

53<sup>rd</sup>

Annual Report  
2011-12

***SIPM***

The South India Paper Mills Limited

### **BOARD OF DIRECTORS**

Mr. Manish M. Patel, B.E., M.B.A., Chairman & Managing Director

Mr. Dineshchandra C. Patel, Bar-At-Law

Mr. Jagdish M. Patel, D.M.E

Mr. S.R. Chandrasekara Setty, B.Com., FCA, ACS

Mr. M.G. Mohan Kumar, B.Sc., LLB, FCA, Licentiate ICSI

Mr. Ajay D. Patel, B.E., M.B.A

Mr. N. S. Kishore Kumar, B.Sc., MBA, CAIIB

### **COMPANY SECRETARY**

Mr. N S Hegde

### **AUDITORS**

M/s B.S. Ravikumar & Associates  
Chartered Accountants  
Mysore

### **COST AUDITOR**

Mr. Madhukar P. Nayak  
Bangalore

### **INTERNAL AUDITOR**

M/s Rau & Nathan  
Mysore

### **BANKERS**

Vijaya Bank, Nanjangud

### **REGISTRARS & SHARE TRANSFER AGENTS**

M/s Karvy Computershare Pvt. Ltd.,  
Plot No. 17-24, Vittal Rao Nagar, Madhapur, Hyderabad - 500 081  
Tel: (040) 23420815-20

### **REGISTERED OFFICE & MILL**

Chikkayanachatra, Post Nanjangud - 571 301 Karnataka  
Phone: (08221) 228265, 228267, 228266 Fax: (08221) 228270  
Website: [www.sipaper.com](http://www.sipaper.com)  
E-Mails: [corporate@sipaper.com](mailto:corporate@sipaper.com), [marketing@sipaper.com](mailto:marketing@sipaper.com)

### **CORPORATE & MARKETING OFFICE**

#1205/1206, Prestige Meridian II, M.G. Road, Bangalore - 560 001  
Phone: (080) 41123605-06, 41241175 Fax: (080) 41512508, 22205531.

**Annual General Meeting at the registered office of the Company on Thursday the 27th September, 2012 at 3.00 PM**

**DIRECTORS' REPORT**

To  
The Members

Your Directors have the pleasure to present the 53rd Annual Report of the Company along with the audited accounts for the year ended 31st March, 2012.

<b>WORKING RESULTS</b>	<b>2011-12</b>	<b>2010-11</b>
Finished Production of Paper & Paperboards	50,890 MTs	50,223 MTs
	( ₹ In Lacs )	( ₹ In Lacs )
Gross Sales	17,869.00	17,318.35
Net Sales excl Excise Duty	17,022.76	16,657.09
<b>FINANCIAL RESULTS</b>		
Operating Profit	<b>2,461.24</b>	<b>2,566.88</b>
Less : Finance costs	226.19	205.23
Gross (Cash) Profit	<b>2,235.05</b>	<b>2,361.65</b>
Less : Depreciation	614.36	482.13
Profit before Exceptional items & Tax	<b>1,620.69</b>	<b>1,879.52</b>
Exceptional Items : Profit on Sale of shares in Associate Co.	463.67	—
Electricity Tax relating to earlier years	(75.73)	—
Profit before tax	<b>2,008.63</b>	<b>1,879.52</b>
Provision for Tax-including deferred tax	481.38	480.00
Profit after tax for the year	<b>1,527.25</b>	<b>1,399.52</b>
Less : Income tax of earlier years	(12.39)	12.25
Net Profit after Tax	<b>1,539.64</b>	<b>1,387.27</b>
Add : Balance Surplus brought forward from the previous year	<u>5,673.27</u>	<u>4775.79</u>
	<b>7,212.91</b>	<b>6,163.06</b>
<b>APPROPRIATIONS :</b>		
Transfer to General Reserve	(154.00)	(139.96)
Proposed Dividend @ 22% (Previous year 20%)	(330.00)	(300.00)
Provision for Dividend Tax	(53.53)	(49.83)
Balance Surplus carried forward	<u>6,675.38</u>	<u>5,673.27</u>

**OPERATIONS**

Gross sales for the financial year 2011-12 increased to Rs. 178.69 crores as against Rs. 173.18 crores in the previous year.

Operating volumes in both the Paper Plant as well as Printing & Packaging Division, were marginally higher. Capacity utilization in Paper Plant was 90.88% (last year 89.68%). Although the Average Net Selling Price (NSRP) could be increased by about 6%, cost of direct inputs such as waste paper, fuel, dyes, chemicals and stores & spares consumed increased by about 10% per MT, eroding the direct



contribution margin by about 410 Rs/Mt. The bottom line impact of this on the performance of the paper division was about 210 lacs. Fuel prices were higher on supply constraints witnessed in the economy. Raw material prices increased sharply based on international trends and due a steep depreciation in the value of the rupee in the last two quarters of the financial year. The planned maintenance shutdown of Paper Machine No. 1 for 3 weeks for rebuilding as well as a critical breakdown of Co-generation plant for 3 weeks in Q3, affected production volumes. Replacement of old components, in paper plant and box plant led to increase in repairs & maintenance expenses.

During the year the Company sold shares held in Bhadra Packaids Pvt. Ltd., an Associate Company & realized a gain of Rs. 4.64 crores (reported as exceptional item). Dividend received from Bhadra Packaids (P) Ltd was Rs. 1.74 crores and is reported as Other income. Attention of members is drawn to the fact that this income is non-recurring as the shares have been sold as reported above. After making a higher depreciation provision of Rs. 614.36 lacs (Previous year - 482.13 lacs), net profit increased from Rs. 13.87 crores to Rs. 15.39 crores.

### FINANCES

During the year, cash flow & liquidity remained comfortable.

Sources of funds	₹ in lacs	Deployment of funds	₹ in lacs
Cash flow from operating activities	2,179	Repayment of Term Loans	288
Dividend received	174	Finance Cost	224
Interest Income	34		
Proceeds from Sale of Investment in Associate Concern	518	Income tax	518
Increase in Security Deposits	3	Dividend & Dividend Tax	345
Term Loan drawn	200		
Decrease in Working Capital	494	Capital Expenditure & Advances	1,929
Decrease in cash & cash equivalents	279	Decrease in Short Term Borrowings	577
<b>TOTAL</b>	<b>3,881</b>	<b>TOTAL</b>	<b>3,881</b>

31.03.12    31.03.11

Long Term Debt to Equity Ratio

0.12    0.15

Current Ratio

1.85    1.84

Capital expenditure and advances includes substantial amounts towards Printing & Packaging Division. There are no overdue deposits or unclaimed matured Fixed Deposits as on 31-3-2012.

### CURRENT PROSPECTS

During the first quarter of the current year, the output is similar to the trend in the previous year and operating profits are about the same. The market conditions for paper are extremely competitive with supply from new capacities outstripping demand. Whilst there has been a steep increase in raw material and fuel prices due to a steep depreciation in the rupee, it has been extremely difficult to push through an increase in selling prices due to demand-supply situation in the paper market. The bright spot on the horizon is the internal demand from the Printing & Packaging Division, which is



seeing an encouraging response from box consuming Brand Owners. The combination of high inflation, poor growth in demand and a capacity overhang will ensure that capacity in this segment remains flat in the near term. Your management however perceives an opportunity for growth by enhancing its box manufacturing capacity with a new plant at another location. Various site options are under evaluation. An increase in paper making capacity through brown-field improvements to support the higher conversion capacity planned is seen as the way forward.



Overall Turnover and operating profit is expected to be better, mainly due to higher volume of value addition through conversion.

During the year 2011-12 overall economic growth of India was lower at 6.5% as against 8.5% in the last year. Manufacturing sector growth was down at 2.9% (8.8%).

#### **CAPITAL EXPENDITURE PLANS**

The Company is now taking up the upgradation of the existing paper machines to increase output by about 25% on PM-4 & 5 for brown grades. Capital expenditure is planned for the Printing & Packaging Division to increase overall volumes and productivity. This will be financed through debt & internal accruals, to obtain optimum returns. Large capital expenditure, and substantial capacity increase is under consideration and will be taken up at the opportune time.

#### **CORPORATE GOVERNANCE**

Securities & Exchange Board of India (SEBI) in order to improve the standard of Corporate Governance has introduced certain amendments in the Listing Agreements with the Stock exchanges. Same have been complied with & a report on this is attached.

#### **Directors' Responsibility Statement :**

As required by new amendments to Companies Act, 1956, we state that :

While preparing the Annual Accounts, the Company has followed the applicable Accounting Standards, referred to in Section 211 (3-C) of the Companies Act, 1956.

The Directors have selected such accounting policies and applied them consistently and has made judgements and estimates that are reasonable and prudent, so as to give true and fair view of the state of affairs of the Company as at 31-3-2012 & of the profit of the Company for the financial year 2011-12.

The Directors have taken proper & sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

The Directors have prepared the annual accounts on a going concern basis.

#### **ISO 9001 CERTIFICATION**

Company's Quality Management Systems (QMS) have been audited by Bureau Veritas Certification India Pvt Ltd and ISO 9001: 2008 Certification is awarded to the Printing & Packaging Division of the Company. This Certification is valid for a period of 3 years.

#### **RESEARCH & DEVELOPMENT**

Several special application grades have been developed & successfully introduced during the year to cater to stringent customer specific requirements.

#### **ENERGY CONSERVATION MEASURES**

The particulars required under the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 with regard to energy conservation measures are furnished in the Annexure.

### ENVIRONMENTAL PROTECTION

Your company has always endeavored to remain in harmony with its eco-sphere and tried to equitably balance the interest of all stakeholders in it, often going beyond the statutory impositions placed by regulatory authorities. In such efforts are included the installation of a 0.5 acre hold tank and a 2 km delivery pipeline for irrigating otherwise dry lands. The treated effluent water is utilized for irrigation purposes in the nearby fields of third party farmers with excellent crop yields.



The Company has installed & been operating the Electro Static Precipitator (ESP) Systems for its Boilers for controlling dust emission and dust extractor system for controlling dust at its fuel handling system.

Centrifuge and other machineries have been installed for effluent treatment. New fuel shed with roofing, controls dust emissions and conserves the resources.

### DIVIDENDS

Your Directors recommend a Dividend of 22% i.e. ₹ 2.20 per equity share of ₹ 10 each as against ₹ 2 per equity share last year(20%). The total distribution including dividend tax amounts to ₹ 383.53 lacs (₹ 349.83 lacs)

### PARTICULARS OF EMPLOYEES

Particulars of employees pursuant to Section 217 (2A) of the Companies Act, 1956 are annexed.

### LABOUR RELATIONS

The industrial relations climate in the Company during the year was generally cordial and harmonious.

### DIRECTORS

In terms of Section 255 of the Companies Act, 1956 Mr Dineshchandra C Patel & Mr S R Chandrasekara Setty, retire by rotation and they, being eligible, offer themselves for reappointment. Your Directors recommend that the proposed resolutions for their reappointment be passed.

### AUDITORS

There are no adverse comments by the auditors in their report annexed herewith.

The Auditors M/s B S Ravikumar & Associates retire at the conclusion of this Annual General Meeting and are eligible for reappointment. Your Directors recommend that the proposed resolution appointing them be passed.

### APPRECIATION

Your Directors take this opportunity to place on record their appreciation for services rendered by the employees, sales agents, Banks & Financial Institutions.

Nanjangud  
24th May, 2012

for and on behalf of the Board of Directors

**Manish M. Patel**

Chairman & Managing Director



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **i) Industry Structure & Developments :**

The Indian Paper Industry has been historically segmented on a three dimensional matrix identified by size, grades manufactured and raw materials utilised. Government policies on indirect taxation rates applicable to output have relied on this segmentation. Generally, tariff rates have protected smaller units utilising “unconventional” raw material. Over the years, the growth of various segments, investment levels in specific segments, technological changes, industry fragmentation and intensity of competition have been significantly influenced by the Government’s tariff policy.

Over 500 players currently populate the industry and the estimated output across all grades is about 10 million metric tonnes per annum (MTPA). Imports still do not supply any significant proportion of the total demand. The three broad segments of the market are Writing and Printing Grades (Cultural), Packaging Grades (Industrial) and Newsprint.

The “Industrial” Segment of the paper market broadly comprises of Corrugated Case Materials,(CCM) and Duplex Boards -white lined and coated or uncoated. Fragmentation is severe in this segment which constitutes about 50% of the total output of Paper & Board. This segment entirely relies upon “unconventional” raw material such as waste paper (imported and domestically sourced) and, to a limited extent, on agricultural residues. The average size of units in this segment is now about 15,000 MTPA and most units cater to local area demand from small semi-auto corrugated box factories and small printers. Although the other segments in the Indian paper industry are also fragmented by international standards, the degree of fragmentation is less severe.

Historically, the bulk of the output of “Cultural” grades - comprising of writing, printing, office stationery paper and speciality paper has been the preserve of the larger producers, who use forest based raw materials in integrated pulping facilities augmented by imported market pulp. This segment has been consistently taxed at higher rates due to its size and use of “conventional” forest based raw material. Investment in plant for these players has also been higher. With a relatively smaller number of players and high import tariff protection, prices of end products, generally perceived to be of higher quality, have been high. “Lower end cultural grades” manufactured by smaller players using unconventional raw materials in low investment, low-tech plants cater to consumers in the price sensitive sub-segment of this market. This sub segment has historically depended heavily on the tariff differential based on size and raw material for its viability. Some of the mid-sized players in the writing and printing segment are in the process of expansion and modernization and are installing wider/faster machines with full fledged de-inking plants to produce the higher quality that is increasingly preferred and for which consumers are willing to pay more. Several of the “large-integrated” forest based producers have also recently increased forest based pulping capacities. The cultural paper segment contributes about 40% of the annual paper and paperboard production with a current demand growth rate of about 6 to 7% per annum. The high investment levels required and limited “conventional” fiber resources are the major deterrents to growth in this segment for both existing players as well as new entrants.

Newsprint, till about 1994, was the sole preserve of large public sector units and was well protected by high import tariff barriers. Nevertheless, imports contributed to about 40% of the domestic consumption. Since then, new domestic capacity with private investment has been “allowed” to be created. This growth has relied mainly on De-inked waste paper as a source of raw material. Currently, Newsprint is exempted from excise duty. This tariff structure for Newsprint has seen Indian Newsprint prices closely mapping international prices. Imports still constitute about 25% to 30% of consumption and newsprint constitutes about 10% of the total production of paper & paperboard. The number of players in the newsprint segment is relatively limited and manufacturing capacities are larger than in the packaging grades segment.

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The Indian Paper industry which ranks 11th in production, globally, in recent times has registered faster growth rates of about 7%. The domestic demand is expected to grow at about 6 to 7% p.a. Paper industry plays an important role in the socio-economic development of the country.

Despite several infrastructural impediments there is a strong growth in demand in several sub-segments of the Indian Paper Industry. There is perceptible shift in preference for higher quality products in both the Industrial and Cultural Segments and players with the right grade-quality mix are seeing opportunities for profitable growth. As per our assessment, most of the dominant players in each industry segment are operating near to capacity and one can expect a round of capacity additions which will however be circumscribed by factors peculiar to individual units such as the ability to raise funds cost effectively, availability of raw material and low cost energy.

## **ii) Opportunities & threats:**

The Indian Government's policy for the paper industry lacks perspective. It is necessary that the Government come up with a clear policy on pulpwood plantations that can benefit the paper industry in terms of introducing more virgin fiber into the fiber basket. In the face of fierce global competition, sustenance of industry with only agro-based raw materials and recycled fiber will be very difficult to achieve. The Government also needs to create a more conducive atmosphere for investment into this sector.

In the medium term, much of the growth in the packaging segment of the Industry is expected to be based on recycling of waste paper. This is already the trend in China. Indian paper companies in the packaging segment are also expected to fuel their near to medium term growth through waste paper imports from regions of surplus such as North America and Europe. Large Chinese producers have set up their own sourcing networks in these regions to supply their huge capacity additions; they possess relative buying strengths and constitute a cost threat to that extent. Over time, however, as domestic capacities stabilize and domestic collection improves, a larger proportion is expected to be sourced domestically with the fiber basket being upgraded by pulp imports. The strength of any firm in this industry is however expected to come from a presence throughout the supply chain from raw material to packaging production and delivery.

Whilst this is a capital-intensive industry, the current structure of depreciation tax shields, finance (interest) costs and relatively short-term repayment horizons places severe limitations on fresh investments.

This phenomenon has effectively increased the project cost on expansion and new green-field investments. At the same time, the continuous reduction of import tariffs keeps margins under pressure.

The absence of large-scale investments and green field projects in a rapidly growing economy with one of the lowest per capita paper consumption rates is testimony to this situation.

## **iii) Segment wise or product wise performance:**

Segment wise revenue, results and capital employed are furnished for i) Paper & Paper products and ii) Power, in the notes on accounts.

## **iv) Outlook:**

The Indian economy has grown by 6.5% during 2011-12 with manufacturing sector growth of 2.9%. Most forecasts for growth in paper industry for 2012 -13 are between 6% and 7%. The depreciating Indian Rupee, inflation and high interest rates have to some extent weakened consumer confidence and consumer purchasing power.



Innovative cost containment and cost cutting will be required by paper mills to not only maintain business volumes but to capture a larger portion of a slowly growing pie.

**v) Risks and Concerns:**

In recent years Government has been attempting to homogenize Excise Duty tariff rates with the ultimate objective of a higher single rate around 16% limited to the value added at each stage in the value chain. In theory, this plan is expected to eliminate the debilitating effects of cascading taxes on the cost of production in the economy and improving the competitiveness of Indian manufacturers. The achievement of the desired results has however been mired in a plethora of politically motivated concessions that defeat the fundamental objective.

As in many other industry segments in the economy, the value addition chain in the packaging segment of paper grades has been broken by excise duty exemptions granted to intermediate goods manufacturers in the guise of small-scale industry protection. Populist excise duty concessions on certain fast moving consumer goods have also added to the problem without reducing the cost to the consumer. This has unfortunately been in consonance with concessions to small paper manufacturers. This combination has vertically split markets in the value chain, with most manufacturers attempting to “stay small” so as to avail the small-scale concessions.

Practical difficulties in obtaining refunds of taxes on inputs in the value chain have also motivated many small exporters to source material from small-scale “exempted”/“concessional duty” manufacturers of converted paper products. As a result, the industry has been characterized by further fragmentation and internationally uncompetitive low value added investments in both the paper industry and its downstream converting industries. As per the GATT agreement, import tariff barriers however continue to be scaled down and imports of higher quality packaging grades of paper & board are soon expected to influence competition dynamics in the Indian market.

New, large scale manufacturing capacities are being created in several down-stream industries such as electronic goods, white goods, cell phones and fast moving consumer goods. These industries that have been seeing a year-on-year growth of 8 to 10% are expected to also slow but not as much as the general slowdown in the economy.

The Government has also prioritized policies aimed at promoting rapid up-gradation in supply chain systems for retail distribution and export of fruits and vegetables. The automotive components industry is also growing and demanding wooden packaging substitutes. The footwear and garments exports segments are growing but at a more moderate pace as export markets slow.

All these and other trends indicate that there will be a better than average growth in the demand for high-quality, world-class packaging material produced in state-of-the art facilities and delivered just-in-time.

Whilst one would ordinarily expect these trends to encourage strong players in the paper converting industries to either expand or paper producers to forward integrate and seize the opportunities for growth, this has not actually happened due to the uncertainty from the flip flop tariff policy decisions.

Historically, the policy of “reservation” of this industry for the small scale sector has resulted in extreme fragmentation with low productivity, small capacities and poor quality of output. The indirect tax structure and the industry structure of consuming industries highlighted earlier allows these capacities to continue to exist albeit marginally and this production base continues to supply the existing demand, its survival being circumscribed by the tax/tariff structure applicable to users of packaging material.

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During February 2008, corrugated box manufacturing was taken off the list of products reserved for the small scale industries. This change should see consolidation of production in the corrugated box industry as well as a significant shift in the overall quality of boxes. These changes would elevate the quality requirements for corrugating case paper – both liners and fluting, placing significant pressure on paper manufacturers in terms of fresh investments in paper making processes to meet the emerging quality requirements. New, better capitalized and organized players are expected to enter the market. However, the current tariff structure in the entire value chain from raw material for the paper industry to the final consumer product as well as the vertical value chain split described earlier will shape the speed of evolution and growth of this segment.

### **vi) Internal Control Systems:**

Your company has an adequate internal control system in place. The internal control system is proactive. The company has an audit committee which oversees the adequacies of the internal control systems and reports to the Board.

### **vii) Discussion on financial performance with respect to operational performance:**

Operating volumes in both the Paper Plant as well as Printing & Packaging Division, were higher.

The capacity utilization achieved in paper plant during the year is 90.88% (Prev. yr. 89.68%).

In the Union Budget for 2011-12, the Government increased the Excise duty on Paper & on cartons from 4% to 5% from March 2011 and the same was absorbed by the market. Further, the Union Budget 2012-13 has raised the duty from 5% to 6% from 17-3-2012.

The co-generation system, which suffered breakdown for about 3 weeks in Q3 is working satisfactorily and is delivering the desired output.

The operating profit for the year under review stands at ₹ 2,461 lakhs as against ₹ 2,567 lakhs in the previous year. The profit before tax after absorbing finance charges and depreciation is ₹ 1,621 lakhs for 2011-12 as compared to ₹ 1,880 lakhs for previous year. The Company has provided ₹ 481 lakhs for liability towards Income tax as against ₹ 480 lakhs last year. Exceptional income (net) was ₹ 387.94 lakhs.

The net profit after tax for the year under review is ₹ 1,539 lakhs as against ₹ 1,387 lakhs for the year 2010-11.

### **viii) Material developments in Human Resources/Industrial Relations front:**

Industrial relations are harmonious. The focus of HR activities is on employee involvement in operations of the company for effective results.

Efforts are being directed at building a strong management team oriented to entrepreneurial thinking and innovation in problem solving.

As on 31st March 2012, the Company had on its rolls, 303 employees.

**ANNEXURE TO THE DIRECTORS' REPORT**

- a) Information as per Section 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 2012.**

**A) CONSERVATION OF ENERGY**

Conservation of energy is an ongoing activity receiving major emphasis at all stages of manufacturing. Energy consumption is systematically monitored and conservation of energy is implemented in a phased manner.

**1. MEASURES TAKEN :**

- i) The Company generates steam for process requirements as well as power generation by Fluidised Bed Combustion (FBC) Boilers, which are energy efficient.
- ii) The Company continues to phase out high energy consuming devices especially in the areas of stock refining vacuum systems and pumping systems to incorporate modern equipment.
- iii) Static inverter drives have been installed for boilers, ID/FD fans and for all the rewinders to reduce energy consumption.
- iv) Variable frequency drives have been installed on all the fan pumps of the new machine. This allows a continuous saving of energy at varying process conditions.
- v) Paper Machines line shaft drives modified to AC variable / DC drives, resulting in energy savings.
- vi) High Capacity Motors are provided with soft starters which contribute about 5% savings compared to conventional starters.
- vii) Installation of capacitor banks to optimize power factor and other energy saving devices.
- viii) Recycling of back water in new machine, to conserve fresh water.
- ix) Modification of turbine to enhance power generation, and tuning up the equipment to increase the efficiency.
- x) Construction of fuel shed, for storing fuel items in good condition, resulted in reduced wastage & energy savings
- xi) Replaced old press section in Machine No.1 with higher nip load press part resulting in saving in steam consumption.
- xii) Replaced boiler air pre-heaters and economizer coils resulting in improved boiler working efficiency.
- xiii) Installed water flow meter at relevant lines to monitor and control the water consumption resulting in saving of fresh water and pumping energy.
- xiv) Boiler cooling water collected in a tank and fed to cooling tower which result in saving of fresh water and pumping energy.
- xv) Micro Travel Showers introduced on all machines to conserve fresh water consumption and pumping energy.

**IMPACT OF ABOVE MEASURES:**

The above measures have resulted in reduced consumption of energy & consequent favourable impact on cost of production of goods.

**2. ADDITIONAL INVESTMENT AND PROPOSALS:**

- i) Proposed to introduce Harmonic controllers and power factor controllers for the paper machines to reduce power consumption.
- ii) To replace in a phased manner inefficient motors with new energy efficient motors.
- iii) Replacement of old pumps with energy efficient pumps for stock preparation section.
- iv) Revamping of Insulation of steam lines resulting in efficiency in steam consumption.

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3. Total energy consumption and energy consumption per unit as per Form - A of the annexure to the rules in respect of industries specified in the Schedule thereto :

	Current Year 2011-12 ₹	Previous Year 2010-11 ₹
<b>I Power and Fuel Consumption</b>		
1. Electricity		
a) Purchased		
Units	7,17,959	3,43,852
Total Amount including Fixed demand charges	45,45,353	28,14,981
Rate / unit	6.33	8.19
b) Own generation		
i) Through diesel generators		
Units	25,652	27,226
Units per litre of diesel	3.60	3.10
Cost per unit	12.30	13.19
ii) Through steam turbine		
Units (in K.W.H)	3,89,19,900	3,98,12,700
Cost per unit	4.24	3.93
2. Coal :		
Quantity (tonnes)	24,730	38,332
Total cost	9,39,36,178	11,83,89,309
Average rate	3,798	3,089
3. Agro waste etc..		
a) Quantity (tonnes)	49,417	35,392
Total cost	14,40,65,029	9,51,61,989
Average rate	2,915	2,689
<b>II Consumption per unit of production</b>		
Product - Paper & Paper boards		
Unit of Production - Metric Tonne		
Electricity	727*	745*
Coal	0.49	0.76
Husk & other Fuel items	0.90	0.65
* including auxiliary power for captive power generation		
4 Technology Absorption :		
Particulars in respect of this is	NIL	

## 5 Foreign Exchange Earnings &amp; Outgo :

Total Foreign exchange used :	<b>2011-12</b>	<b>2010-11</b>
	₹	₹
a. Raw Materials	40,52,75,749	49,67,54,138
b. Stores, Spares, Consumables	2,74,22,686	1,35,50,783
c. Capital Goods	9,33,61,136	2,05,07,621
d. Professional Fees	41,200	32,166
e. Travelling Expenses	7,14,569	5,48,276
	<b>52,68,15,340</b>	<b>53,13,92,984</b>
Total Foreign exchange earned:	22,25,792	7,37,312

- b) Information u/s.217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2012

Sl. No.	Name, Age & Qualification	Designation, Commencement of employment & Experience	Remuneration received (₹)	Particulars of last Employment
1	2	3	4	5
(1)	Manish M. Patel, 53, B.E. Hons. (ChE), M.B.A.	Managing Director from 20/5/04 10-09-1985 (26)	82,17,864	Executive, Personal Banking Division Comerica Inc., Detroit, MI, USA

Note: The appointment is contractual. Other terms and conditions are as per rules and regulations of service in force from time to time. Gross remuneration comprises of salary, monetary value of perquisites, commission payable to Whole-time Directors on net profits & the Company's contribution to provident fund & super annuation fund.

FOR AND ON BEHALF OF THE BOARD

Nanjangud  
Dated: 24th May, 2012

**Manish M Patel**  
Chairman & Managing Director

## CORPORATE GOVERNANCE REPORT

### 1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The company believes that 'Ethics' is the key word for sustained growth. The Company has continuously endeavoured to uphold transparency, accountability and compliance in all business practices and to have better rapport with the customers, suppliers, Government, shareholders and the society, in general. We are committed to being on the path to progress.

### 2. BOARD OF DIRECTORS

The Board of Directors of the company comprised of seven Directors as on 31.03.2012.

Names of Directors	Category
Mr. Manish M. Patel	Chairman & Managing Director
Mr. Dineshchandra C. Patel	Non Executive Director
Mr. Jagdish M. Patel	Independent, Non Executive Director
Mr. M.G. Mohan Kumar	Independent, Non Executive Director
Mr. S.R.Chandrasekara Setty	Independent, Non Executive Director
Mr. Ajay D. Patel	Non Executive Director
Mr. N.S. Kishore Kumar	Independent, Non Executive Director

The Company has an Executive Chairman & Managing Director. The other 6 Directors, out of the total strength of 7, are non- executive Directors. More than 50% of the Board consists of Independent & Non Executive Directors.

During the financial year under review five Board Meetings were held.

Board Meeting Dates are furnished below

- 26th May 2011
- 28th July 2011
- 22nd September 2011
- 31st October 2011
- 25th January 2012

Attendance of each Director at the Board Meeting and last Annual General Meeting:

Name of Director	No. of Board Meetings Attended	Attendance at the last AGM held on 22nd September, 2011
Mr. Manish M. Patel	5	Yes
Mr. Dineshchandra C. Patel	4	Yes
Mr. Jagdish M. Patel	5	Yes
Mr. M.G. Mohan Kumar	5	Yes
Mr. S.R. Chandrasekara Setty	5	Yes
Mr. Ajay D. Patel	5	Yes
Mr. N S Kishore Kumar	5	Yes

Mr. D.C. Patel, Mr. Ajay D. Patel & Mr. Manish M. Patel are related inter-se.

Number of other company boards or board committees in which each of the Directors of the Company is a member or chairman.

<b>Name of Director</b>	<b>No. of other Companies in which Director</b>	<b>No. of Committees (other than SIPM Ltd.) in which member</b>
Mr. Manish M. Patel	2	1
Mr. Dineshchandra C. Patel	2	-
Mr. Jagdish M. Patel	-	-
Mr. M.G. Mohan Kumar	11	-
Mr. S.R. Chandrasekara Setty	-	-
Mr. Ajay D. Patel	2	-
Mr. N S Kishore Kumar	-	-

### **3. AUDIT COMMITTEE**

The broad terms of reference of the Audit Committee are to review

- The financial performance of the Company
- Statutory payments and institutional dues
- Capital expenditure
- Policies of purchase and sale of raw materials, finished goods etc.
- Other areas enumerated in Clause 49 (II) of the Listing Agreement

The Audit Committee is empowered to do such acts and deeds as mentioned under Clause 49(II)C.

The Committee comprises of the following Directors and their attendance particulars are as follows:

Name	No. of meetings attended
Mr. M.G. Mohan Kumar-Chairman	4
Mr.S.R. Chandrasekara Setty –Joint Chairman	4
Mr. Jagdish M Patel	4

The Audit Committee met four times in the financial Year 2011-2012 on

- 26th May 2011
- 28th July 2011
- 31st October 2011
- 25th January 2012

### **4. REMUNERATION COMMITTEE:**

The Remuneration Committee was constituted vide Board Meeting held on 30th May, 2009 to review the remuneration package of Chairman & Managing Director and to recommend to the Board. The Remuneration Committee comprises of the following Directors:

1. Mr. M.G. Mohan Kumar-Chairman
2. Mr.S.R. Chandrasekara Setty
3. Mr. Jagdish M Patel

Meeting Details: No Meetings were held during the year.

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**REMUNERATION TO NON-WHOLE TIME DIRECTORS :**

Non-Whole Time Directors are paid sitting fees and commission not exceeding 1% (aggregate for all Non-Whole Time Directors ) of the net profit of the company as per Section 349/350 of the Companies Act 1956, approved by the shareholders resolution on 24-09-2009 for a period of 5 years. The commission shall be shared among the Non-Whole Time Directors equally and in proportion to the period of holding directorship in the that financial year.

Name of Director	Sitting Fees (₹) (Board / Committee Meetings)	Commission on Profits (₹)	Total (₹)
Mr. Dineshchandra C Patel	8,000	2,73,929	2,81,929
Mr. Jagdish M Patel	18,000	2,73,929	2,91,929
Mr. M G Mohan Kumar	18,000	2,73,929	2,91,929
Mr. S R Chandrasekara Setty	18,000	2,73,929	2,91,929
Mr. Ajay D Patel	10,000	2,73,929	2,83,929
Mr N S Kishore Kumar	10,000	2,73,928	2,83,928
<b>Total</b>	<b>82,000</b>	<b>16,43,573</b>	<b>17,25,573</b>

**REMUNERATION TO CHAIRMAN and MANAGING DIRECTOR / WHOLE TIME DIRECTORS**

Mr Manish M Patel, Chairman & Managing Director of the Company is the only Whole time Director. No sitting fees is paid to him. Remuneration to Chairman & Managing Director within the ceiling prescribed under Sch. XIII to the Companies Act 1956, is approved by the Remuneration Committee and Board of Directors and further approved by the members of Company in General Meeting. Remuneration paid/ provided to Mr. Manish M Patel for 2011-2012, is as follows:

	₹
Salary	42,00,000
Perquisites	8,97,073
Commission on net profits of the Company	30,11,191
Contribution to Provident Fund	9,600
Contribution to Superannuation Fund	1,00,000
<b>Total</b>	<b>82,17,864</b>

**5. SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE**

The Shareholders/Investors Grievance Committee operates in terms of the provisions related thereto in the Listing Agreements of the Stock Exchanges and/or the provisions as prescribed or as may be prescribed in this regard by the Companies Act, 1956.

The Committee met 8 times during the year.



The Committee comprises the following Directors and their attendance particulars during 2011-12 are as follows:

Name	No. of meetings attended
Mr. M.G. Mohan Kumar –Chairman	8
Mr. S R Chandrasekara Setty	8

The members of the aforesaid Committee have been delegated authority by the Board of Directors, inter alia, to approve transfer and transmission of shares, issue of new share certificates on account of certificates lost, defaced and to look into the redressal of share holders / investor complaints like non-receipt of balance sheet, non-receipt of declared dividends, etc.

During the year under review, all transfers lodged with the Company have been registered and share certificates returned to shareholders within the time frame set by the relevant provisions under the Companies Act, 1956.

- Name & designation of compliance officer : Mr N S Hegde, Company Secretary from 26-4-07.
- No. of shareholders complaints : Relating to Non credit of Demat  
Received during 2011-2012 shares/dividend/Bonus share certificate/  
Share certificates after transfer, aggregating to 20.  
All 20 were resolved.
- No. of complaints not solved  
to the satisfaction of shareholders : Nil
- No. of pending complaints as on 31-3-2012 : Nil

## 6. GENERAL BODY MEETING

The details of last three Annual General Meetings of the Company are as under.

Financial Year	Date & Time	Venue	Special resolutions passed
2008-09	24th September 2009 at 3.00 p.m	The South India Paper Mills Ltd. Chikkayanachatra P.O Nanjangud- 571301 Karnataka	Approval for payment of Commission to the non wholetime Directors of the Company , pursuant to Section 309 (4) and Section 198(1) of the Companies Act, 1956, for a period of 5 years.  Reappointment of Mr. Manish M.Patel as the Managing Director of the Company for a period of 5 years, revision in remuneration pursuant to Sections 269, 309, 198 & Schedule XIII of the Companies Act, 1956
2009-10	16th September, 2010 at 3.00 p.m	-do-	No special resolution was passed
2010-11	22nd September, 2011 at 3.00 p.m	-do-	No special resolution was passed

There were no items in the Agenda requiring voting by Postal Ballot.

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**7. DISCLOSURES**

**Related Party Transactions:**

Shareholdings of Directors of the Company in SIPM and its Associate Concerns as on 31.03.12.

Sl. No.	Name of Director	Share Holding in SIPM		Share Holding in Associate Concerns	
		No. of Shares	% of Holding	No. of Shares	% of Holding
1	Manish M Patel	2,18,452	1.46%	Nil	-
2	Dineshchandra C Patel	5,20,043	3.47%	Nil	-
3	Jagdish M Patel	1,46,400	0.98%	Nil	-
4	M G Mohan Kumar	3,200	0.02%	Nil	-
5	S R Chandrasekara Setty	2,000	0.01%	Nil	-
6	Ajay D Patel	3,32,752	2.22%	Nil	-
7	N S Kishore Kumar	6,400	0.04%	Nil	-

Company's transactions with Associate Concerns are mentioned in the Notes on Accounts vide note number 37. The Company has appointed Directors in Associate Concern to represent and safe guard the interest of the Company. None of the Directors of the Company nor their relatives whether directly or indirectly hold any shares in the Associate Concern and hence they are not interested in any of the transactions with the Associate Concern. Directors and their relatives do not have any transaction directly or indirectly with the Associate Concern. Directors of the Company are not in receipt of any remuneration from Associate Concern except sitting fees. Consequent to disposal of shareholdings in Associate Concern during the year, the Company has no Associate Concerns as on 31.03.2012.

There were no transactions of material nature with its promoters, the Directors or the management, or their relatives, etc. that may have potential conflict with the interests of the Company at large.

There was no instance of non-compliance by the Company nor have any penalties, strictures been imposed on them by Stock Exchanges or SEBI or any other statutory authority during the last three years on any matter related to Capital Markets.

**Code of Conduct:**

The Board has formulated a code of conduct for Board members and Senior Management of the Company. All Board members and senior management personnel have affirmed their compliance with the Code.

**CEO/CFO Certification:**

CEO/CFO Certification by Mr. Manish M. Patel, Chairman and Managing Director and Mr. B.Ravi Holla, GM (F&A), as stipulated by clause 49 of the Listing Agreement was placed before the Board of Directors at its meeting held on 24.05.2012.

**8. MEANS OF COMMUNICATION**

The unaudited quarterly and half yearly results are sent to the Stock Exchange(s) where the shares of the Company are listed. The results are generally published in Economic Times and Udayavani, Kannada.

The Management Discussion and Analysis is a part of this Annual report.

**9. GENERAL SHAREHOLDER INFORMATION:**

- AGM-Date, time and Venue                      27th September 2012 at 3 P.M.  
At Chikkayanachatra,  
P.O.Nanjangud-571 301.
- Financial Calendar                                April 1,2012 to March 31,2013  
First Quarter Results                              Last week of July 2012

- Second Quarter Results Last week of October 2012
- Third Quarter Results Last week of January 2013
- Audited Results for 2012-13 Last week of May 2013
- First quarter Results of 2013-14 Last week of July 2013
- Annual General Meeting September 2013
- Date of Book Closure 11/09/2012 to 27/09/2012
- Dividend payment date Before 14th October 2012
- Listing on Stock Exchanges The Stock Exchange, MUMBAI  
Listing fees for 2012-2013 has been paid to the above Stock Exchange.
- Stock Code The Bombay Stock Exchange (Code 516108)
- ISIN No. ISIN No. allotted for Company's equity shares is INE 088G01014 under Demat System and is activated at both CDSL & NSDL.
- Market price data & Stock Performance in comparison to BSE sensex.

Monthwise Market Prices Data – High, Low & Volume during 2011-2012

Date	High (₹)	Low (₹)	No. of Shares	BSE Sensex	
				High	Low
April 2011	50.50	43.50	38,236	19,811	18,976
May 2011	54.70	44.00	16,658	19,254	17,786
June 2011	50.50	42.05	26,694	18,873	17,314
July 2011	50.00	45.55	21,249	19,132	18,132
August 2011	52.50	42.50	29,563	18,440	15,766
September 2011	49.75	42.05	15,951	17,212	15,801
October 2011	46.50	41.40	26,046	17,908	15,745
November 2011	48.50	42.00	14,245	17,702	15,479
December 2011	46.75	33.10	25,263	17,004	15,136
January 2012	48.00	36.50	43,083	17,259	15,358
February 2012	41.50	35.40	26,976	18,524	17,062
March 2012	42.65	34.40	41,208	18,041	16,921

Registrar and Transfer Agent

The Company has appointed Common agency to handle both physical & Electronic segments of RTA work as per SEBI requirement w.e.f 1-4-2003.

***Address of our Registrars & Transfer Agents***

**Karvy Computershare Pvt Ltd**

**Plot No.17-24,**

**Vittal Rao Nagar,**

**Madhapur,**

**HYDERABAD – 500 081**

- Share Transfer System

Share transfers in physical form may be lodged with the Company's Registrars whose address is provided above. The transfers are normally processed within 15 days from date of receipt, if the documents are complete in all respects. Requirements under the Listing Agreement / Statutory obligations are being followed.

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- Shareholding patterns & Distribution of Shareholding :-

Shareholding pattern as on 31 <sup>st</sup> March 2012			
Sr. No.	Category	No. of Shares Held	Percentage of shareholding
<b>A</b>	<b>Promoters' Holding</b>		
1	Promoters*		
	- Indian Promoters	44,40,544	29.60%
	- Foreign Promoters	22,06,120	14.71%
	<b>Sub Total</b>	<b>66,46,664</b>	<b>44.31%</b>
<b>B</b>	<b>Non-Promoters' Holding</b>		
2	Institutional Investors		
A	Mutual Funds & UTI	23,200	0.15%
B	Banks, Financial Institutions, Insurance Companies (Central/State Govt. Institutions, Non-Government Institutions.)	2,62,000	1.75%
<b>C</b>	<b>FII's</b>	4,000	0.03%
	<b>Sub Total</b>	<b>2,89,200</b>	<b>1.93%</b>
3	Others		
A	Private Corporate Bodies	2,49,008	1.66%
B	Indian Public	75,40,152	50.27%
C	NRIs	1,80,554	1.20%
D	Any other (please specify)		
	a) Welfare Fund	38,000	0.25%
	b) HUF	55,622	0.37%
	c) Clearing members	800	0.01%
	<b>Sub Total</b>	<b>80,64,136</b>	<b>53.76%</b>
	<b>Grand Total</b>	<b>1,50,00,000</b>	<b>100.00%</b>

Distribution of Shareholding as on 31 <sup>st</sup> March 2012				
Category	No. of Holders	%	No. of Shares	%
Upto 100 shares	479	11.99	26,223	0.17
101-200	668	16.72	1,31,031	0.87
201-500	2131	53.34	8,43,843	5.63
501-1000	255	6.38	2,03,830	1.36
1001-5000	267	6.68	5,99,042	3.99
5001-10000	69	1.74	4,91,087	3.28
10001-100000	94	2.35	33,92,064	22.61
100001 and Above	32	0.80	93,12,880	62.09
<b>TOTAL</b>	<b>3,995</b>	<b>100.00</b>	<b>1,50,00,000</b>	<b>100.00</b>

- Dematerialisation of shares and Liquidity

Company has entered into tripartite agreement with National Securities Depository Ltd (NSDL) & Central Depository Services (India) Ltd.(CDSL). As per Stock Exchanges intimation, trading in shares of our Company is compulsory in demat form from 2nd January, 2002.

As on 31.03.2012, shareholders are holding shares in demat form and 83,33,150 shares have been dematerialized, representing 55.56% of the total equity capital.

- Outstanding GDRs/ADRs/Warrants Or any Convertible instruments

Not issued

- Plant Locations Chikkayanachatra, P.O. Nanjangud-571 301  
Thandavapura, Nanjangud - 571 302  
Karnataka State, INDIA
- Address for Correspondence Our Registrars & Transfer Agents  
**Karvy Computershare Pvt Ltd**  
**Plot No. 17-24**  
**Vittal Rao Nagar**  
**Madhapur**  
**HYDERABAD – 500 081**  
Tel: (040) 23420815 to 820  
Fax: (040) 23420814  
E-mail : mailmanager@karvy.com  
Registered Office of Company  
Chikkayanachatra, P.O. Nanjangud-571 301  
Karnataka State, INDIA  
Tel: (08221) 228265, 228266, 228267  
Fax : (08221) 228270  
Website : www.sipaper.com  
E-mail : corporate@sipaper.com investor@sipaper.com  
(for investor grievance redressal)

**Declaration on Code of Conduct:** As provided under clause 49 of the Listing Agreement with the Stock Exchanges, The Board Members and the Senior Management Executives/ Personnel have confirmed compliance with the Code of Conduct for the year ended 31st March, 2012.

For and on behalf of the Board

Nanjangud

Dated: 24<sup>th</sup> May, 2012

**Manish M Patel**

Chairman & Managing Director

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### **AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE**

To the Members of **The South India Paper Mills Ltd.**

We have examined the compliance of the conditions of Corporate Governance by **The South India Paper Mills Ltd.** for the year ended March 31, 2012 as stipulated in Clause 49 of the listing Agreement of the said Company with Stock Exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of an opinion on the financial statements of the Company.

In our opinion and to the best of our information and explanations given to us, we certify that the company has complied with the conditions of Corporate Governance as stipulated in clause 49 of the above mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Company and presented to the Investors/Shareholders Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

**for B.S. RAVIKUMAR & ASSOCIATES**  
CHARTERED ACCOUNTANTS  
Firm Registration No. 006101S

Place : Mysore  
Date : 24<sup>th</sup> May, 2012

**B.S. RAVIKUMAR**  
Partner M. No. 10218

**AUDITORS' REPORT TO THE MEMBERS OF  
THE SOUTH INDIA PAPER MILLS LIMITED**

Chikkayana Chatra, Post Nanjangud - 571 301

1. We have audited the attached Balance Sheet of **The South India Paper Mills Limited, Chikkayana Chatra, Post Nanjangud as at 31st March, 2012**, and also the Statement of Profit and Loss and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 as amended by Companies (Auditors Report), (Amendment), Order 2004, (together with the 'Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to above, we report that:
  - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
  - (ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the branches not visited by us;
  - (iii) The Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by the report are in agreement with the books of account;
  - (iv) In our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
  - (v) On the basis of written representations received from the directors, as on 31st March, 2012 and taken on record by the Board of directors, we report that none of the directors is disqualified as on 31st March, 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act 1956.
  - (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31 March, 2012,
    - (b) In the case of the Statement of Profit and Loss, of the Profit for the year ended on that date; and,
    - (c) In the case of the Cash Flow statement, of the Cash Flows for the year ended on that date.

**for B.S. RAVIKUMAR & ASSOCIATES**  
CHARTERED ACCOUNTANTS  
Firm Registration No. 006101S

**B.S. RAVIKUMAR**  
Partner M. No. 10218

Place : Mysore  
Date : 24<sup>th</sup> May, 2012

## **ANNEXURE TO AUDITORS' REPORT**

Referred to in paragraph 3 of the Auditors' Report of even date to the members of The South India Paper Mills Limited for the year ended 31st March, 2012

On the basis of such checks as we considered appropriate and in terms of the information and explanations given to us, we state that:

1. (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.  
  
(b) According to the practice of the Company, fixed assets are physically verified by the management at reasonable intervals which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Management has confirmed that no material discrepancies were noticed on such verification.  
  
(c) The Company has not disposed off any substantial part of its fixed assets during the year so as to affect its going concern status.
2. (a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.  
  
(b) In our opinion, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.  
  
(c) On the basis of our examination of the records of inventory, we are of the opinion that the Company is maintaining proper records of the inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
3. (a) According to the information and explanations given to us, the Company has not granted any loan, secured or unsecured, to companies, firms and other parties listed in the Register maintained under Section 301 of the Companies Act, 1956.  
  
(b) the Company has not borrowed any loan, secured or unsecured from companies, firms and other parties listed in the Register maintained under Section 301 of the Companies Act, 1956.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and with regard to the sale of goods. During the course of our audit, no major weakness has been noticed in the internal controls. Further on the basis of examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control procedures.
5. (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered into the register in pursuance of Section 301 of the Companies Act, 1956 have been so entered.  
  
(b) In our opinion and according to the information and explanations given to us, having regard to the fact that the items purchased/sold services rendered/received are of a special nature and suitable alternate sources do not exist for obtaining comparable quotations, the transactions made in pursuance of contracts or arrangements entered in the registers maintained under Section 301 of the Companies Act, 1956 and exceeding the value of five lakh rupees in respect of any such party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time or the prices at which the transactions for similar goods have been made with other parties.

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6. In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits for which the provisions of Sections 58A and 58AA of the Companies Act, 1956 are applicable.
7. On the basis of internal audit reports broadly reviewed by us, we are of the opinion that, the coverage of internal audit functions carried out by a firm of Chartered Accountants appointed by the management is commensurate with the size of the Company and nature of its business.
8. We have broadly reviewed the cost accounts and records maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records u/S. 209(1)(d) of the Companies Act, 1956 and we are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have, however not made a detailed examination of the records with a view to determine whether they are accurate.
9. (a) According to the records of the Company, the Company is regular in depositing undisputed statutory dues including provident fund, investor education protection fund, employees state insurance, income-tax, sales-tax, wealth-tax, service tax, custom duty, excise-duty, cess and other statutory dues applicable to it with the appropriate authorities and there were no undisputed amounts payable which were in arrears as at 31st March 2012 for a period of more than six months from the date they became payable.  
(b) On the basis of our examination of the documents and records, disputed statutory dues to the extent which have not been deposited with the appropriate authorities are as under:

Statute	Nature of the Dues	Amount in ₹	Fin. Yr. to which the amount relates	Forum where the dispute is pending
Central Excise Act, 1944	Excise Duty Penalty	3,54,725/- 3,54,725/-	2008-09 2009-10	CESTAT, Bangalore
Central Excise Act, 1944 / CENVAT Credit Rules, 2004	Excise Duty Penalty	8,15,339/- 1,00,000/-	2008-09	Commissioner of Central Excise (Appeals), M'lore
Service Tax under Finance Act, 1994	Penalty on late payment of Service Tax	2,63,068	2007-08 To 2010-11	Commissioner of Central Excise (Appeals), M'lore
Karnataka Electricity (Taxation on consumption) Act, 1959	Electricity Tax and Interest	33,93,547	2003-04 2004-05	Chief Electrical Inspectorate, B'lore

10. The Company has no accumulated losses as at 31st March 2012 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
11. According to the information and explanations given to us and as per the records of the company examined by us, during the year the company has not defaulted in repayment of dues to the financial institutions and banks.
12. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.



13. The Company is not a chit fund / nidhi / mutual benefit fund / society. Accordingly, the provisions of the clause 4 (xiii) of the Companies (Auditors Report) Order 2003 are not applicable to the Company.
14. The Company is not dealing in or trading in shares, securities, debentures or other investments. Accordingly, the provisions of the clause 4 (xiv) of the Companies (Auditors Report) Order 2003 are not applicable to the Company.
15. According to the information and explanations provided to us, and as per the records of the Company examined by us, the Company has not given any guarantees for loans taken by others from banks or financial institutions.
16. In our opinion, and according to information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained.
17. On the basis of an overall examination of the balance sheet of the Company and information furnished by the management, in our opinion and according to the information and explanation given to us, funds raised on short-term basis have not been used for long-term investments.
18. The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956 during the year.
19. The Company has not issued any debentures during the year.
20. The Company has not raised any money by public issues during the year.
21. Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For **B S RAVIKUMAR & ASSOCIATES**  
CHARTERED ACCOUNTANTS  
Firm Registration Number 006101S

**B.S. Ravikumar**  
Partner  
M No. 10218

Place : Mysore  
Date : 24<sup>th</sup> May, 2012

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**BALANCE SHEET AS AT 31<sup>st</sup> MARCH, 2012**

PARTICULARS	Note No.	As at 31.03.2012 ₹	As at 31.03.2011 ₹
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' funds</b>			
(a) Share Capital	2	15,00,00,000	15,00,00,000
(b) Reserves and Surplus	3	73,79,46,380	62,23,35,432
		<b>88,79,46,380</b>	<b>77,23,35,432</b>
<b>2. Non- current liabilities</b>			
(a) Long-term borrowings	4	7,72,48,516	8,63,67,916
(b) Deferred Tax liabilities (Net)	5	11,32,38,000	10,94,00,000
(c) Other Long term liabilities	6	64,56,765	2,39,50,927
(d) Long-term Provisions	7	11,28,905	-
		<b>19,80,72,186</b>	<b>21,97,18,843</b>
<b>3. Current Liabilities</b>			
(a) Short term borrowings	8	3,48,88,787	9,25,87,376
(b) Trade payables	9	12,72,00,292	8,60,80,753
(c) Other current liabilities	10	4,78,72,462	4,88,31,385
(d) Short term provisions	11	5,25,52,699	5,38,27,967
		<b>26,25,14,240</b>	<b>28,13,27,481</b>
<b>TOTAL</b>		<b>134,85,32,806</b>	<b>127,33,81,756</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets	12		
(i) Tangible Assets		78,55,54,588	65,15,24,223
(ii) Intangible Assets		13,00,185	14,81,590
(iii) Capital work-in-progress		27,48,311	2,11,94,645
(b) Non-current investments	13	1,000	53,95,900
(c) Long-term loans and advances	14	5,61,33,593	6,17,29,614
(d) Other non-current assets	15	1,58,22,108	1,51,81,197
		<b>86,15,59,785</b>	<b>75,65,07,169</b>
<b>2. Current assets</b>			
(a) Inventories	16	20,36,99,194	21,53,51,767
(b) Trade receivables	17	19,87,79,175	18,67,51,623
(c) Cash and Cash Equivalents	18	1,45,41,425	4,24,65,858
(d) Short-term loans and advances	19	6,98,63,316	7,19,99,498
(e) Other current assets	20	89,911	305,842
		<b>48,69,73,021</b>	<b>51,68,74,587</b>
<b>TOTAL</b>		<b>134,85,32,806</b>	<b>127,33,81,756</b>
Summary of significant accounting policies	1		

**MANISH M. PATEL**  
Managing Director

**D.C. PATEL**  
Director

As per our report of even date  
for **B.S. RAVIKUMAR & ASSOCIATES**  
Chartered Accountants  
Firm Regn No. 006101S

**N.S. HEGDE**  
Company Secretary

**B.S. RAVIKUMAR**  
Partner  
M No. 10218  
Mysore

Place : Nanjangud  
Date : 24<sup>th</sup> May, 2012

**STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31<sup>st</sup> MARCH, 2012**

PARTICULARS	Note No.	Year ended	Year ended
		31.03.2012	31.03.2011
		₹	₹
<b>A INCOME</b>			
Revenue from operations:	21		
(a) Gross Sales		178,69,00,505	173,18,34,504
Less: Excise Duty		8,46,24,036	6,61,25,114
		<u>170,22,76,469</u>	<u>166,57,09,390</u>
(b) Other Operating Revenues		17,75,732	8,99,139
		<u>170,40,52,202</u>	<u>166,66,08,528</u>
Other Income	22	2,06,44,848	84,35,364
<b>TOTAL A</b>		<b><u>172,46,97,050</u></b>	<b><u>167,50,43,892</u></b>
<b>B EXPENSES</b>			
Cost of Materials Consumed	23	86,15,13,836	87,74,09,367
(Increase)/ Decrease in Finished Goods & Work in Progress	24	(30,00,757)	1,19,780
Employee Benefits Expense	25	12,37,60,728	11,79,72,492
Other expense	26	49,62,99,543	42,28,54,177
<b>TOTAL B</b>		<b><u>147,85,73,351</u></b>	<b><u>141,83,55,816</u></b>
<b>C “Earnings before Interest, Depreciation, Exceptional Items &amp; Tax (EBITDA) (A - B)</b>		<b>24,61,23,699</b>	<b>25,66,88,076</b>
Finance Costs	27	2,26,19,243	2,05,22,832
Depreciation	12	6,14,35,736	4,82,12,914
<b>D Profit before Exceptional Items and Tax</b>		<b><u>16,20,68,720</u></b>	<b><u>18,79,52,330</u></b>
Exceptional Items	28	3,87,93,948	-
<b>E Profit before tax</b>		<b><u>20,08,62,668</u></b>	<b><u>18,79,52,330</u></b>
Tax Expense:			
(i) Current Tax Expense		4,43,00,000	4,70,00,000
(ia) Tax Expense relating to earlier years		(12,39,705)	12,25,646
(ii) Deferred Tax Expense		38,38,000	10,00,000
<b>F Profit for the year after Tax</b>		<b><u>15,39,64,373</u></b>	<b><u>13,87,26,684</u></b>
<b>G Earnings per equity share:</b>	29		
Basic & Diluted		10.26	9.25
Summary of Significant Accounting Policies	1		

**MANISH M. PATEL**  
Managing Director

**D.C. PATEL**  
Director

As per our report of even date  
for **B.S. RAVIKUMAR & ASSOCIATES**  
Chartered Accountants  
Firm Regn No. 006101S

**N.S. HEGDE**  
Company Secretary

**B.S. RAVIKUMAR**  
Partner  
M No. 10218  
Mysore

Place : Nanjangud  
Date : 24<sup>th</sup> May, 2012

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## **CORPORATE INFORMATION**

The South India Paper Mills Ltd is a public limited Company, incorporated under the provisions of the Companies Act, 1956. Equity Shares of the Company are listed on the BSE (Bombay Stock Exchange) in India. The Company is engaged in the manufacture of Paper, Paperboards, Cartons and power generation.

## **NOTES FORMING PART OF THE ACCOUNTS**

### **NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

#### **1.1 Basis of preparation of financial statements**

The financial statements of the Company have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared on accrual basis under the historical cost convention. The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the previous year.

#### **1.2 Use of estimates**

The preparation of the financial statements in conformity with Indian GAAP requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) and the reported income and expenses during the year. The Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future results could differ due to these estimates and the differences between the actual results and the estimates are recognised in the periods in which the results are known / materialise.

#### **1.3 Inventories**

Inventories are valued at the lower of cost and the net realisable value after providing for obsolescence and other losses, where considered necessary. However, materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

Cost is determined on a weighted average basis. Cost includes all charges in bringing the goods to the point of sale, including octroi and other levies, transit insurance and receiving charges.

Work-in-progress and finished goods include an appropriate proportion of freight, overheads, direct costs and excise duty (where applicable).

#### **1.4 Cash and cash equivalents**

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short-term balances (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

#### **1.5 Cash Flow Statement**

Cash flows are reported using the indirect method, whereby profit / (loss) before extraordinary items and tax is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from operating, investing and financing activities of the Company are segregated based on the available information.

**1.6 Depreciation**

Depreciation is provided on straight line method over the estimated useful lives of fixed assets. The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 are considered as the minimum rates. If Management's estimate of the useful life of a fixed asset at the time of acquisition of the asset or of the remaining useful life on a subsequent review is shorter than envisaged in the aforesaid schedule, depreciation is provided at a higher rate based on the Management's estimate of the useful life or remaining useful life.

Pursuant to this policy, depreciation on fixed assets has been provided at the rates prescribed in Schedule XIV to the Companies Act, 1956 as the Management expects these rates to reflect the useful lives of these fixed assets. As required by Schedule XIV of the Companies Act, 1956, Extra Shift Depreciation has been charged, where applicable.

Assets individually costing Rs 5,000 or less are fully depreciated in the year of purchase. Depreciation is charged on a proportionate basis for all fixed assets purchased and sold during the year.

**1.7 Revenue Recognition**

Sales of goods are recognised, net of returns and trade discounts, on transfer of significant risks and rewards of ownership to the buyer, which generally coincides with the despatch of goods to customers. Sales include excise duty (where applicable), but exclude sales tax and Value Added Tax.

Income from sale of electricity is recognized as and when electricity is generated and supplied to the grid.

Interest income is accounted on accrual basis. Dividend income is accounted for when the right to receive it is established. Income from sale of shares is recognized when the title to the shares is legally transferred to the buyer.

**1.8 Fixed assets and depreciation**

Fixed assets are carried at cost less accumulated depreciation and impairment losses, if any. The cost of fixed assets includes interest on borrowings attributable to acquisition of qualifying fixed assets up to the date the asset is ready for its intended use and other incidental expenses incurred up to that date. The cost is net of VAT and CENVAT credit availed.

Subsequent expenditure relating to fixed assets is capitalised only if such expenditure results in an increase in the future benefits from such asset beyond its previously assessed standard of performance.

Projects under which assets are not ready for their intended use and other capital work-in-progress are carried at cost, comprising direct cost, related incidental expenses and attributable interest (if any).

**1.9 Foreign Currency Transactions and Translations**

Foreign exchange transactions are recorded at the rate prevailing on the date of the transaction. Exchange differences arising on foreign exchange transactions settled during the year are recognised in the Statement of Profit and Loss of the year.

Monetary assets and liabilities denominated in foreign currencies as at the Balance Sheet date are translated at the exchange rates on that date; the resultant exchange differences are recognised in the Statement of Profit and Loss as income or expense.

Premium / discount on forward exchange contracts, are amortised over the period of the contracts if such contracts relate to monetary items as at the Balance Sheet date.

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## **1.10 Investments**

Long-term investments (excluding investment properties), are carried individually at cost less provision for diminution, other than temporary, in the value of such investments. Current investments are carried individually, at the lower of cost and fair value. The cost of investments includes acquisition charges such as brokerage, fees and duties.

## **1.11 Employee benefits**

Employee benefits include provident fund, superannuation fund, gratuity fund and compensated absences.

### Defined contribution plans

The Company's contribution to provident fund and superannuation fund are considered as defined contribution plans and are charged as an expense as they fall due based on the amount of contribution required to be made.

### Defined benefit plans

For defined benefit plans in the form of gratuity fund, the cost of providing benefits is determined using the Projected Unit Credit method, with actuarial valuations being carried out at each Balance Sheet date. Actuarial gains and losses are recognised in the Statement of Profit and Loss in the period in which they occur. Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognised in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the schemes.

### Others

The undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered by employees are recognised during the year when the employees render the service. These benefits include performance incentive and compensated absences which are expected to occur within twelve months after the end of the period in which the employee renders the related service.

Compensated absences which are not expected to occur within twelve months after the end of the period in which the employee renders the related service are recognised as a liability at the present value of the defined benefit obligation as at the Balance Sheet date less the fair value of the plan assets out of which the obligations are expected to be settled.

## **1.12 Borrowing cost**

Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily takes a substantial period of time to get ready for their intended use are capitalised. Borrowing costs on general borrowings are determined using a capitalisation rate which is computed as the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Other borrowing costs are accounted as an expense in the period in which they are incurred.

## **1.13 Segment reporting**

The Company identifies primary segments based on the dominant source, nature of risks and returns and the internal organization and management structure. The operating segments are the segments for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by the executive Management in deciding how to allocate resources and in assessing performance.

The accounting policies adopted for segment reporting are in line with the accounting policies of the Company. Segment revenue, segment expenses, segment assets and segment liabilities have been identified to segments on the basis of their relationship to the operating activities of the segment.

Inter-segment revenue is accounted on the basis of transactions which are primarily determined based on market / fair value factors.

Revenue, expenses, assets and liabilities which relate to the Company as a whole and are not allocable to segments on reasonable basis have been included under “unallocated revenue / expenses / assets / liabilities”.

#### **1.14 Leases**

Lease arrangements where the risks and rewards incidental to ownership of an asset substantially vest with the lessor are recognised as operating leases. Lease rentals under operating leases are recognised in the Statement of Profit and Loss on a straight-line basis.

The Company has not entered into any finance lease arrangements.

#### **1.15 Earnings Per Share**

Basic earnings per share is computed by dividing the profit / (loss) after tax (including the post tax effect of extraordinary items, if any) by the weighted average number of equity shares outstanding during the year.

#### **1.16 Taxes on income**

The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonably/ virtually certain (as the case may be) to be realised.

Assets and liabilities representing current tax are disclosed on a net basis where there is a legally enforceable right to set off and where the Management intends to settle the asset and liability on a net basis.

#### **1.17 Impairment**

The carrying values of assets / cash generating units at each Balance Sheet date are reviewed for impairment. If any indication of impairment exists, the recoverable amount of such assets is estimated and impairment is recognised, if the carrying amount of these assets exceeds their recoverable amount. The recoverable amount is the greater of the net selling price and their value in use. Value in use is arrived at by discounting the future cash flows to their present value based on an appropriate discount factor. When there is indication that an impairment loss recognised for an asset in earlier accounting periods no longer exists or may have decreased, such reversal of impairment loss is recognised in the Statement of Profit and Loss, except in case of revalued assets.

#### **1.18 Provisions and contingencies**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates. Contingent liabilities are disclosed by way of a note.

#### **1.19 Insurance claims**

Insurance claims are accounted for on the basis of claims admitted / expected to be admitted and to the extent that there is no uncertainty in receiving the claims.

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**NOTE: 2 - SHARE CAPITAL**

Particulars	As at 31.03.2012		As at 31.03.2011	
	No. of Shares	Amount ₹	No. of Shares	Amount ₹
<b>A. Authorised Share Capital</b> Equity Shares of ₹10/- each	2,00,00,000	20,00,00,000	2,00,00,000	20,00,00,000
<b>B. Issued, Subscribed and Paid up Capital</b> Equity Shares of ₹10/- each [Above includes 75,00,000 Equity Shares allotted as fully paid up Bonus Shares, by way capitalisation of Share Premium and General Reserves, during the preceeding five years ]	1,50,00,000	15,00,00,000	1,50,00,000	15,00,00,000
<b>TOTAL</b>	<b>1,50,00,000</b>	<b>15,00,00,000</b>	<b>1,50,00,000</b>	<b>15,00,00,000</b>
<b>C. Reconciliation of Paid up Share Capital</b>	<b>No. of Shares</b>	<b>Amount</b>	<b>No. of Shares</b>	<b>Amount</b>
Opening Paid up Equity Share Capital	1,50,00,000	15,00,00,000	75,00,000	7,50,00,000
Add: Bonus Shares Issued	-	-	75,00,000	7,50,00,000
Closing Paid up Equity Share Capital <b>TOTAL</b>	<b>1,50,00,000</b>	<b>15,00,00,000</b>	<b>1,50,00,000</b>	<b>15,00,00,000</b>
<b>D. List of Share holders having 5% or more Shares</b>				
<b>Name of Shareholders</b>	<b>No. of Shares</b>	<b>In % age</b>	<b>No. of Shares</b>	<b>In % age</b>
Mr. Anil Kumar Goel	9,00,000	6.00%	9,00,000	6.00%

As per the records of the Company, including its register of members/shareholders, the above shareholding represents both legal and beneficial ownership of the shares.

**E. Terms / Rights attached to Equity Shares**

- The company has only one class of equity shares having a par value of ₹10/- per share. Each holder of equity shares is entitled to one vote per share. The company declares and pays dividends in Indian rupees. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting.
- For the year ended 31<sup>st</sup> March 2012, the amount of per share dividend recommended by the Directors for distribution to equity shareholders is ₹2.20 (Previous Yr.: ₹2/-).
- In the event of liquidation of the company, the holders of equity shares will be entitled to receive remaining assets of the company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

**NOTE: 3 - RESERVES AND SURPLUS**

Particulars	As at 31.03.2012	As at 31.03.2011
	₹	₹
<b>A. General Reserve</b>		
Opening Reserves	5,50,08,713	7,85,12,713
Add: Transfer of Surplus from Profit and Loss Statement	1,54,00,000	1,39,96,000
Less : Capitlised on issue of Bonus Shares	-	(3,75,00,000)
Closing Reserves <b>Total A</b>	<b>7,04,08,713</b>	<b>5,50,08,713</b>



<b>B. Share Premium</b>	<b>31.03.2012</b>	<b>31.03.2011</b>
	₹	₹
Opening Balance	-	3,75,00,000
Less : Capitlised on issue of Bonus Shares	-	(3,75,00,000)
<b>Closing Balance</b>	<b>Total B</b>	<b>-</b>
<hr/>		
<b>C. Surplus / (Defecit) in the Profit &amp; Loss Statement</b>		
Opening Surplus	56,73,26,719	47,75,78,660
Add: Profit for the Year	15,39,64,373	13,87,26,684
Less: Proposed Equity Dividend [Amount per Share - ₹2.20 (Prev Year - ₹2/-) ]	(3,30,00,000)	(3,00,00,000)
Tax on Proposed Equity Dividend	(53,53,425)	(49,82,625)
Transfer to General Reserves	(1,54,00,000)	(1,39,96,000)
<b>Closing Surplus</b>	<b>Total C</b>	<b>56,73,26,719</b>
	<b>Total A + B + C</b>	<b>73,79,46,380</b>
	<b>73,79,46,380</b>	<b>62,23,35,432</b>

**Note: 4 - LONG TERM BORROWINGS**

**A. Secured Borrowings**

**1 Term Loans -From Banks**

**a. Term Loan from Vijaya Bank**

[secured by first charge on fixed assets of the Company by way of deposit of title deeds of land measuring 21 acres & 26 guntas at Chikkayana chatra-hobli, Nanjangud Taluk in Mysore District and first charge on building thereon and hypothecation of plant & machineries and further guaranteed by the Managing Director of the Company]

[ Terms of Borrowal & Repayment - Sub-Note 1]

1,78,25,000                      2,71,25,000

**b. Term Loan from Vijaya Bank**

[secured by first charge on fixed assets of the Company by way of deposit of title deeds of land measuring 11 acres & 36 guntas at Thandavapura village, Chikkayana chatra-hobli, Nanjangud Taluk in Mysore District and first charge on building thereon and hypothecation of plant & machineries and further guaranteed by the Managing Director of the Company]

[ Terms of Borrowal & Repayment - Sub-Note 2]

4,27,79,800                      4,29,24,200

**B. Unsecured Borrowings**

**Deposits**

**a. Deposits from Agents**

[ Terms of Repayment - Sub-Note 3]

1,56,43,716                      1,53,18,716

**b. Deposit from Others**

[ Terms of Repayment - Sub-Note 4]

10,00,000                      10,00,000

**7,72,48,516                      8,63,67,916**

**Sub-Note: 1 - Terms of Borrowal & Repayment of Term Loan :**

Date of Borrowal

20th March 2008

Date of Maturity

20th Feburuary 2015

Rate of Interest per annum

13.75% p.a.

Monthly Installment Amount

₹7,75,000/-

No. of Installments due after Balance Sheet Date

35 Installments

**Sub-Note: 2 - Terms of Borrowal & Repayment of Term Loan :**

Date of Borrowal

11th June 2008

Date of Maturity

11th May 2015

Rate of Interest per annum

13.75% p.a.

Monthly Installment Amount

₹16,78,700/-

No. of Installments due after Balance Sheet Date

38 Installments

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### Sub-Note : 3 - Terms of Repayment of Deposits from Agents :

Deposits from Agents are in the nature of Deposits collected from Sales / Commission Agents and are repayable at the time of termination of the agency. Deposits carry an interest rate of 8% p.a.

### Sub-Note : 4 - Terms of Repayment of Deposit from Others :

Deposit from Others is in the nature of Deposits collected from liason agents towards procuring materials. Deposit is repayable at the time of termination of the agency. Deposit carries an interest rate of 6% p.a.

### NOTE : 5 - DEFERRED TAX LIABILITY (NET)

A. Deferred Tax Liabilities	31.03.2012	31.03.2011
Impact of difference between Book Depreciation and Tax Depreciation	₹ 11,43,95,608	₹ 10,94,00,000
Expenses / Provisions allowed for Tax purposes	3,09,701	-
<b>B. Deferred Tax Assets</b>		
Expenses / Provisions disallowed for Tax purposes	(14,67,310)	-
Deferred Tax Liabilities (Net)	<u><b>11,32,38,000</b></u>	<u><b>10,94,00,000</b></u>

### NOTE : 6 - OTHER LONG TERM LIABILITIES

#### Other Long Term Liabilities

Liability for Capital Goods and Capital Expenses	64,56,765	2,39,50,927
	<u><b>64,56,765</b></u>	<u><b>2,39,50,927</b></u>

### NOTE : 7 - LONG TERM PROVISIONS

#### Provision For Employee Benefits

Leave Encashment Provision	11,28,905	-
	<u><b>11,28,905</b></u>	<u><b>-</b></u>

### NOTE : 8 - SHORT TERM BORROWINGS

#### Secured Borrowings

Loans repayable on Demand from Banks : Working Capital Loan from Vijaya Bank (Secured against hypothecation of Inventories and book-debts and by second charge on fixed assets. The loan is guaranteed by the Managing Director of the company.)	3,48,88,787	9,25,87,376
	<u><b>3,48,88,787</b></u>	<u><b>9,25,87,376</b></u>

### NOTE : 9 - TRADE PAYABLES

#### Trade Payables

to Creditors for Goods & Services	12,61,57,691	8,48,59,375
to Customers	10,42,601	12,21,378
	<u><b>12,72,00,292</b></u>	<u><b>8,60,80,753</b></u>

### NOTE : 10 - OTHER CURRENT LIABILITIES

#### Current maturities of long term debt

Term Loan from Vijaya Bank	93,00,000	86,95,250
Term Loan from Vijaya Bank	2,01,44,400	2,01,44,400
Interest Accrued but not Due on Borrowings	18,13,053	15,94,117
Unpaid dividends	28,49,206	23,29,264
Miscellaneous Liabilities	4,91,474	6,05,690
<b>Other Payables -</b>		
VAT / CST Payable	36,54,176	42,03,946
Excise Duty Payable	13,62,471	7,74,055
Tax Deducted at Source	13,33,669	17,05,772
Other Expenses Payable	69,24,013	87,78,891
	<u><b>4,78,72,462</b></u>	<u><b>4,88,31,385</b></u>

**NOTE : 11 - SHORT TERM PROVISIONS**

	<b>31.03.2012</b>	<b>31.03.2011</b>
	₹	₹
<b>A. Provision for employee benefits -</b>		
provision for bonus	34,43,440	32,40,807
provision for salary, wages and other benefits	54,99,900	52,30,524
provision for contribution to PF / ESI etc.,	9,57,511	9,18,290
provision for other employee benefits	8,28,791	6,24,833
<b>B. Provision - Others -</b>		
provision for Income Tax (net of advance tax & TDS ₹4,42,74,175/-)	25,825	87,86,978
provision for Wealth Tax	50,260	43,910
provision for Other Taxes	33,93,547	-
provision for proposed equity dividend	3,30,00,000	3,00,00,000
provision for tax on proposed dividends	53,53,425	49,82,625
	<b>5,25,52,699</b>	<b>5,38,27,967</b>

**NOTE : 12 - FIXED ASSETS**

Fixed Assets

(i) Tangible Assets	78,55,54,588	65,15,24,223
(ii) Intangible Assets	13,00,185	14,81,590
(iii) Capital work-in-progress	27,48,311	2,11,94,645
	<b>78,96,03,084</b>	<b>67,42,00,458</b>

**Note 12 : FIXED ASSETS**

Description	Gross Block				Accumulated Depreciation				Net Block as on	
	As on 01.04.2011	Additions during the year	Deletions during the year	As on 31.03.2012	As on 01.04.2011	Depn for the year	Depn on Deletion	As on 31.03.2012	As on 31.03.2012	As on 31.03.2011
<b>(i) TANGIBLE ASSETS</b>										
Freehold Land	96,05,681	8,87,895	-	1,04,93,576	-	-	-	-	1,04,93,576	96,05,681
Building	15,06,04,073	4,17,87,254	-	19,23,91,327	2,31,36,528	42,79,959	-	2,74,16,487	16,49,74,840	12,74,67,545
Plant and Machinery	84,20,43,236	14,65,70,058	-	98,86,13,294	34,60,61,704	5,38,84,153	-	39,99,45,857	58,86,67,437	49,59,81,532
Office Equipment	35,10,668	10,09,293	-	45,19,961	11,43,423	1,93,110	-	13,36,533	31,83,428	23,67,245
Furniture and Fixtures	63,57,538	23,61,032	-	87,18,570	27,30,287	3,54,992	-	30,85,280	56,33,291	36,27,251
Vehicles	1,40,82,122	18,20,055	5,11,529	1,53,90,648	56,55,858	12,86,733	5,11,529	64,31,062	89,59,586	84,26,264
Computers	87,96,503	6,72,851	1,28,200	93,41,154	47,47,797	10,24,787	73,861	56,98,724	36,42,430	40,48,706
	<b>103,49,99,821</b>	<b>19,51,08,439</b>	<b>6,39,729</b>	<b>122,94,68,531</b>	<b>38,34,75,598</b>	<b>6,10,23,735</b>	<b>5,85,390</b>	<b>44,39,13,943</b>	<b>78,55,54,588</b>	<b>65,15,24,222</b>
Previous Year	94,44,32,554	9,44,11,038	38,43,772	1,03,49,99,820	33,81,95,511	4,78,45,428	25,65,341	38,34,75,598	65,15,24,222	60,62,37,041
<b>(ii) INTANGIBLE ASSETS</b>										
Computer Software	23,59,381	2,30,596	-	25,89,977	8,77,791	4,12,001	-	12,89,792	13,00,185	14,81,590
	<b>23,59,381</b>	<b>2,30,596</b>	<b>-</b>	<b>25,89,977</b>	<b>8,77,791</b>	<b>4,12,001</b>	<b>-</b>	<b>12,89,792</b>	<b>13,00,185</b>	<b>14,81,590</b>
Previous Year	22,01,881	1,57,500	-	23,59,381	5,10,305	3,67,486	-	8,77,791	14,81,590	16,91,578
<b>(iii) CAPITAL WORK-IN-PROGRESS</b>										
At Cost									27,48,311	2,11,94,645
									<b>27,48,311</b>	<b>2,11,94,645</b>
<b>Total</b>	<b>1,03,73,59,202</b>	<b>19,53,39,035</b>	<b>6,39,729</b>	<b>1,23,20,58,508</b>	<b>38,43,53,389</b>	<b>6,14,35,736</b>	<b>5,85,390</b>	<b>44,52,03,735</b>	<b>78,96,03,084</b>	<b>67,42,00,458</b>
Previous Year	94,66,34,435	9,45,68,538	38,43,772	1,03,73,59,201	33,87,05,816	4,82,12,914	25,65,341	38,43,53,389	67,42,00,457	62,02,39,494

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**NOTE : 13 - NON CURRENT INVESTMENTS**

	No. of Shares	Amount ₹	No. of Shares	Amount ₹
<b>Non Trade - Unquoted - At Cost</b>				
A. Investment in Bhadra Packaids Pvt Ltd. - Associate Company				
a Equity Shares	-	-	2,98,000	29,94,900
b 8% cumulative participating Preference Shares	-	-	24,000	24,00,000
<b>B. Investment in Government Securities</b>				
National Savings Certificate	-	1,000	-	1,000
		<b>1,000</b>		<b>53,95,900</b>

**NOTE : 14 - LONG TERM LOANS AND ADVANCES**

	31.03.2012 ₹	31.03.2011 ₹
<b>Unsecured &amp; Considered Good:</b>		
Capital Advances	5,30,39,680	5,44,31,138
Security Deposits	30,93,913	72,98,476
	<b>5,61,33,593</b>	<b>6,17,29,614</b>

**NOTE : 15 - OTHER NON CURRENT ASSETS**

A. Trade Receivables - Non Current		
Unsecured & Considered Good	28,90,603	22,74,197
B. Balances with Banks in Margin Money Deposits	1,29,31,505	1,29,07,000
	<b>1,58,22,108</b>	<b>1,51,81,197</b>

**NOTE : 16 - INVENTORIES**

Raw Material	10,49,49,141	13,25,92,242
Raw Material - in Transit	49,62,417	-
Adhesives, Inks, Consumables & Stores	4,63,15,025	3,59,89,880
Fuel	1,17,57,652	1,96,79,047
Fuel - in Transit	56,23,604	-
Work In Process	33,26,048	18,26,727
Finished Goods	2,67,65,306	2,52,63,871
	<b>20,36,99,194</b>	<b>21,53,51,767</b>

**NOTE : 17 - TRADE RECEIVABLES**

<b>Unsecured &amp; Considered Good</b>		
Above Six Months, but less than twelve months		
- for sale of Products	30,96,408	25,89,359
- for sale of Power	10,19,504	-
Below Six Months		
- for sale of Products	19,34,25,074	18,22,09,823
- for sale of Power	12,38,189	19,52,441
	<b>19,87,79,175</b>	<b>18,67,51,623</b>

**NOTE : 18 - CASH AND CASH EQUIVALENTS**

<b>A. Balances with Banks</b>		
in Current Accounts	1,13,93,809	4,00,09,050
in Current Accounts (unpaid dividend)	28,49,206	23,29,264
in fixed deposit accounts with original maturity date less than 3 months	1,07,000	-
<b>B. Cash on Hand</b>	1,91,410	1,27,544
	<b>1,45,41,425</b>	<b>4,24,65,858</b>

<b>NOTE : 19 - SHORT TERM LOANS AND ADVANCES</b>	<b>31-03-2012</b>	<b>31-03-2011</b>
	<b>₹</b>	<b>₹</b>
<b>Unsecured and Considered Good</b>		
Advances to Suppliers	4,11,62,468	5,37,35,609
Prepaid Expenses	15,46,264	19,26,713
Advances Staff and Others	17,57,834	9,49,985
Balance with Statutory Authorities	2,53,96,750	1,53,87,191
	<u><b>6,98,63,316</b></u>	<u><b>7,19,99,498</b></u>
<b>NOTE : 20 - OTHER CURRENT ASSETS</b>		
Interest Receivable on Deposits, etc	89,911	3,05,842
	<u><b>89,911</b></u>	<u><b>3,05,842</b></u>
<b>NOTE 21 - REVENUE FROM OPERATIONS</b>	<b>2011-2012</b>	<b>2010-2011</b>
<b>A. Gross Sales -</b>		
Sale of Products	177,75,11,053	171,95,66,065
Sale of Power	93,89,452	1,22,68,438
	<u>178,69,00,505</u>	<u>173,18,34,504</u>
Less : Excise Duty	8,46,24,036	6,61,25,114
	<u>170,22,76,469</u>	<u>166,57,09,390</u>
<b>B. Other Operating Revenues</b>	17,75,732	8,99,139
	<u><b>170,40,52,202</b></u>	<u><b>166,66,08,528</b></u>
<b>NOTE 22 - OTHER INCOME</b>		
Interest Income	32,12,707	69,74,716
Dividends from Associate Company	1,74,17,477	12,54,000
Profit on sale of assets	9,524	-
Tax Refund of earlier years	-	69,889
Other non-operating income	5,140	1,36,759
	<u><b>2,06,44,848</b></u>	<u><b>84,35,364</b></u>
<b>NOTE: 23 - COST OF MATERIAL CONSUMED</b>		
<b>A. Raw Materials' Consumption -</b>		
Waste paper / Kraft paper	80,27,40,259	82,58,62,061
Others	5,87,73,579	5,15,47,306
	<u><b>86,15,13,836</b></u>	<u><b>87,74,09,367</b></u>
<b>NOTE: 24 - CHANGE IN INVENTORY OF FINISHED GOODS &amp; WORK IN PROGRESS</b>		
<b>Opening Stock of -</b>		
Finished Goods	2,52,63,871	2,61,08,492
Work-in Process	18,26,727	11,01,885
	<u><b>2,70,90,597</b></u>	<u><b>2,72,10,377</b></u>
<b>Closing Stock of -</b>		
Finished Goods	2,67,65,306	2,52,63,871
Work-in Process	33,26,048	18,26,727
	<u>3,00,91,354</u>	<u>2,70,90,597</u>
(Increase) / Decrease in Inventory of Finished Goods & Work in Progress	<u><b>(30,00,757)</b></u>	<u><b>1,19,780</b></u>

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<b>NOTE 25 - EMPLOYEE BENEFITS EXPENSES</b>	<b>2011-2012</b>	<b>2010-2011</b>
	₹	₹
<b>A. Salaries and Wages -</b>		
Salaries & Bonus to Staff	3,60,66,548	3,10,70,226
Wages & Bonus to Workers	5,12,40,935	4,83,08,455
Director Remuneration, Commission & benefits	82,17,864	92,50,107
<b>B. Contribution to Provident and Other Funds -</b>		
Provident Fund	36,80,305	35,81,036
Superannuation Fund	3,28,600	3,28,600
Gratuity Fund	57,09,332	88,97,795
<b>C. Staff Welfare Expenses -</b>		
Payment to Employee State Insurance Scheme	16,93,328	18,35,134
Payment to other Employee Insurance Schemes	89,50,297	70,71,756
Canteen Expenses	39,63,873	41,32,490
Medical Benefits	12,52,889	15,78,515
Training & Professional Development	3,54,990	2,29,440
Transportation / Conveyance to Staff	9,70,968	9,63,765
Other Welfare Expenses	13,30,800	7,25,173
	<b>12,37,60,728</b>	<b>11,79,72,492</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>NOTE 26 - OTHER EXPENSES</b>		
<b>A. Manufacturing Expenses -</b>		
Fuel Consumed	23,80,01,209	21,35,97,397
Adhesives, Inks, Consumables & Stores Consumed	3,32,51,450	3,14,17,678
Power & Water	53,14,760	30,08,235
<b>Repairs &amp; Maintenance :</b>		
- Plant & Machinery	9,34,43,727	6,39,88,445
- Building, Road	35,95,420	36,79,281
Excise Duty on Closing Stock of Finished Goods (net)	6,10,944	21,876
Exchange Fluctuation on raw material imports	13,96,123	(29,55,538)
<b>Total A</b>	<b>37,56,13,633</b>	<b>31,27,57,374</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>B. Administrative &amp; Selling Expenses -</b>		
Commission on Sales	3,19,74,034	2,56,67,703
Packing & Forwarding Charges	1,33,44,070	1,32,97,697
Rent payments	12,05,652	11,17,827
Rates and Taxes	19,65,441	19,84,714
Postage & Telephone	7,90,813	8,43,653
Printing and Stationery	4,00,182	5,11,381
Directors' Sitting Fees	82,000	70,000
Exchange Fluctuation others	3,00,679	(4,12,726)
Directors' Commission - Non Whole Time	16,43,573	19,90,933
Insurance	31,59,348	25,75,931
Vehicle Repairs & Maintenance	12,35,240	9,17,137
Travelling and Conveyance	37,76,577	38,09,956
Auditors' Remuneration :		
- for audit	1,50,000	1,50,000
- for tax audit	25,000	25,000
- for other services	27,500	47,000
- for Out-of-Pocket Expenses	9,800	10,196
Security Charges	39,27,950	30,22,034
Outward Freight	2,93,81,520	2,16,25,638

	<b>2011-2012</b>	<b>2010-2011</b>
	₹	₹
Cost Auditor's Remuneration & Expenses	22,000	22,000
Branch Expenses	44,50,250	57,20,502
Discount and Rebates	91,18,233	1,23,99,434
Bank Charges	24,97,114	25,05,573
Internal Audit Fees & Expenses	54,797	53,329
Miscellaneous Expenses	1,11,44,137	1,21,41,890
<b>Total B</b>	<b>12,06,85,910</b>	<b>11,00,96,803</b>
<b>Total A + B</b>	<b>49,62,99,543</b>	<b>42,28,54,177</b>

**NOTE 27 - FINANCE COSTS**

<b>A. Interest Expenses on -</b>		
Term Loans	1,38,40,240	1,02,24,936
Working Capital Loans	71,25,910	85,60,240
Trade Deposits & Others	15,87,685	11,83,349
<b>B. Other Borrowing Costs</b>	65,408	5,54,307
	<b>2,26,19,243</b>	<b>2,05,22,832</b>

**NOTE 28 - EXCEPTIONAL ITEM**

**Exceptional Item -**

Capital Profit on sale of Equity Shares on an Associate Company - Bhadra Packaids Pvt. Ltd.	4,63,66,833	-
Electricity Tax relating to earlier years	(75,72,885)	-
	<b>3,87,93,948</b>	<b>-</b>

**NOTE : 29 - EARNINGS PER SHARE**

Basic & Diluted Earnings Per Share - Profit for the year after Tax	15,39,64,373	13,87,26,684
No. of Shares outstanding	1,50,00,000	1,50,00,000
Earnings Per Share	10.26	9.25

**NOTE : 30.** Value of Imports calculated on C.I.F. basis :

a) Raw materials	48,31,24,693	46,87,83,605
b) Components and spare parts etc.	3,13,37,697	1,16,93,026
c) Capital goods	10,16,79,069	5,42,99,298

**NOTE : 31.** Value of Imported & Indigenous Raw Materials /  
Stores, Spares consumed :

a) Raw Materials :	%	₹	%	₹
i) Imported	66.53	57,31,54,875	60.39	52,98,89,188
ii) Indigenous	33.47	28,83,58,961	39.61	34,75,20,179
	<b>100.00</b>	<b>86,15,13,836</b>	<b>100.00</b>	<b>87,74,09,367</b>
b) Stores, Spares :				
i) Imported	13.73	52,92,558	18.08	69,35,350
ii) Indigenous	86.27	3,32,51,450	81.92	3,14,17,678
	<b>100.00</b>	<b>3,85,44,008</b>	<b>100.00</b>	<b>3,83,53,028</b>

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**NOTE : 32.** Segment wise revenue, results and capital employed are furnished herein for :

The Company's business segments are primarily (a) Paper and paper products and (b) Power . Revenues and expenses directly attributable to segments are reported under each reportable segment. Expenses which are not directly identifiable to each reportable segment have been allocated on a reasonable basis. All other expenses which are not attributable or allocable to segments have been disclosed as unallocable expenses.

**SEGMENTWISE REVENUE, RESULTS, CAPITAL EMPLOYED**

₹ in Lakhs

Particulars	Year Ended	
	31.03.2012	31.03.2011
<b>1. Segment Revenue</b>		
i) Paper & Paper Products	16,928.87	16,534.41
ii) Power	1,865.38	1,874.52
<b>Total</b>	<b>18,794.25</b>	<b>18,408.93</b>
Less : Inter Segment Revenue	1,771.48	1,751.84
<b>Net Sales</b>	<b>17,022.76</b>	<b>16,657.09</b>
<b>2. Segment Results</b>		
i) Paper & Paper Products	1,746.47	1,795.24
ii) Power	214.32	310.97
<b>Total</b>	<b>1,960.79</b>	<b>2,106.21</b>
Less : Finance Cost	226.19	147.44
Less : Unallocable expenses (net of Income)	113.91	78.81
<b>Total Profit before Tax</b>	<b>1,620.69</b>	<b>1,879.96</b>
<b>3. Capital Employed</b>		
i) Paper & Paper Products	8,274.20	10,280.56
ii) Power	389.27	385.60
Unallocated Assets (-) Liabilites	250.86	229.14
<b>Total Capital Employed</b>	<b>8,914.33</b>	<b>10,895.30</b>

i) Paper & Paper products and ii) Power.

**NOTE : 33.** Contingent Liabilities and Commitments not provided for :

Sl. No.	Particulars		As at 31 <sup>st</sup> March	
			2012	2011
	a) Claims not acknowledged as debts :			
1	Demands under the Central Excise Act:			
	a) Excise duty and penalty in respect of sale of sludge	Duty	3,54,725	3,54,725
		Penalty	3,54,725	3,54,725
	b) Excise duty and penalty in respect of removal of Capital goods	Duty	8,15,339	8,15,339
		Penalty	1,00,000	1,00,000
2	Demand of penalty on late payment of Service tax		2,63,068	-
3	Demands under the Karnataka Electricity (Taxation on consumption) Act, 1959		-	74,80,570

b) Commitments :

Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advance)	36,86,000	1,43,64,599
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**NOTE : 34.** Concession in customs duty availed for imports cleared under Export Promotion on Capital Goods Scheme ₹3,85,43,853 lakhs ( P.Y : 3,85,43,853 lakhs). The company has fulfilled the export obligation of ₹1,875 lakhs towards duty saved concession amounting to ₹2,78,85,039 upto 31.03.2012 & the company is yet to complete the export obligation in respect of a duty amount of ₹1,06,58,814.

**NOTE : 35.** Expenditure in foreign currency (Remitted) :  
(other than imports)

Travelling Expenses, professional charges etc	7,55,769	5,80,442
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**NOTE : 36.** FOB value of Exports during the year ₹22,16,023 ( P.Y - ₹7,32,228 )

**NOTE : 37.** Details of transactions with related parties during the year 2011-12 :

**Names of related parties and related party relationship:**

Description of Relationship	Names of related parties
Manish M Patel	Key Management Personnel (“KMP”) <i>[Managing Director]</i>
Vandana Patel	Relative of Key Management Personnel (“Relatives of KMP”) <i>[Wife of Managing Director]</i>
Bhadra Packaids Private Limited (“BPAL”)	Associate Enterprise <i>[Till 30.09.2011, the Company held 50% (PY 50%) of the equity share capital of BPAL. BPAL ceased to be an Associate of the Company from 30.09.2011]</i>

**Details of transactions with related parties during the year 2011-12**

Nature of Transactions	KMP	Relatives of KMP	Associate Enterprise	Total ₹
(a) Remuneration	82,17,864 <i>(92,50,107)</i>	3,26,600 <i>(3,60,600)</i>	-	85,44,464 <i>(96,10,707)</i>
(b) Purchase of fixed assets	-	-	3,95,292	3,95,292
(c) Reimbursement of expenses	-	-	5,15,815 <i>(11,57,234)</i>	5,15,815 <i>(11,57,234)</i>
(d) Sale of scrap	-	-	- <i>(13,620)</i>	- <i>(13,620)</i>
(e) Balances outstanding as at the year-end:				
(i) Investment in equity shares	-	-	- <i>(29,94,900)</i>	- <i>(29,94,900)</i>
(ii) Investment in preference shares	-	-	- <i>(24,00,000)</i>	- <i>(24,00,000)</i>
(iii) Balance in current account	2,98,464 <i>(1,66,816)</i>	- <i>-</i>	- <i>-</i>	2,98,464 <i>(1,66,816)</i>

*Figures of the previous year are shown in brackets*

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### NOTE : 38 Employee benefit plans

#### Defined contribution plans

The Company makes Provident Fund and Superannuation Fund contributions to defined contribution plans (“the Schemes”) for qualifying employees. Under the Schemes, the Company is required to contribute a specified percentage of the payroll costs to fund the benefits. The contributions payable to these plans by the Company are at rates specified in the rules of the Schemes. Amounts contributed to the schemes are shown in note no. 25.

#### Defined benefit plans

The gratuity plan of the Company is as per the Payment of Gratuity Act, 1972. The Company’s gratuity plan is funded; the plan assets are invested with LIC and in approved Bank Deposits by the Gratuity Trust Fund.

“As per AS-15 (revised) applicable from 1-4-07, disclosures in respect of Gratuity Scheme, based on Actuarial valuation are as follows :

	<u>2011-12</u>	<u>2010-11</u>
	₹	₹
1 Expense recognised in Profit & Loss A/c		
a) Current service cost	61,50,327	73,55,897
b) Interest on Defined Benefit Obligation	32,11,852	26,77,126
c) Expected return on plan assets	(32,89,975)	(26,79,160)
d) Actuarial (gain)/ loss	(3,62,872)	15,43,932
<b>Total</b>	<u><b>57,09,332</b></u>	<u><b>88,97,795</b></u>
2 Net (Assets)/ Liabilities recognised in Balance sheet as on 31-3-12		
a) Present value of Defined Benefit obligations	4,50,68,132	3,96,12,185
b) Fair value of Plan assets	4,60,22,674	3,96,24,686
Difference representing Net (Assets)/ Liabilities considered in Balance sheet	<u><b>(9,54,542)</b></u>	<u><b>(12,501)</b></u>
3 Change in Gratuity Obligation during the year		
a) Present value of Defined Benefit obligations - as on 1-4-11	3,96,12,185	3,34,64,076
b) Current service cost	61,50,327	19,27,051
c) Interest on Defined Benefit Obligation	32,11,852	26,77,126
d) Actuarial (gain)/ loss	(2,54,858)	15,43,932
e) Benefits paid	(36,51,374)	-
f) Present value of Defined Benefit obligations - as on 31-03-12	<u><b>4,50,68,132</b></u>	<u><b>3,96,12,185</b></u>
4 Change in fair value of plan assets during the year.		
a) Fair value of plan assets as on 1-4-11	3,96,24,685	3,34,86,205
b) Expected return on plan assets	32,89,975	26,79,160
c) Actual Company contribution	30,00,000	35,00,000
d) Actuarial gain/( loss)	1,08,014	(10,000)
e) Benefits paid from plan assets	-	-
f) Other expenses of the plan	-	(30,679)
g) Fair value of plan assets as on 31-03-12	<u><b>4,60,22,674</b></u>	<u><b>3,96,24,686</b></u>
Actuarial Assumptions:		
a) Discount rate	8.5%	8%
b) Expected rate of return on Plan assets	8%	8%
c) salary escalation rate	10%	10%

**NOTE : 39. Leases**

The Company has taken certain Godowns / Premises on operating lease. The Leases are cancellable without any material risk. The Company has recognized lease rental expense as under :

Particulars	2011-12 (₹)	2010-11 (₹)
Rent Payments	12,05,652	11,17,827
Branch Expenses	11,14,680	10,53,834
Total	23,20,332	21,71,661

**NOTE : 40. Exchange Differences**

The Company has recognized an aggregate loss on exchange differences of ₹16,96,802 (P.Y. gain of ₹ 33,68,263) in the Statement of Profit and Loss.

**NOTE : 41. Exceptional item****A) Sale of Shares in Associate Company**

During the year the Company has sold shares held in Bhadra Packaids Pvt Ltd resulting in a gain of ₹4,63,66,833 which is disclosed as an exceptional item ( note no. 28 )

**B) Electricity Tax**

The Karnataka Electricity (Taxation on Consumption) (Amendment) Act, 2004 (“the Act”) was introduced on 29-01-2004 to levy an electricity tax inter-alia on electricity consumed by persons who generated their own power for a limited period upto 1st July 2004. The Company had filed writ petitions before the Karnataka High Court challenging the validity of the said levy. As per the directions of the Karnataka High Court, the Company had deposited 50% of the original demand amounting to ₹41,79,338 under protest. Pending disposal of the writ appeal by the High Court, an amount of ₹74,80,570 representing the electricity tax demanded and interest thereon had been disclosed as a contingent liability in the preceding years.

The Karnataka High Court has upheld the power of the State Government to levy a tax on the consumption of electricity generated by the consumer himself. Consequent to the High Court Order the Company has recognized a provision during the year to the extent of ₹75,72,885. This amount has been disclosed as an exceptional item. However the Company contests the retrospective application of the Act from 16-10-2003, where the Act itself was passed only on 29-01-2004. Consequently the Company proposes to file a petition before the Appropriate Authority / Court in respect of the retrospective application of the Act.

**NOTE : 42 Dues to micro, small and medium enterprises**

The Ministry of Micro, Small and Medium Enterprises has issued an office memorandum dated 26<sup>th</sup> August 2008 which recommends that the Micro and Small Enterprises should mention in their correspondence with its customers the Entrepreneurs Memorandum Number as allocated after filing of the Memorandum in accordance with the ‘Micro, Small and Medium Enterprises Development Act, 2006’ (‘the Act’). Accordingly, the disclosure in respect of the amounts payable to such enterprises has been made in the financial statements based on information received and available with the Company. In the view of the Management, the impact of interest, if any, that may be payable in accordance with the provisions of the Act is not expected to be material. The Company has not received any claim for interest from any supplier as at the Balance Sheet date.

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Annual Report  
2011-12

For the Financial Year Ended

<b>Particulars</b>	<b>31.03.2012</b>	<b>31.03.2011</b>
The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of accounting period	Nil	Nil
The amount of interest paid by the Company along with the amount of the payments made to the supplier beyond the appointed day during the period	Nil	Nil
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act	Nil	Nil
The amount of interest accrued and remaining unpaid at the end of the period	Nil	Nil
The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise	Nil	Nil

**NOTE : 43** The Revised Schedule VI has become effective from 1<sup>st</sup> April, 2011 for the preparation of financial statements. This has significantly impacted the disclosure and presentation made in the financial statements. Previous year's figures have been regrouped / reclassified wherever necessary to correspond with the current year's classification / disclosure.

To be read with our report of even date.

**Manish M. Patel**  
Managing Director

**D.C. Patel**  
Director

**for B.S.RAVIKUMAR & ASSOCIATES,**  
Chartered Accountants  
Firm Reg. No. 006101S

Nanjangud  
Dated : 24th May, 2012

**N. S. Hegde**  
Company Secretary

**B.S. Ravikumar**  
Partner  
M. No. 10218  
Mysore

The South India Paper Mills Ltd  
P.O. Nanjangud - 571 301  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 31.03.2012**

	<b>2011-12</b> ₹	<b>2010-11</b> ₹
<b>Cash Flow from Operating Activities</b>		
Net profit before tax as per Profit and Loss Account	20,08,62,670	18,79,52,330
Adjustments to reconcile Net Profit before tax to cash provided by operating activities:		
Add: Depreciation	6,14,35,734	4,82,12,914
Add: Finance costs	2,26,19,243	2,05,22,832
Less: Non-operating incomes	(6,70,06,541)	(82,98,605)
Changes in assets and liabilities:		
(Increase) / Decrease in Inventories	1,16,52,573	(5,46,62,592)
(Increase) / Decrease in Trade and other receivables	(63,27,718)	(2,82,63,958)
Increase / (Decrease) in liabilities and provisions	4,40,60,977	2,76,36,819
Cash flow from operating activities	26,72,96,937	19,30,99,740
Less: Income Tax paid	(5,18,21,448)	(5,41,45,480)
<b>Net cash flows from operating activities (A)</b>	<b>21,54,75,489</b>	<b>13,89,54,260</b>
Investment in fixed assets	(19,29,95,404)	(10,44,69,896)
Proceeds from sale of fixed assets	63,863	12,78,431
Interest Income	34,28,638	69,74,716
Dividends from Associate Company	1,74,17,477	12,54,000
Cash flow from investing activities before exceptional items	<b>(17,20,85,426)</b>	<b>(9,49,62,749)</b>
Exceptional item - Proceeds from sale of investment in Associate Company	5,17,61,733	-
<b>Net cash flows from investing activities (B)</b>	<b>(12,03,23,693)</b>	<b>(9,49,62,749)</b>
Increase / (Decrease) in Short Term borrowings	(5,76,98,588)	2,97,20,286
Increase / (Decrease) in Long Term borrowings	(85,14,650)	(29,50,680)
Finance costs	(2,24,00,307)	(2,05,22,832)
Equity Dividend paid	(2,94,80,058)	(2,25,22,422)
Dividend Distribution Tax	(49,82,625)	(37,36,969)
<b>Cash flow from financing activities (C)</b>	<b>(12,30,76,228)</b>	<b>(2,00,12,617)</b>
<b>Net increase / (decrease) in cash and cash equivalents (A + B + C)</b>	<b>(2,79,24,432)</b>	<b>2,39,78,895</b>
<b>Balance of cash and cash equivalents at the beginning of the year</b>	<b>4,24,65,858</b>	<b>1,84,86,963</b>
<b>Balance of cash and cash equivalents at the end of the year</b>	<b>1,45,41,425</b>	<b>4,24,65,858</b>

Place : Nanjangud  
Date : 24<sup>th</sup> May, 2012

**Manish M. Patel**  
Managing Director

**D.C. Patel**  
Director

**N.S. Hegde**  
Company Secretary

Place : Mysore  
Date : 24<sup>th</sup> May, 2012

As per our report of even date  
for **B.S. RAVIKUMAR & ASSOCIATES**  
Chartered Accountants  
Firm Regn No. 006101S

**B.S. RAVIKUMAR**  
Partner M No. 10218

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**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Fifty Third Annual General Meeting of The South India Paper Mills Ltd., will be held at the Registered Office of the Company at Chikkayana Chatra, PO Nanjangud - 571 301 (Karnataka State), on Thursday, the 27<sup>th</sup> September, 2012 at 3.00 p.m. to transact the following business :

**Ordinary Business:**

1. To consider and adopt the Audited Balance Sheet as at 31<sup>st</sup> March, 2012 and Profit and Loss Account for the year ended on that date and the Reports of the Directors and the Auditors thereon.
2. To declare a Dividend for the year ended 31<sup>st</sup> March, 2012.
3. To appoint a Director in place of Mr. Dineshchandra C Patel, who retires by rotation and is eligible for reappointment.
4. To appoint a Director in place of Mr. S R Chandrasekara Setty, who retires by rotation and is eligible for reappointment.
5. To appoint the Auditors and to fix their remuneration.

By Order of the Board of Directors

Nanjangud  
26<sup>th</sup> July, 2012

**MANISH M PATEL**  
MANAGING DIRECTOR

**NOTES**

1. A Member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of himself and the proxy need not be a Member of the Company. However, proxy forms should be deposited at the Registered Office of the Company, not later than 48 hours before the commencement of the meeting.
2. The Register of Members of the Company will remain closed from 11<sup>th</sup> September, 2012 to 27<sup>th</sup> September, 2012 (both days inclusive). The Dividend shall be payable to those Shareholders whose names appear on the Register of Members as on 27<sup>th</sup> September, 2012. In respect of shares held in electronic form, the dividend will be paid on the basis of beneficial ownership as per details furnished by National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for this purpose.
3. Members are requested to communicate the change in address, if any, immediately to the Company's Registrars & Share Transfer Agents M/s Karvy Computershare Pvt Limited, Plot No.17-24, Vittal Rao Nagar, Madhapur, Hyderabad-500 081.
4. The relevant details in respect of item Nos. 3 & 4, pursuant to clause 49 of the listing agreement, are annexed hereto.

Details of the Directors seeking re-appointment in the forthcoming Annual General Meeting (in pursuance of Clause 49 of the Listing Agreement)						
Name of the Director	Age	Date of Appointment & No. of equity shares held in the Co.,	Experience in specific functional areas	Qualifications	Directorships in other companies	Chairman/ membership in committees on the Board of other companies
Mr. Dineshchandra C. Patel	73	30.08.1975 Holds 5,20,043 equity shares	Vast Experience in paper industry, General Management & in handling legal matters.	Bar-at-Law	1.Laxmi Board & Paper Mills Ltd. 2. Indo Afrique Paper Mills Pvt Ltd	—
Mr.S.R Chandra-sekara Setty	71	23.01.1992 Holds 2,000 equity shares	Mr. Chandrasekara Setty is a practising Chartered Accountant. Retired as Executive Director of Karnataka State Financial Corporation in 1998. His vast experience will be beneficial to the Company	B.Com, FCA, ACS	—	—

**Relationship with other Directors**

- a) Mr. Dineshchandra .C. Patel is related to Mr Ajay D Patel & Mr. Manish M Patel
- b) Mr. S R Chandrasekara Setty is not related to any other Director.
5. In order to protect your interest against fraudulent encashment of Dividend warrants, we request you to provide us the name of your bank, branch & the account number, if not already given, to enable us to incorporate the same in your Dividend warrants.
6. Pursuant to Section 205A of the Companies Act, 1956, all unclaimed dividends / unpaid dividends upto the financial year ended 31st March, 1995 have been transferred to the General Revenue Account of the Central Government. Shareholders, who have not yet encashed their dividend warrants for the said period are requested to forward their claims in prescribed Form No.II of the Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules, 1978 to the Office of the Registrar of Companies, Karnataka, E-Wing, II Floor, Kendriya Sadana, Koramangala, Bangalore - 560 034.
7. Dividends pertaining to the financial year 1995-96 & onwards, remaining in the unpaid/ unclaimed dividend accounts of the Company shall, at the expiry of 7 years, be transferred to the Investor Education & Protection Fund of the Central Govt. Thereafter the shareholders shall have no claim against the Fund or the Company in respect of their unencashed Dividend warrants. As per the rules, Dividend for 2003-2004 which was unclaimed, has been transferred during the year to the Central Govt. Members who have not encashed their Dividend Warrants pertaining to the year 2004-2005 & onwards are requested to approach the Company, immediately for obtaining duplicate Dividend Warrant.
8. Shareholders/Proxy holders are requested to produce at the entrance the attached attendance slip duly completed and signed, for admission to the meeting hall.
9. Shareholders are requested to bring their copies of the Annual Report, as copies of the Report will not be distributed again in the meeting, as a measure of economy.
10. Companies Act, 1956 provide for Nomination facility to members. Members desirous of making use of this facility may contact the Company or our Registrars & Transfer Agents.
11. As per SEBI Rules, furnishing of PAN Card copy of Transferee is mandatory in cases of Transfer of shares in physical form, Transmission of shares/ deletion of deceased shareholder's name.
12. In case of change of address with respect to physical shareholding, members are requested to send a letter duly signed by the shareholder(s) along with certified copies of Electricity or Telephone Bill and Ration card and PAN Card copy in support of your changed address.
13. The Ministry of Corporate Affairs (MCA) has launched 'Green Initiatives in the Corporate Governance' by allowing paperless compliances by the Companies. MCA has issued Circular No's 17/2011 dated 21st April, 2011 and 18/2011 dated 29th April, 2011 stating that the services of a notice/ document by a Company to its

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shareholders can now be made through electronic mode. Further, MCA has vide its notification dated 30th May, 2011 issued the Companies (Passing Of the Resolution by Postal Ballot) Rules,2011 which enables the Companies to issue Postal Ballot notices also through electronic mail to their shareholders.

In view of the above, the Company proposes to henceforth send Annual Report (Audited Financial Statements, Directors Report, Audit Report etc.) and other documents such as the Notice of the Annual General Meeting/ Extraordinary General Meeting/ Postal Ballot Notices to the shareholders in electronic form to the email address registered with their depository participant( in case of electronic shareholding)/ our Registrar and Share Transfer Agents M/s Karvy Computershare Pvt Ltd(in case of physical share holding).

We, therefore request and encourage you to register your email ID in the records of your Depository Participant (in case of electronic holding)/ our Registrar and Share Transfer Agents M/s. Karvy Computershare Pvt Ltd(in case of physical shareholding)mentioning your folio details.

By Order of the Board of Directors

Nanjangud  
26th July, 2012

**MANISH M PATEL**  
MANAGING DIRECTOR



**The South India Paper Mills Ltd.  
Registered Office : Chikkayanachatra, Nanjangud, PO. 571 301**

**ATTENDANCE SLIP**

53<sup>rd</sup> Annual General Meeting on 27<sup>th</sup> September, 2012.

Shareholders attending the Meeting in person or by proxy are requested to complete the attendance slip and hand it over at the entrance of the meeting hall.

I certify that I am a registered shareholder/proxy for the registered shareholder of the Company.

I hereby record my presence at the FIFTY THIRD ANNUAL GENERAL MEETING of the Company held on Thursday the 27<sup>th</sup> September, 2012 at Chikkayanachatra, Nanjangud, P.O. 571 301.

Reg. Folio No.	Demat Particulars		No. of Shares
	DPID No.	Client ID No.	

Full name of Shareholder/Proxy

(in BLOCK LETTERS)

Shareholder's/Proxy's Signature

✂----- CUT HERE -----

**THE SOUTH INDIA PAPER MILLS LIMITED**

Folio No.	Demat Particulars		No. of Shares
	DPID No.	Client ID No.	

**PROXY FORM**

I/We.....  
of .....  
being a member / members of **THE SOUTH INDIA PAPER MILLS LIMITED** hereby appoint .....  
..... of ..... or failing  
him ..... of ..... as my / our  
proxy to vote for me / us on my / our behalf at the 53<sup>rd</sup> ANNUAL GENERAL MEETING of the Company to be held  
on Thursday the 27<sup>th</sup> September, 2012.

Signed this ..... day of ..... 2012

Signature ..... 

<b>Affix 15 ps. Revenue Stamp</b>
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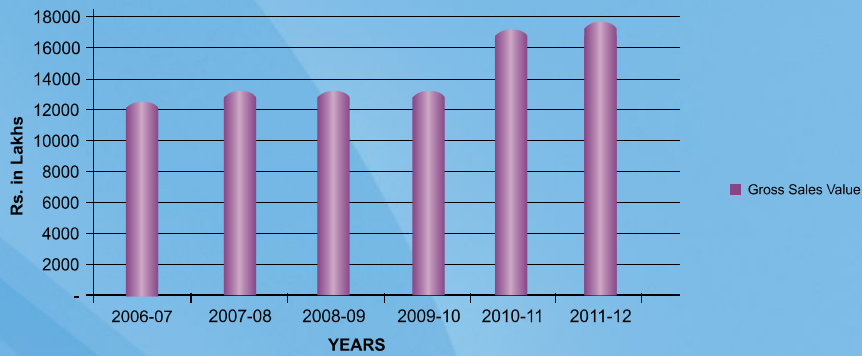
 .....

Note : This form in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered Office of the company, not less than 48 hours before the meeting.

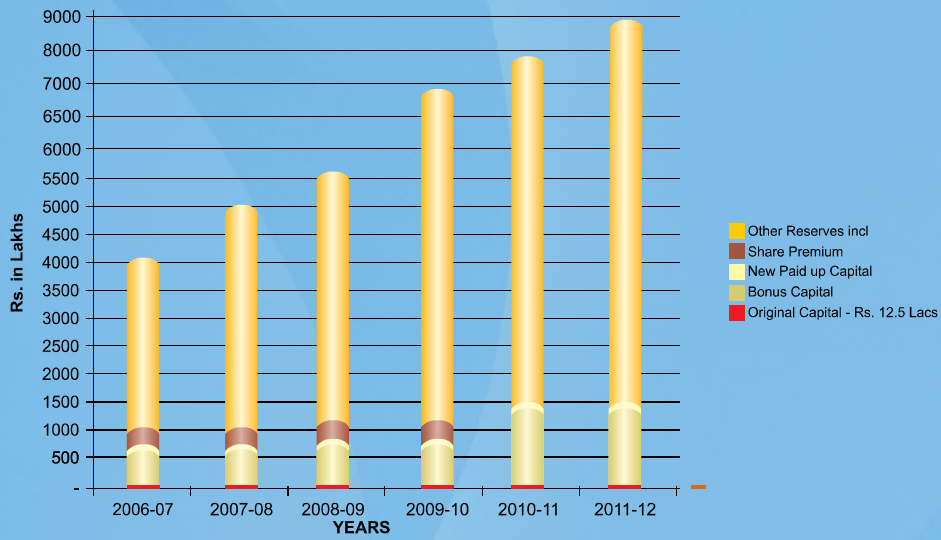
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## KEY FINANCIAL PARAMETERS AT A GLANCE

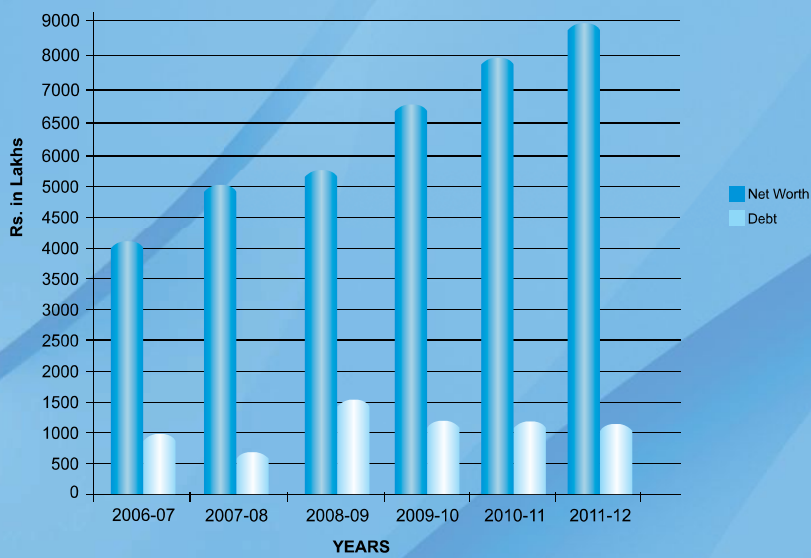
### Gross Sales



### Composition of Net Worth



### Leveraging for Growth



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