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Growth and development of Andhra Pradesh paper mills Ltd. - a benchmark success in the history of Indian paper industry

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ABSTRACT

The present paper attempts to highlights the historical details of Andhra Pradesh Paper Mills Ltd. (APPM) and narrates in brief about its growth and development strategies since its inception. Over the decades, the company has been identified as one of the top performers in the Indian paper industry, both in terms of employment creation and revenue generation. The business model of the company is primarily based on innovation and development of products, investment in quality, improvement of process efficiency, reduction of utility cost and quality team work for which it has acquired a world-class brand name. Today, the company is both wood positive and energy efficient. It has achieved excellence in sales and profitability due to its value-added product diversification strategy with rational changing keeping in mind the need of its domestic as well as international customers. This success story of the company is certainly encouraging for other hundreds of impaired companies operating in the same industry regarding how to cope up with their business challenges strategically keeping in mind the changing need of the dynamic society so that maximization of their shareholder's net worth can be significantly achieved.

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Introduction

The Andhra Pradesh Paper Mills Ltd. (APPM), the flagship company of L.N. Bangur Group, was incorporated on 29th June, 1964 at Rajahmundry, having its registered office at Rajahmundry, east Godavari district of Andhra Pradesh (*BSE Official Directory, 2000; CMIE, 2006a; CMIE, 2006b; APPM, 2010a*). The company has an equity base or Shareholder's fund of Rs. 502.95 Crore and a gross assets base of Rs. 1081.23 Crore as on 31st March, 2010 (*APPM, 2010b*). The company is listed at Hyderabad Stock Exchange Ltd., Bombay Stock Exchange Ltd. and National Stock Exchange of India Ltd. (*CMIE, 2006c*) and Mumbai. The accounting year of the company ends on 31st March and it conducts the annual general meeting in September of every year (*BSE Official Directory, 2000*).

Andhra Pradesh Paper Mills Ltd. has been identified as the fourth largest integrated pulp and paper manufacturer in India. The unit is basically an integrated wood based paper mill, established at Rajahmundry that runs with a continuous supply of raw materials composed of forest based (bamboo, etc), agro based (budgies, rice stalks, etc.) and others (waste papers, etc.) products. In the year 2000-01, it took over the Costal Papers Ltd. (CP), which is a recycled and agro based paper mill, located at Madhavarayudu (M.R.) Palem, Kdiam, about 20 kilometer away from Rajahmundry. The raw materials of Costal papers Ltd. are agro (paddy straw) and waste paper (both indigenous and imported) bases that needs a continuous supply throughout the year (*Srinivasa Raju, 2006*). Presently the production capacity of

both the units put together is around 1,74,000 TPA (*APPM, 2010a*).

Object & Activities

The major objective of the company is to manufacture and deal with different grades of high quality paper products that include: (1) Writing and printing products – Hi bright maplitho, cream wove, colour printing and others, (2) Industrial products – White posters, colour posters, stiffeners, coating base, pulp board, blade wrappers, deluxe cover, deluxe ribbed craft and cup stocks, and (3) Copier products – Office documentation, multipurpose and colour copiers (*APPM, 2010c*).

The company has a very good reputation in the Indian paper Industry. It stands 2nd in the poster paper production with wood as the basic raw material, in the production of map litho/offset printing and pulp board cover, 4th in the production of craft papers and 5th in the production of cream wave papers. The mill quality system was certified to ISO 9002 in 1994 itself. It is a recognized supplier to various coating plants, corrugated box manufacturer, textiles, tube and cone manufacturers, battery jackets, tube manufacturers, foil laminators, label printers, computer stationary manufacturers, multi colour printing houses and other users in the paper converting and printing Industries. Apart from serving the needs of its domestic customers, the company also exports its products to other countries like Australia, Bangladesh, Egypt, Iran, Myanmar, Maldives, New Zealand, Singapore, Srilanka, Spain, United

Kingdom, UAE, West Germany, Yamen and many more (APPM, 2003-04; APPM, 2004-05, APPM, 2005-06; Srinivasa Raju, 2006).

Brief History and Development

Year back in 1921, the unit APPM was established as "Carnatic Paper Mills Ltd." at Rajahmundry, on the bank of river Godavari. It was the most ideal location as it fulfilled multi-purpose needs of the unit. The river Godavari served as a source of water supply. The city was embodied with good communication facility and well-connected to all the parts of the Country by rail and road. Apart, dense bamboo forests were in close proximity of the river that fulfilled the raw material needs of the unit. Availability of ample and cheap labour force of the city also helped the unit to have the provision of an uninterrupted production with least possible cost. The unit went into actual production in 1924 with a capacity of 3000 tons per annum (TPA).

In 1956, the states were recognized and the newly formed government of Andhra Pradesh took over the company. Subsequently it was named as "Andhra Paper Mills". The government of A.P. then decided to upgrade the production capacity of the unit up to 70 tons per day and orders were placed in 1960 for plant and equipment with Empacel of Paris. However, due to various factors, the construction of buildings to house the new plants and equipment could not be taken in hand (BSE Official Directory, 2000; Srinivasa Raju, 2006).

As per the decision of Govt., in 1964, a joint stock company under the name of "Andhra Pradesh Paper Mills Ltd." was incorporated that took over the previous unit with the new plants and equipments. The basic aim was to make the unit financially sound and operationally flexible to achieve the pre-decided production standard of 70 tons per day (25,550 TPA). Within four years of takeover, the production capacity of the company rose from around 3000 TPA to 30,000 TPA. An additional capacity of 55,000 TPA was added in its capacity in 2000-01 through acquisition of Costal Papers Ltd. During the session of 2009-10, the unit has excelled with a production of 174,456 MT, a bit deteriorated volume in comparison to the past two financial years mainly due to the global economic recession, however with the highest sales turnover of Rs. 669334.10 Lakh, among all the years. Below given is a mini comparative operational statistics of the unit for the most recent five years-

Present Status

The company was started decades back with a mission to make its mark in the world economy in technology through productivity and excellence in delivering quality output with least possible cost. Since then, it has been committed for values of employee empowerment for total quality team effort, ethical management practices, eco-friendly processes, innovative value engineering and complete customer satisfaction. Today, along with joint operation of Costal Papers Ltd. the company has achieved a huge production capacity of 174,000 PTA. There are eight paper machines installed at the two locations which produce papers of different machine finished (M.F.) & machine glazing (M.G) varieties in the range of 21 to 250 gram per square meter (GSM) as well as newsprint (APPM, 2010a). APPM successfully started commercial production from Paper Machine 6 (PM 6) on 19th May, 2010 at its Unit: APPM in Rajahmundry. Currently, the Voith made machine imported from Salach, Germany, has a paper production capacity of 67,000 Metric Tons per annum of UFS / Maplitho and Copier Grades. However, with some modifications, the machine can be

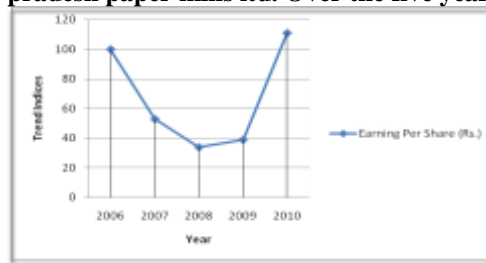
scaled up to manufacture an additional 20,000 Metric Tons per annum. With the startup of this machine, APPM will now have close to 250,000 metric tons of pulp and paper manufacturing capacity.

The session 2009-10 was much auspicious for the company in the sense that it achieved an all round and highest ever performance in many aspects. Its operational efficiency and incremental contributions were excellent as the earnings before interest, depreciation, and tax (EBIDTA), profit before tax (PBT) and profit after tax (PAT) all remained highest among all the years with the values of Rs.153.03 Crore, Rs.65.05 Crore and Rs.54.19 Crore respectively. It could be possible due to the massive success of the overall operational strategies of the company. In 30th March, 2010, it allotted 70, 18,242 equity shares of Rs.10 each for cash at a premium of Rs.40 per share aggregating to Rs.35.09 Crore on rights basis in the ratio of 3:11 to the equity shareholders and also 70,18,242 detachable warrants simultaneously, with a conversion option into equity share before expiry of 18 months from the date of allotment on payment of warrant exercise price of Rs.50 per warrant. This is how the equity share capital of the company grew from Rs. 25.73 Crore to Rs. 32.75 Crore. Sales also showed an incremental growth of 7,112 MT in comparison to the previous year figures (Refer: Table-1.1). Due to gain of such a significant figure in sales coupled with notable operational efficiency and cost control, the earning per share (EPS) of the company also increased significantly, around 300 percent, in comparison to the previous session. Below given are the details –

As evident from the table-1.2, the annual growth rate of the earning per share value of the company was also highest for the session 2009-10, which was more than sufficient to compensate the negative growth rates for the sessions 2006-07 and 2007-08, and finally recorded a positive average annual growth rate of 29.19 percent over the entire five years. The indices of EPS over the years, however, represented an "U" shaped growth trend that is clear in below given figure-1.1.

Figure-1.1

Growth trend of earning per share (EPS) statistics of andhra pradesh paper mills ltd. Over the five years



Source: Table – 1.2, as stated earlier.

With regards to its product diversification strategy, in 2009-10, the company introduced "Copyrite", a new 90+ brightness range of paper, India's first copier with colour freezing technology, in addition to its regular products like "Reflection", a premium grade 70 GSM copier; "Andhra Starwhite", a high bright paper, "Andhra Primavera", a high end writing and printing paper; "Andhra Royal Silk", a premium grade maplitho paper, "Andhra Hi Brite SG Maplitho", a superior special grade paper in the surface size segment. In addition, "Andhra Skytone" and "Andhra Starline" in the premium non-surface size category were also produced to cater the note book segment category. The said produces registered high position in both market competition and end-user demands (APPM, 2009-10).

In an attempt to develop the raw material resources, 97.74 million quality seedlings were developed during the year 2009-10 covering an area of 14,500 hectares under plantation against 95.2 million seedlings covering an extent of 14,000 hectares during the 2008 planting year. The company also enhanced its effort in the area of social / firm forestry to meet the demand of pulpwood in lieu with the mill development plan (APPM, 2009-10).

The demand for power to support the operational activities of the company remained adequate over the years. During the session, the company exported power of 5 MW to Transmission Corporation of Andhra Pradesh Ltd. resulting a revenue generation of Rs. 15 Crore (APPM, 2009-10).

Conclusion:

APPM has already crossed a long way in the history of paper making in modern India since its inception and reached at a benchmark success with its product development, investment in quality and branding. The company has gained competitive advantage in market both in terms of quality operation and profitability. Over the last few years it has expanded its operational capabilities and attained excellence in Sales and profitability. Primarily due to gains from implementing its mill development plans, it improved process efficiencies and reduced cost of utilities like power and fuel the cost of which reduced from Rs. 64.73 Crore in 2008-09 to Rs. 59.60 Crore in 2009-10. Being a market leader in the production of high quality paper and paper pulp, the company reorganized its operational strategies as per changing needs of its customers and strives for sustainable growth than Industry average. The paper Industry is cyclical in nature and its performance depends on global pulp and paper demand-supply situation. The global economic crisis had significant impact on the domestic pulp and paper market since November, 2009 for which the volume of production and pricing of the products dropped miserably. However, being an integrated manufacturer of pulp and paper the company managed the challenge better and de-risked its business to a major extent thereby rationalizing its product cost. Moreover, it enhanced its scale of operation and came up successfully with diversified and more value added product for its customers with higher sales margin and profit. This operational success of Andhra Pradesh Paper Mills Ltd. should be considered as an Oman as hundreds of paper manufacturing companies operating in India, with under-capacity and lower profitability. In addition, it is also a decent example of patronization of a low profile company by the Andhra Government, which later on, came up with a flying colour in Indian paper market with its overall vision, mission and independent operational liberties.

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Table-1.1
Operating results of andhra pradesh paper mills ltd.
Over the five years

YEAR	PRODUCTION (MT)	SALES (MT)	TURNOVER (Rs.)	PBDT (Rs.)	PAT (Rs.)
2006	1,45,998	1,51,717	497.56	63.44	35.03
2007	1,59,574	1,55,750	533.03	64.33	24.13
2008	1,80,681	1,76,758	628.24	64.97	16.54
2009	1,77,748	1,70,239	657.33	74.88	18.95
2010	1,76,452	1,77,351	669.34	120.87	54.19

Note: "MT" indicated for Metric Tons.

Source: APPM (2009-10). "The 46th Annual Report of Andhra Pradesh Paper Mills Ltd. APPM)".

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Table-1.2
Earning per share (EPS) statistics of andhra pradesh paper mills ltd. Over the five years
(year ended on 31st march, trend index for the base year 2006 100)

YEAR	EARNING PER SHARE (in Rs.)	ANNUAL GROWTH RATE (in %)	TREND INDICES
2006	18.97	-	100
2007	10.13	-46.60	53
2008	6.44	-36.43	34
2009	7.37	14.44	39
2010	21.03	185.35	111
AVERAGE	12.79	29.19	67

Source: APPM (2009-10). "The 46th Annual Report of Andhra Pradesh Paper Mills Ltd. (APPM)".

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