, following the prescribed accounting standards. The Management is of the view that the matters referred to by the Auditors in Clause vii of Para 2 of their Report, do not materially affect the Profit and Loss Account of the Company.

Messrs K K Mankeshwar & Co. would be retiring at the conclusion of the forthcoming Annual General Meeting. The Company has received a certificate from the Statutory Auditors to the effect that their appointment, if made, would be within the prescribed limits under Section 224(1-B) of the Companies Act, 1956.

Cost Audit

The Cost Auditors carried out the cost audit and the Reports on the same will be submitted directly by them to the Central Government under The Cost Audit (Report) Rules, 1996.

FIXED DEPOSITS

Deposits to the tune of Rs. 764 lacs due for repayment on or before 30th June, 2002, were not claimed by 3621 depositors as on that date. Out of these, deposits of 1901 depositors amounting to Rs. 407 lacs, have since been renewed and deposits of 260 depositors amounting to Rs. 50.96 lacs, were claimed up to 8th August, 2002 and paid.

Statutory Disclosures

The information relating to conservation of energy, technology absorption and foreign exchange earnings and outgo as required under Section 217(1)(e) of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is annexed and forms a part of this report.

Also, information relating to employees of the Company, as required under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, is annexed and forms part of this Report.

Industrial Relations

Relations with the work force at all the Units continued to be cordial.

The Directors wish to place on record their appreciation of the co-operation and contribution made by the employees at all levels.

COMPLIANCE CERTIFICATE

A certificate from the Auditors of the Company, regarding compliance of the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement together with the Management Discussion and Analysis Report is attached and forms part of this Report.

Acknowledgement

Your Directors wish to express their grateful appreciation for the assistance and co-operation received from Financial Institutions, Banks, Government Authorities and Shareholders during the year under review. Your Directors also wish to place on record their appreciation for the services rendered by employees at all levels in the Company and for their contribution towards the success of the organisation.

For and on behalf of the Board of Directors
L M THAPAR – CHAIRMAN
GAUTAM THAPAR – VICE CHAIRMAN &
MANAGING DIRECTOR
R R VEDERAH – DEPUTY MANAGING DIRECTOR
B HARIHARAN – GROUP DIRECTOR (FINANCE)

Date : 27th August, 2002

Place : New Delhi