

MANAGEMENT DISCUSSION & ANALYSIS

BILT (OR "THE COMPANY") IS A FOCUSED writing and printing paper company. Growth in this segment of the paper industry is inextricably linked to structural economic factors like improvements in literacy rates, higher spending on education and growth of print and the media industry. With the Indian economy growing at 6.9 per cent in 2004-05 on the back of an 8.5 per cent growth in 2003-04, there has been a positive influence on all these factors.

If India can sustain this economic growth and given its low per capita paper consumption base of 5 kgs compared to the world average of 54 kgs, demand for writing and printing paper in the country ought to increase at a healthy rate. However, this demand growth will be steady and gradual.

To reap the maximum benefits of this growth, the critical challenges for BILT are to focus on the production side to build global scales and improve efficiencies, have a very strong market presence in each of its products and from the longer term perspective, manage and enhance scarce forest resources.

Being conscious of these challenges, BILT's strategic focus is on repositioning of product mixes to further increase market share, improve internal efficiencies and make key investments in building production capacities. This has required the company to structure a carefully phased growth path that first focuses on generating greater profits from existing products and assets, and then leveraging larger internal accruals

to make growth oriented, scale building investments.

Given this strategy, we believe that 2004-05 has been a successful year for BILT. It has enhanced profits while maintaining a steady top-line growth. The highlights of the company's financial performance during 2004-05 are:

- Driven by paper revenue growth of 7.18 per cent from Rs. 1,500.28 crores in 2003-04 to Rs. 1,608.07 crores in 2004-05, the company's net revenue increased by 0.69 per cent from Rs.1,787.43 crores in 2003-04 to Rs.1,799.80 crores in 2004-05.
- Profit before depreciation, interest, tax and amortisation (PBDITA) increased by 5.75 per cent from Rs.446 crores in 2003-04 to Rs.472 crores in 2004-05.
- Profit before tax (PBT) increased by 16.22 per cent from Rs.177.7 crores in 2003-04 to Rs.206.48 crores in 2004-05.
- Profit after tax (PAT) increased by 25.52 per cent from Rs.134 crores in 2003-04 to Rs.168 crores in 2004-05.
- Diluted earnings per share (EPS) increased from Rs.7.27 in 2003-04 to 9.45 in 2004-05.

In what follows, we will first analyse the market situation, then focus on operations and internal organisation of the company and finally examine BILT's financials for 2004-05. Given the company's belief that the role of a corporation should go beyond growth and profits, we also outline BILT's ongoing initiatives in corporate social responsibility (CSR).

MARKETS

THE GLOBAL WRITING AND PRINTING

paper market was estimated to be around 110 million metric tons per annum (MTPA) in 2003, of which approximately 48 million MTPA was uncoated wood-free paper, 27 million MTPA was coated wood-free paper and the rest was either mechanically coated paper or low end uncoated paper.

At 7 per cent compound annual growth since 1995, coated wood-free has been the fastest growing segment in the industry - compared to 3.5 per cent growth for uncoated wood-free and around 3 per cent for the other segments taken together. Overall, the writing and printing paper segment grew by around 4 per cent during 2004.

There has been a structural change in the global demand and supply patterns from a geographical perspective. Led by China, the emerging Asian markets have spear-headed global demand - growing at over 4 per cent across the different categories of writing and printing paper. A major portion of this demand was met by South American based companies which have had very competitive cost structures and prices, often at the expense of traditionally strong suppliers from Canada and Europe. Because of this growth in demand, global paper prices are expected to increase by 2-3 per cent during 2005-06.

In this global context, the Indian writing and printing paper market of around 2.5 million MTPA remains small. However, with a compound annual growth rate of 5.7 per cent over the last five years, it is growing faster than the world market; and we believe that given the low per capita consumption base, there is considerable headroom for expanding demand.

Broadly speaking, BILT has five focused product groups: coated wood-free, uncoated wood-free, copier, creamwove and business stationery. We now discuss each in greater detail.

Coated Wood-free

THE INDIAN COATED PAPER and boards market is estimated at 270,000 MTPA.

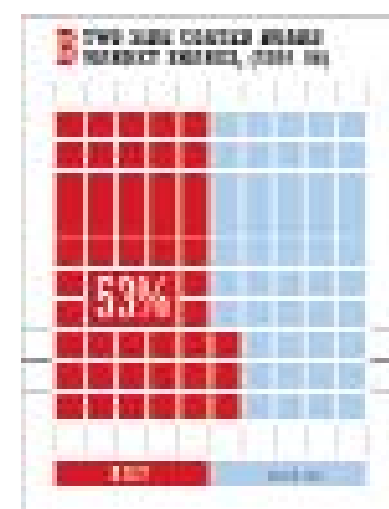
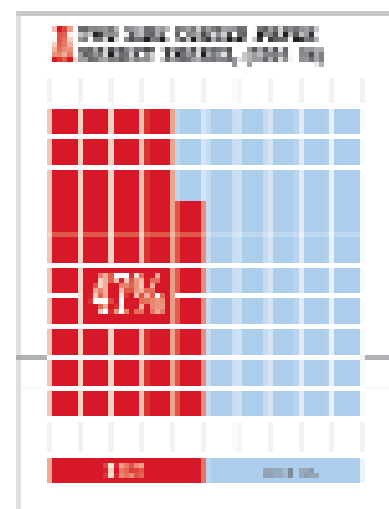
Although in terms of size this is one of the smaller segments of the market, it has shown the highest growth - increasing at over 10 per cent per year.

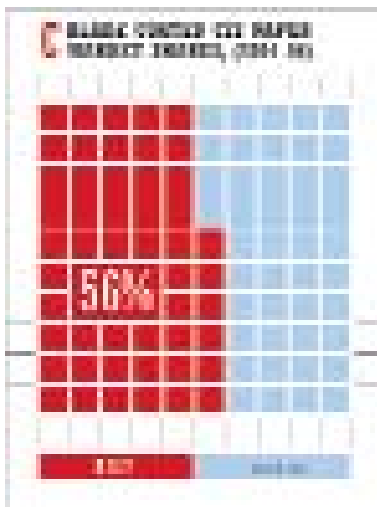
There are three types of products in this segment: two side coated paper, two side coated boards and single side coated products. The market size of two side coated paper is around 123,000 MTPA; that of two side coated boards is 53,200 MTPA; and that of single side coated products is 73,000 MTPA. The balance market comprises of special coated products like BCB and cast coated paper.

These are further classified based on production technology, specifically whether blade coated or air-knife coated. The top end - two side coated meant for quality graphic printing - is dominated by blade coated products. While blade coating technology is the global standard for premium quality coated papers, air knife technology finds favour in India in the lower end chromo segment, purely on cost considerations. Charts A and B clearly show BILT's market leadership in the two side coated paper and board markets.

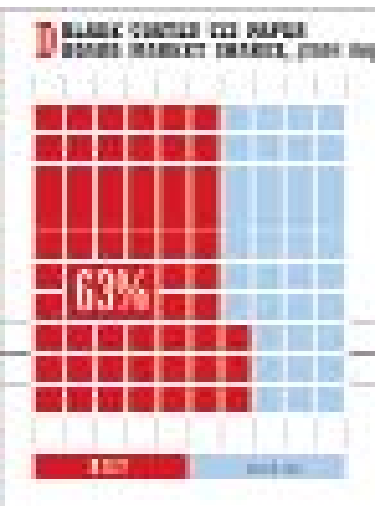
BILT's focus is on manufacturing higher value added two side coated products using blade coating. Our competition is from imports, notably from Europe, South East Asia and China. Even so, we have 47 per cent market share in two side coated paper and 53 per cent share in boards. The ability to maintain such significant shares has much to do with the quality of the company's products - which compare favourably with some of the best coated brands in the world. This has allowed BILT to regularly export coated products to markets in USA, Europe, South East, Middle East and Australia.

Blade coating technology now accounts for about 65 per cent of coated products market in India, and grew by 12 per cent in





2004-05. Chart C and D show that BILT dominates the blade coated market in no uncertain terms. This market dominance has been due to development and nurturing of long term customer relationships and of continuously providing high quality products. The company's service and products standards have ensured strong brand recall from top Indian printers. Over the last four years, BILT has used its leadership status to successfully preserve its pre-eminent position in this segment, despite the fall in import prices due to reduction in customs duties and appreciation of the Indian rupee.



Uncoated Wood-free

BILT CONTINUES TO BE THE LARGEST player in this segment, which constitutes a wide array of products, and where the competition is almost entirely from within the country.

Success in uncoated wood-free is largely dependent on production efficiencies - as the ability to service clients depends on products meeting certain necessary quality standards with prices being a crucial determinant. Even so, the right product mix is critical. Here, BILT has taken a conscious decision to move away from the lower end products to higher value products. Consequently, we only produce hi bright wood-free products.

The hi bright market in India is growing at 8 per cent per year. During 2004-05, it was estimated to be around 381,000 tonnes per annum, and BILT maintains its leadership position with a market share of 36 per cent. Chart E shows the data for this segment.

Our wide ranging products in this segment include Super Printing paper - which is the most sought after offset printing paper - NSD Premium, BILT Classic, SS Maplitho and Print Plus. During 2004-05, BILT's volume off-take of Super Printing paper increased by 3 per cent, while that of NSD grew by 7 per cent. Not only is the company the overall market leader in the hi bright wood-free

segment as a whole, but also each of its major categories account for significant share. For instance, BILT's NSD constituted 12 per cent of the entire hi bright wood-free market; Super Printing paper another 9 per cent; and SS Maplitho 6 per cent.

Copier

THE BRANDED COPIER PAPER SEGMENT is growing by 12 per cent in India. With changes in copier and printer technology, there is greater consumer sensitivity to the quality of paper being used. BILT has constantly innovated with its product offerings to meet the changing needs of the customer. During the year 2004-05, the market size for mill pack copier in India was estimated at 169,000 MTPA. Chart F gives BILT's market share.

BILT is the second largest player in this segment. Its products, BILT Copy Power and BILT Image Copier, have 12 per cent and 8 per cent market shares, respectively. The hitherto brand 'Image Copier' product has been upgraded and positioned at a higher segment. Until 2004-05, supply side constraints prevented BILT from becoming a leader in this segment. In 2005-06, such bottlenecks will be things of the past. With the upgrading of machinery at the Sewa unit, BILT will be in a position to produce up to 30000 MTPA. With this kind of production capacity, we expect to become the dominant player in this segment in 2005-06.

Creamwove

THIS IS THE LOWEST END of the market, and is characterised by the presence of several producers with sub-optimal capacities, and intense price competition and lower prices, coupled with distribution strength which are the key to success. This market in India is growing at around 3 per cent and is estimated to be around 1,200,000 MTPA. As far as BILT is concerned, given its focus on higher end products, creamwove has been maintained to balance production lines and

ensure full capacity utilisation. Nevertheless, this is undoubtedly a large segment in volume terms and cannot be ignored in the future. Therefore, the company is in the process of developing a creamwave strategy which develops market presence through cost and distribution efficiencies, and could involve systematic outsourcing of production.

Business Stationery

ALTHOUGH TODAY THE MARKET SIZE for business stationery is small at 12,000 MTPA, it is expected to grow at 2-3 per cent. Having recognised the growth potential of this segment, BILT has developed a marketing strategy that combines advertising with direct retail contact. Indeed, this is BILT's foray into the retail space, and the company is very optimistic about its prospects.

The company's Royal Executive Bond range of products is the main offering in this category. Starting from average sales of 5 MT per month in 1999, today's sales average 275 MT per month and is growing at over 15%. The growth has been due to innovative product offerings. These involve varying paper sizes (B5, A4, FS, A3), a range of five colours (Moonbeam white, Camelle off-white, Aquas blue, Coral pink and Meadow green), and of different grammages. Recently, we have added envelopes in matching colours to create a complete portfolio of communication stationery. Royal Executive Bond is also being pushed through smaller selling and packaged lots.

During 2004-05, BILT had a 79 per cent market share in the mill pack premium bond segment. There are basically only two players in the market. Chart G gives the market share of the different products offered by BILT (both directly in the retail space and through wholesale distributor channels).

To further grow the category of premium bond paper, BILT launched a major advertising campaign through leading dailies and magazines in July 2005. The campaign has

been well received, and we are confident that it will help us move forward.

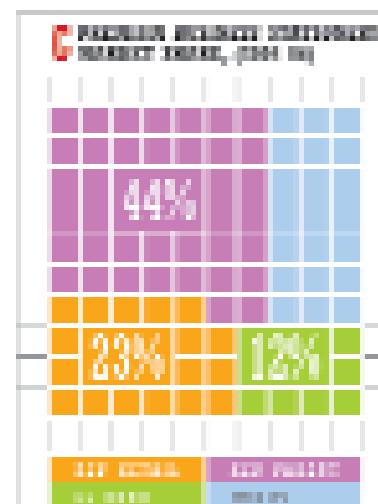
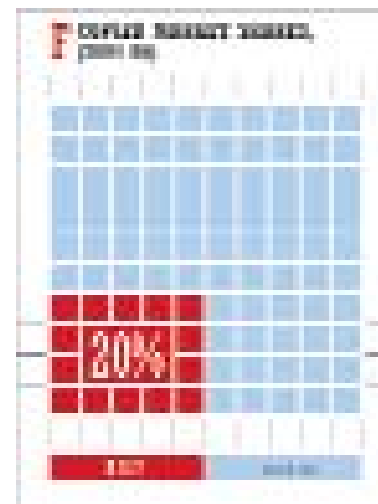
There is more to retail than Royal Executive Bond. To push the high value added growth agenda and establish its retail brands as category leaders in the premium stationery business, BILT launched a premium and contemporary range of paper based stationery under the brand name BILT Matrix in October 2003.

BILT Matrix is poised to radically change the traditional image of stationery products in the country. With its contemporary styling, superior functionality and best in class quality, this brand is expected to establish itself as the dominant brand in the premium business stationery segment. The product offerings include spiral notepads, multi-subject notepads, writing pads, office pads, executive pads and conference pads. During the first year of launching, products under this brand witnessed a five fold increase in sales.

To supplement this range we have launched BILT Matrix Youth Series, which is a flamboyant range of spiral notepads targeted at young school and college going users. These products will be characterised by innovative cover designs, value-added features and aggressive pricing.

Another new product has been the BILT Matrix Multipurpose paper. It has high brightness, optimum grammage and even surfaces, and lends itself to perfect image reproduction. This product is an outcome of extensive consumer research which indicated the need for paper which will fit well in multiple usages like laser printing, copying, inkjet printing and faxing.

As part of the strategy, our retail business has focused heavily on building the necessary distribution network to reach out to consumers across India. Today, we serve 10,000 retail outlets through 150 distributors in 125 towns across India. We intend to increase it to 12,000 retail outlets across 200 towns by the end of 2005-06. To fuel fur-





Ruling the Skies

BILT Machine glazed papers are put to a variety of uses on account of their printability and economy. They are a top choice for kite makers, on account of their strength and light weight, as well as their suitability for the dip and dye process— which is used to colour the paper in bright shades. The dyed papers are then cut and glued into thousands of individual designs and assembled into the Indian fighting kite, a unique, handmade ruler of the Indian skies whenever there's a wind about.

ther growth, BILT is planning to extend its retail business beyond the boundaries of India, and is in the process of launching some key products in Sri Lanka.

OPERATIONS

THE PAPER AND PULP INDUSTRY is largely production driven and returns have much to do with the scale of operations. To generate value for shareholders, companies need to emphasise on full capacity utilisation, right product mix and regular improvements in operating processes to minimise costs. BILT has laid major emphasis on this, and is in the process of making several investments to build capacities, replace old machines, improve operating efficiencies and gear the company for future growth.

BILT's plants are located at Ballarpur (Maharashtra), Bhigwan (Maharashtra), Shree Gopal (Haryana), Sewa (Orissa) and Kamalapuram (AP).

The company has also decided to create dedicated plants for different lines of products. The aim is to make each such plant a 'Centre of Excellence' in terms of state of the art equipment, R&D, production technology and efficiencies - all benchmarked with global best practices. Bhigwan has been identified as the Centre of Excellence for coated paper production and Ballarpur for uncoated wood-free.

MANUFACTURING

Unit: Ballarpur

DURING 2004-05, BALLARPUR produced 1,23,494 MT of paper, which is 3,568 MT higher than the output for 2003-04. This improvement has been brought about by better utilisation of assets and improved operating efficiencies - many of which have been achieved through TQM initiatives that focused on cutting costs, improving productivity and saving water. On the energy front, the Government of Maharashtra has recognised the plant's efforts to reduce energy

consumption and MEDA (Maharashtra Energy Development Agency) has awarded it the first prize for 'Excellence in Energy Conservation and Management' in the Pulp and Paper sector for 2004. There has also been a re-engineering of the bleaching process, which has reduced chlorine consumption. In addition, there has been a marked improvement in size fidelity of NSD premium paper due to utilisation of synchronised cutting and auto counting machinery.

In line with our commitment to be a socially responsible corporation, Ballarpur continues to involve students and local communities in activities related to forest resources development and environment management.

Unit: Shree Gopal

DURING 2004-05, SHREE GOPAL produced 77,595 MT of Paper (including coated paper), which is 5,388 MT higher than 2003-04. This improvement was due to better operating machine efficiencies. An important element of which was the ability to produce 4000 MT extra pulp by improving the pulping process. There was a focused effort at reducing water consumption, which resulted in a 27 per cent reduction compared to 2003-04. In order to reduce air emission, the recovery boiler's electrostatic precipitator was upgraded.

The unit is institutionalising TQM by involving all the people across all levels at the unit. Out of 226 slated TQM improvement projects, 147 have been completed, which have contributed to quality improvement and cost reduction.

In line with our commitment to improve the product mix by going up the value chain, Shree Gopal has stopped manufacturing of creamwove. In its place, we have introduced high quality wood free BILT Classic paper. We also started producing new offerings like coloured Royal Executive Bond for envelopes and art cards in 280 GSM. The newly

launched Bilt Matrix premium multi-purpose paper is also being produced here.

Unit: Bhigwan

BHIGWAN IS A STATE-OF-THE-ART facility for manufacturing coated paper using double blade coating technology, and is known for its world class quality products. Coated paper production increased from 115,283 MT in 2003-04 to 115,589 MT in 2004-05.

Through a Joint Venture, we have been able to develop an indigenous source of supply for its ground calcium carbonate (GCC) requirement which has resulted in savings of Rs.8 crores for the Company.

BILT believes that with improving GDP and improvement in quality of paper consumption, the coated paper segment will grow at a fast rate. Consequently, the Board of Directors has approved investments which will significantly enhance the capacity of this unit.

Unit: Sewa

SEWA FOCUSES ON HI BRIGHT PAPER, maplitho, easy printing paper and has a dedicated machine that produces copier paper. The products at Sewa have been upgraded and put in line with NSD premium quality levels. Paper production in this unit increased from 62,434 MT in 2003-04 to 66,744 MT in 2004-05, which was possible due to 10 per cent increase in pulp production brought about by sustained TQM activities.

Unit: Kamalapuram

KAMALAPURAM IS A STAND-ALONE pulp producing unit, which focuses on rayon grade pulp, and is not integrated into the group's paper business. During the year 2004-05, it produced 83,183 MT of Rayon grade pulp, which was 10,542 MT lower than the output for 2003-04. This was due to the breakdown of the new turbine generator. However, operations continued with the revival of old turbine generator and grid power.

A new larger capacity primary clarifier in the effluent treatment plant and a new electro static precipitator on Fluidised Bed Combustion Coal Boiler have been commissioned to improve the surrounding environment. TQM initiatives were launched during 2004-05, which should start giving results by 2005-06.

TOTAL QUALITY MANAGEMENT (TQM)

IN ORDER TO BECOME A GLOBALLY competitive company, BILT has adopted the Total Quality Management or TQM framework to continuously benchmark its processes against the best in the world. The TQM initiative started with the launch of the program at Ballarpur in 2003. Since then, considerable progress has been made, and the TQM programme has been rolled out at all the locations. Over 450 TQM projects have been implemented across the units, while 370 are under progress.

BILT's TQM initiative has already started bearing results.

- A culture of cross-functional, cross unit teamwork has been inculcated, which has significantly increased efficiency.
- A scientific problem solving methodology has been implemented across all functions.
- Process owners have been identified and positioned across all the units. They, in turn, have created their own cross-discipline teams. This has ensured on-going process up-gradation and continuity.
- Integration of cross-functional disciplines like production and marketing has led to the development of more relevant and more cost effective products.
- Constant monitoring at the shop floor level has led to valuable learning on how to raise productivity and quality.
- Shree Gopal and Sewa have increased their pulp production by 15 per cent and 10 per cent respectively without incurring any capital expenditure.



Down to Earth

Time was when most everyday purchases—bread, biscuits and the like—were wrapped in waxed white TD Poster paper. Even today, a few of these products like soap cakes, resist the onrush of the ubiquitous polypropylene pack. Bidis with their colourful graphics and soap wrappers with their eye catching shelf presence, are two of these. TD Poster is loaded with Titanium dioxide for extra whiteness and good printability at low costs.



Wood, stone—or Paper?

The next time you put a wet glass on what looks like a wooden table in a restaurant, look again—you are likely to have put it on a printed decorative laminate. The tough, water proof surface is made of—look yet again—paper. A base of uncoated board, is sandwiched with BILT barrier paper, and BILT print base paper. The decorative pattern is printed on the print base and protected by transparent overlay paper.

During 2004-05, TQM practices were put to full use when there was a major breakdown of a turbine in Kamalapuram. Through multi-skill teamwork and scientific problem solving methodology, a cross-functional, cross-unit team managed to revive the old turbine in 22 days, instead of the two months that it would have taken through conventional methods.

FARM FORESTRY PROGRAMME

WOOD AND BAMBOO ARE the basic raw material for paper-making pulp and their availability is critical to the industry's production process. However, wood availability was declining following the Forest Conservation Act, 1980, which redefined the use of forests to meet the requirements of only forest dwellers. To mitigate the impact of this Act on industrial users, The National Forest Policy 1988 stipulated that India's wood-based industry form a symbiotic relationship with the rural farming community. This subsequently led to initiatives to grow trees exclusively to service industrial demand.

BILT responded proactively to this and floated a subsidiary called BILT Tree Tech Ltd. (BTTL) in 1989, which was entrusted to develop forestry competency and initiate the implementation of farm forestry in partnership with farmers. Over the years, BTTL's programme has extended to Maharashtra, Haryana, Orissa, Andhra Pradesh, Chhattisgarh and Madhya Pradesh. It has four centralised nurseries in Orissa, Andhra Pradesh, Maharashtra and Haryana and a number of decentralised ones.

During 2004-05, 37.7 million plants covering nearly 8,000 hectares were grown and are geographically distributed as follows:

- 24.8 million plants in Andhra Pradesh & Tamil Nadu;
- 9.4 million plants in Orissa, Chhattisgarh & North Andhra Pradesh;
- 3.5 million plants in Maharashtra; and

- 0.05 million plants in Haryana.

Going forward, the company intends to focus on improving returns to farmers by developing and promoting high yielding clones of pulpwood species like Eucalyptus and *Lucaena leucocephala*. Our long term plan is to progressively increase clone plants in its distribution programme, and reach 100 per cent clone distribution by 2011-12 - which will cover around 13,000 hectares under high yielding clonal planting.

HUMAN RESOURCE DEVELOPMENT AND ORGANISATIONAL STRUCTURES

BILT BELIEVES THAT ITS PEOPLE are the greatest asset in sustaining competitive superiority and growing the business.

Therefore, as the company embarks on its journey to becoming a world class paper company it needs to align the career path and objectives of its employees with that of the organisation. Consequently, we have realigned individual goals with organisational objectives through improved employee communication, ensuring that key corporate goals are reflected in the performance management process and management development programmes. During the next couple of years, our focus is on developing the human capital within the organisation by:

- Growing the leadership supply pipeline.
- Implementing a programme for talent supply and management, which will attract and retain talent, and deploy better assessment mechanisms.
- Focusing on industrial relations, to maintain and improve management-union relations and help in right-sizing the operations.
- Deploying HR information systems to provide contemporary and current data to facilitate quality decision-making.

We have implemented Economic Value Added (EVA) mechanism across the company

and senior management remuneration has been linked to EVA parameters.

In order to drive the growth oriented business strategy, BILT has reorganised itself into three strategic business units (SBUs):

- **SBU 1** Consisting mainly of coated paper, copier paper, and the newly developed and fast growing retail channel.
- **SBU 2** Consisting of uncoated paper, speciality paper and pulp business at the company's Kamalapuram unit.
- **SBU 3** A new group to oversee the proposed tissue and hygiene business.

These three business units are now accountable for sales and marketing, profitability and returns, manufacturing as well as all corporate-led initiatives such as EVA implementation, TQM deployment and HR development.

While SBU1 has a stronger marketing challenge, SBU2 will focus on lower costs of production. SBU 3 is a new initiative, and the proposal for entering into this business was cleared by the Board on 26 April 2005. Given that the per capita consumption of tissue in India is amongst the lowest in the world (roughly one-hundredth that of China's, which is no great benchmark for per capita tissue consumption), we believe that tissue offers strong growth potential. The first phase will cover launch of branded tissues in Delhi and its surrounding markets in the last quarter of 2005. The finished products will first be outsourced, and later integrated backwards with the installation of tissue making facilities. The product range will cover different types of tissues and would cater to the premium and economy market segments. The core team to lead this business has been deployed.

INFORMATION TECHNOLOGY

BILT HAS BEEN LEVERAGING information system tools to continuously improve efficiencies in its processes for material flow

right across the supply chain, including the manufacturing processes. The company has fully integrated its Manufacturing Execution System(MES) with the Enterprise Resource Planning (ERP) systems. The first phase of implementation has been completed in the three major units at Ballarpur, Yamunanagar and Bhigwan. While the ERP is based on Oracle e Business Suite, the MES is a specialised system for the paper industry developed by Honeywell called Optivision. The MES deals with optimising the manufacturing processes, while the ERP focuses on logistics and accounts.

FINANCIALS

TABLE 1 GIVES THE BRIEF financial performance of your company during 2004-05.

There has been an accounting reclassification by which internal transfers have been excluded from sales. Previous years' figures have been suitably reclassified wherever necessary.

While top-line growth was driven by a 7.18 per cent increase in net Paper revenues from Rs.1500 crores in 2003-04 to Rs.1608 crores in 2004-05, the highlight of this year's performance is the improvement in product mix and operational efficiencies as seen in the increase in PBDITA to net sales ratio from 25.11 per cent in 2003-04 to 26.35 per cent in 2004-05.

This improvement, coupled with a 12.61 per cent reduction in interest outgo has contributed to the PAT to net sales ratio increasing from 7.54 per cent in 2003-04 to 9.39 per cent in 2004-05. This improved net profitability and the steady top-line growth has translated into PAT increasing by 25.52 per cent from Rs. 134 crores in 2003-04 to Rs.168 crores in 2004-05. Table 2 gives the data.

Some of the key financial ratios need further explanation. There are two important activities going on simultaneously.

First, the company has been correcting its capital structure. Consequently, there has

TABLE 1 BILT'S ABRIDGED PROFIT AND LOSS ACCOUNT FOR 2004-05

IN RS.CRORE	2004-05	2003-04
Total Revenues	1799.79	1787.43
Total Expenditure	1328.13	1341.41
PBDITA	471.66	446.02
PBIT	316.88	304.00
PBT	206.48	177.67
PAT	168.09	133.91

TABLE 2 KEY FINANCIAL RATIOS

	2004-05	2003-04
PBDITA/Net Sales	26.3%	25.1%
PBIT/Net Sales	17.7%	17.1%
PBT/Net Sales	11.5%	10.0%
PAT/Net Sales	9.4%	7.5%
ROCE	11.1%	10.5%
ROCE (Paper)	14.6%	14.0%
RONW	11.5%	10.0%
Debt Equity ratio	0.78	0.94



Coming up Trumps

While you're playing cards and hold a winning sequence in your hand, it's likely to be BILT Black Centred Board that keeps it hidden from view. When it comes to paper for manufacturing playing cards, we hold all the aces, dominating the 5,000,000 sets-per-month market for playing cards with a 90% share.

What makes this paper special?

It is a composite of coated papers on the front and back of the card, with black or blue dye in between. This ensures that your opponent has not even the faintest glimpse of the cards you hold, even with a light behind you. Good luck!

been a conscious drive to de-leverage the company. Total debt has been reduced by 10.6 per cent from Rs.1330.2 crores in 2003-04 to Rs.1188.9 crores in 2004-05. This has reduced the financial risk associated with the company as seen in the debt-equity ratio, which has fallen from 0.94 in 2003-04 to 0.78 in 2004-05. Not only has the stock of debt been reduced, but also the cost. By swapping short term debt with long term and by taking on higher tenor debt to withstand cycles, the company has managed to bring down interest cost to net sales ratio from 7.1 per cent in 2003-04 to 6.2 per cent in 2004-05.

Second, BILT has been making several investments to build the necessary scale of operations and to replace obsolete machinery for improving operating efficiencies. The capital expansion plan is for Rs.1,200 crores. The company has already raised capital worth USD 60 million through a FCCB offering. The rest will be financed by internal accruals and long term suppliers credit.

The ongoing capital expansion programme has resulted in the average capital employed increasing from Rs. 2,718 crores in 2003-04 to Rs. 2,878 crores for 2004-05. These new assets will generate returns in the next few years. In the interim, as in the year under review, the ROCE for the focussed paper business increased from 14 per cent in 2003-04 to 14.6 per cent in 2004-05.

ECONOMIC VALUE ADDED (EVA)

IN OUR ENDEAVOUR TO CONSTANTLY create value for our shareholders, we have aligned all organisational processes with the Economic Value Added (EVA) framework. EVA is a financial tool, which when applied across processes help managers evaluate returns that account for all costs, including the total imputed cost of capital.

Implementing the EVA framework involved spreading awareness and impor-

tance of EVA among the employees of the company. Starting in the beginning of 2003, today, all processes of the company across various offices and units are aligned with the EVA framework. Subsequently, the company has made a positive EVA contribution of Rs.40 crores during the period 2002-03 to 2004-05.

CORPORATE SOCIAL RESPONSIBILITY

BILT VIEWS ITSELF AS AN ENTITY that goes beyond sales and profits. We strongly feel that the long term sustainable future of companies lies in being responsible corporate citizens. Therefore, corporate social responsibility (CSR) in BILT is much more than an expedient phrase. It is a core element of the company and forms an integral part of our corporate plans.

BILT has always maintained that the communities who live around its manufacturing locations should not be mere beneficiaries but active stakeholders of the company. This empowerment has meant that they no longer look towards BILT as a mere provider but actively dialogue with the company so that future interventions can be tailor-made according to their needs and with their participation.

2004-05 saw a consolidation of the work that has been carried out in the last four years. The company's initial activities were meant to gain access into the communities, build trust and create platforms for dialogue. Over the years, these initiatives have evolved from being entry-level activities to adding economic and social value to the lives of the people that we work with.

We were awarded the prestigious TERI National Award for Corporate Social Responsibility for the year 2003-04. The award has been instituted by the Energy and Resources Institute to acknowledge the contribution of Indian Industry in the areas of sustainable development particularly excel-

lence in environment and corporate social responsibility.

The strong partnerships that BILT has with the implementing NGOs have been a major contributor to the success of these programmes. Our NGO partners have not only implemented various projects but also served as our bridge to the community. It is with their active participation that we have been able to resolve some contentious issues, brought the people's perspective to management, and created more trust between the company and communities.

BILT's social interventions include encouraging entrepreneurship to develop sustainable livelihood within the communities, developing health related programmes, promoting primary education, imparting skill training and capacity building, and creating awareness of issues like AIDS. At BILT, employees are always encouraged to participate in CSR programmes. More than 70 employees have directly participated in volunteer activities during 2004-05. Table 3 gives the key performance under the CSR programmes, and speaks for itself.

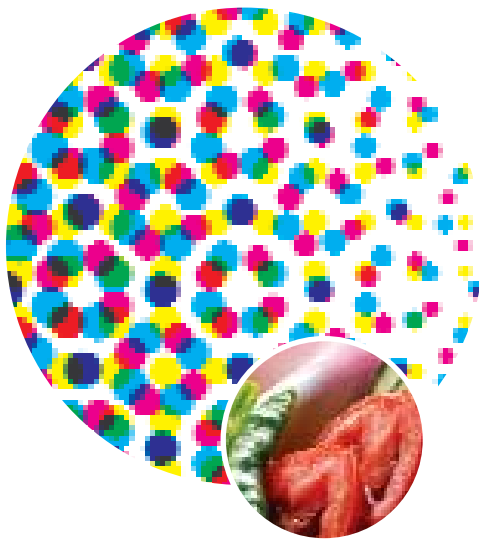
INTERNAL CONTROL SYSTEMS

BILT HAS A ROBUST INTERNAL audit and control system. The system is vetted by the Board of Directors and its Audit Committee, cascades down to all levels of management and functions, and provides reasonable assurance regarding the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The internal audit process is conducted internally and through external auditors. There is an annual plan for auditing the corporate office including the regional office and the five plants are audited thrice a year. At the corporate office level, the main function audited is central procurement and all high valued vouchers are pre-audited before clearance. At the plant level the key areas

TABLE 3 KEY CSR INITIATIVES, AN ILLUSTRATIVE LIST

	MEASURE	CUMULATIVE ACHIEVEMENT
Our Spread		
Villages reached	Number	50
Urban slums reached	Number	6
Population coverage (Threshold)	Number	1,82,448
NGOs partnering with BILT	Number	10
BILT volunteers	Number	81
Social work professionals working at field	Number	15
Community level service providers created (education, health and livelihood)	Number	1,031
Members in various community level groups	Number	2717
Training & Capacity Building		
Training programmes conducted for community service providers	Number	294
Panchayati raj training conducted	Number	13
Orientation and refresher training conducted for community health facilitators	Number	92
Family life education training to adolescent girls	Number	156
Training to self help group functionaries and youth (motivation, orientation and leadership)	Number	180
Accounts and book keeping training for self help group (SHG) functionaries and accountants	Number	56
Agriculture: Training on best practices	Number	46
Community Mobilisation		
SHGs of women formed	Number	210
Youth groups/adolescent girls groups formed	Number	85
Farmers' groups formed	Number	16
Women and youth cooperatives formed	Number	2
Savings and Credit Programme		
Voluntary savings generated by SHG members	Rupees	1,812,470
Bank loan leveraged (in the form of soft loans to SHGs)	Rupees	2,543,800
Matching grant received from government	Rupees	173,133
Interest earned by SHG members	Rupees	303,599
Internal credit rotated among SHG members	Rupees	971,135
Savings generated in cooperatives	Rupees	349,671
Credit extended by cooperatives	Rupees	380,500
Community Managed Health Care System		
Children provided immunisation/basic health care	Number	4,063
Pregnant women and lactating mothers provided with health care	Number	1,492
Referral cases for treatment in government hospitals	Number	634
Community Based Education Initiatives		
Non-formal community education centres set up	Number	499
Children covered through the education initiatives	Number	44,056
Children mainstreamed to formal education	Number	10,647
Livelihood Enhancement		
Persons taking up entrepreneurship due to our support	Number	217
Farmers covered through best agricultural practices	Number	544
Seedling raised in nurseries run by women SHGs for the company	Number	130,000
Working with other Stakeholders		
Truck population covered through HIV/AIDS awareness meetings	Number	760



Bringing colour to Life

What has the perfectly reproduced, life-like photograph got to do with the lustre of a Michelangelo sculpture?

To print the myriad tones and colours on the photograph, printers print dots of cyan, magenta, yellow and black. These dots print sharp, and the inks print bright and true, when the paper is smooth and brilliant white.

These properties are a result of knife coating with clay, rich in super fine particles of calcium carbonate. The same material that makes up the lustrous white marble in a Michelangelo.

audited are raw material procurement, finance and accounts, payroll, overtime, taxation, operations review, production planning, wastages, engineering and utilities.

RISKS, CONCERNS AND OUTLOOK

GIVEN THE CAPITAL INTENSITY of the paper industry, new capacity introductions are not gradual increments but act like blocks or steps to the supply function. Such a jump in supply often has an immediate adverse effect on prices in the market. Apart from the general market cycles, this form of supply shocks affecting prices is the basic market risk faced by BILT or any other company in the industry.

On the production side there are two crucial concerns. First is the short supply of cellulosic fibre - the raw material for paper manufacturing. Given that wood is the basic source of this material, more usage means more deforestation. This risk of shortages in supply of this crucial forest-based raw material can only be overcome by private public partnerships to develop plantations and sustainable social-cum-commercial forestry programmes in our country. BILT's farm forestry programme is a step in that direction.

The second concern is the limited availability of quality coal in India, which is the most important source of energy for this industry. The resulting high coal prices affect costs. Some of BILT's plants are insulated from this risk as they are located near coal pits. We are also reducing the risk by sustained TQM programmes across all our plants to increase energy efficiencies.

Finally, as we have stated earlier, the company is in a major investment phase to increase scale of operations, de-bottleneck capacities and enhance productivity. All these new investments have inherent investment and project management risks. BILT has sought to mitigate these by putting in place top class project management teams,

and by vetting the viability of each investment based on low future estimates of paper prices.

Overall, we are optimistic about our performance in 2005-06. We expect the Indian economy to continue to perform well. Our expansion programme has been in line with our plans, and we expect to get some early returns from the new investments by the end of 2005-06. We believe we are in line with our objective of rapid growth, creating global scales and increasing sales, market share and profits.

For and on behalf of the Board of Directors

L. M. THAPAR **CHAIRMAN**

GAUTAM THAPAR **VICE CHAIRMAN & MANAGING DIRECTOR**

R. R. VEDERAH **JOINT MANAGING DIRECTOR**

B. HARIHARAN **GROUP DIRECTOR (FINANCE)**

DATE 30th August, 2005

PLACE New Delhi