

***Sesbasayee Paper and
Boards Limited***

Speech delivered by:
Sri N Gopalaratnam,
Chairman



56th Annual General Meeting
July 23, 2016

Dear Shareholders,

I and my colleagues in the Board extend a warm welcome to all of you to this Fifty Sixth Annual General Meeting of the Company. The Annual Report and Audited Accounts of the Company, for the year ended March 31, 2016 have been with you for some time and with your permission, I would like to take them as read.

ECONOMY

The baseline projection for global growth in 2016 is a modest 3.2 per cent, broadly in line with last year. The recovery is projected to strengthen in 2017 and beyond, driven primarily by emerging market and developing economies. However the British Vote to leave the European Union (EU) is likely to result in a shock to confidence that will curb UK economic growth. The greatest risk to global rise is in the uncertainty over the future existence of EU. Global recovery, at the moment, has weakened further and global trade remains subdued.

India remains a bright spot among all these uncertainties. Projecting an economic growth rate of close to 7.5% for India in 2016 and 2017, Moody's Investors services have predicted that the prevailing low headline inflation is expected to continue aided by a good monsoon. Moody's have

further observed that India is poised for a strong GDP growth, but private investment remains weak. Decline in exports in real terms and fall in industrial production are areas of concern. Since the external demand is likely to remain lacklustre, a sustained improvement in domestic private investment would be required for sustaining the growth momentum.

STATUS OF PAPER INDUSTRY

Despite predictions that the digital revolution would make paper obsolete, paper remains central to our lives. Think of the hundreds of times, we touch paper, in a day. Paper Industry is a sustainable industry and paper is a bio-degradable product. It can be comfortably reused and recycled. Its raw materials - wood, bamboo, agro residues are all from renewable sources.

Paper Industry is a significant player in the world economy. Its annual revenue exceeds US\$500 billion. World consumption of paper has witnessed growth almost every year in the last 40 years. World consumption of paper grew from 169 million tonnes in 1981 to 253 million tonnes in 1993 to 352 million tonnes in 2005. Current consumption is of the order of 402 million tonnes. This is forecast to grow to 482 million tonnes

in 2030 - a growth rate of 1.1% per year. While the market size and per capita consumption are relatively low in India, they have exhibited a rising trend over the past years. Per capita consumption grew from 7.3 kg to 11 kg in 2013. India is forecast to witness highest growth rate of 6.5% per annum in the years to come, higher than China's 5.25%.

CARE Ratings believes credit risk profiles of the companies in the printing & writing (P&W) segment and packaging & paperboard segment in India to improve over medium term on the back of increased demand, softening raw material and lower coal prices. On the other hand, credit profiles of newsprint segment companies may continue to be impacted by lack of pricing power given threat of imports and dependence on imported raw material i.e. wastepaper. Paper companies across the segments faced margin pressure during FY 2013 - H1FY 2016 largely due to raw material cost increase amidst stable paper pricing.

Paper Industry has been facing two significant challenges in recent times: First is the un-desirability of encouraging paper production on account of its dependence on wood and therefore cutting of millions of trees. Over the time, the environmental groups are being educated on the benign

footprint of the paper industry which plants 3 trees for every tree cut. In fact, green cover for many nations is on the rise on account of the efforts of Paper Industry in raising industrial plantations which supplement the efforts of governmental agencies. The added benefit is that young trees absorb more carbon dioxide than mature trees. In addition, main raw materials used by the paper industry - bamboo, wood and agro residues are all renewable resources. The process of manufacturing paper is being continuously modernized by producers to include cleaner production techniques. Paper is a bio-degradable product and has a harmless end-of-life-cycle profile. Paper industry has thus been recognized as a sustainable industry and some of the resistance from the environmental pressure groups appears to be waning.

The other worrisome factor is the digitalization eating away 'paper market'. Global paper and printing market, was down by 6% in 2015 over 2014, according to one estimate. The situation seems to be most challenging in North America and Western Europe. However, not everyone is in favour of digitalization. Sure, it is convenient and fast. Environmental footprint of the 'electronic media' is indeed questionable. Disposal of 'e-wastes' is among the most challenging issues for environmental protection.

It is pertinent for me to quote a survey commissioned by a U.S. based Independent non-profit organisation to elicit the opinion of U.S. and U.K. based consumers on a variety of issues relating to switch from paper based to digital media. Results of this survey reveal that while onscreen reading occupies an increasing amount of consumer time, people's preferences are still for a print on paper which they believe is more informative and less distracting. It is also not evident that younger ages are significantly different from older groups. While acceptance of digital media is stronger among younger ages, a preference for print on paper still exists for all ages. There is also a concern that the increasing time spent with electronic media is believed to be damaging to health.

Key findings are: over 80% of the Respondents prefer to read on paper (same across all age groups), believe that retention is better when read on paper and feel relaxed when reading on paper. They also believe documents printed on paper are easier to read, are more secure and are better for storage and archiving. The results of this Survey indicate the general preference of people to use paper-media over electronic media.

As mentioned by me in my address at last year's AGM, owing to falling

prices of paper and escalating costs of inputs, profitability of major producers had come down drastically in the last 2 years. In addition, imports of paper and paper board from ASEAN countries which grew at CAGR of 26.20% in value terms during the last 5 years at lower prices, had destabilized the Indian Market conditions, making it difficult for domestic manufacturers to clear their stock. Some of the Industry peers have approached the Government with petitions for imposition of anti-dumping duties / countervailing duties on imports of copier grades from Indonesia.

PERFORMANCE REVIEW

Directors' Report provides a detailed account of the operations of the Company during the year under review.

Overall production for the Company was marginally higher at 1 82 634 tonnes (1 77 904 tonnes in the previous year) during the year. Weak market conditions prevailed during the first 3 quarters resulting in flat/falling prices and accumulation of inventories of finished goods. The impact was more severe on Unit : Tirunelveli. Due to paucity of supplies from some established Mills, the market scenario improved during the 4th quarter enabling the Company to clear the stocks and

achieve “Nil Stock” in both Erode and Tirunelveli Units.

Despite difficult market conditions, the Company could achieve improved profitability for the year 2015-16 - ₹ 35.58 crores as against ₹ 17.35 crores in the previous year.

Our efforts to achieve ‘wood-neutral’ status continued during the year. We helped the farmers in Tamil Nadu to plant over 7 crores of seedlings in about 19 000 acres of land.

The Company has since entered into agreements with Labour Unions and the Staff Association covering wage rise and other service conditions for a 5 year period from April 2014 to March 2019. I wish to acknowledge the continued cooperation extended by the Labour Union and the Staff Association in concluding the Agreements amicably.

MILL DEVELOPMENT / EXPANSION PLAN

During the year, the Company received the EC for Erode Unit. In view of favourable power scenario prevalent in the country and the State, prices of power have nose - dived during the most parts of the year. The ‘ease’ in power availability and pricing is likely to continue in future as

well - thanks mainly to better connectivity between Southern and Northern grids. Keeping this unfolding scenario in mind, we are not rushing with the establishment of Captive Power Plants proposed in our Projects in Erode and Tirunelveli.

At Unit : Erode we have put into operation the second ESP for the Chemical Recovery Boiler which will help in controlling the emission significantly and permit us to produce marginally higher in-house pulp. Rest of the jobs are in progress and will get completed during the year save the Twin Roll Press installation in the Wood Pulp Mill which will be completed in the Q1 of FY 2017-18.

At Unit : Tirunelveli, the Metering Size Press has been installed and successfully commissioned helping the Unit to produce quality S.S. grades. Rest of the projects, proposed under the Mill Expansion Plan, are being taken up based on their priority and we expect to complete most of them in this financial year.

CURRENT YEAR

Production at both Units are at budgeted levels. Paper market conditions continued to remain favourable during Q1. This together with fall in prices of wood, coal etc. has helped the Company to post healthy results.

DIRECTORATE

Sri S K Prabakar, IAS, the Nominee Director of Tamilnadu Industrial Investment Corporation Limited (TIIC) ceased to be a Director on our Board with effect from 1st April 2015, as provided under Section 167(1)(b) of the Companies Act, 2013. He was re-nominated to the Board on 1st August 2015. His nomination was withdrawn and in his place TIIC nominated its Managing Director Mrs Supriya Sahu, IAS as its Nominee Director on the Board of our Company with effect from 30 01 2016.

Sri Hans Raj Verma, IAS, Nominee Director of Tamilnadu Government ceased to be a Director on our Board with effect from 26th March 2016, as provided under Section 167(1)(b) of the Companies Act, 2013.

Your Directors place on record the valuable services rendered by Sri S K Prabakar, IAS and Sri Hans Raj Verma, IAS, during their tenure as Directors of the Company.

I retire by rotation and being eligible seek re-election at this meeting.

ACKNOWLEDGEMENT

My whole-hearted thanks are due to all the shareholders of the Company for their sustained support to the Company.

I am extremely grateful to my colleagues on Board for their guidance, support and wise counsel which helped us to steer the Company safely during challenging times.

Executives and employees of all ranks of the Company have put in creditable performance during a difficult year. My thanks are due to them.

I am grateful to all our Customers, Indentors, Stockists, Overseas Agents, Suppliers and Service Providers for their whole-hearted support and cooperation.

My thanks are equally due to various departments of Central and State Governments and Banks.

I now move for adoption of the Directors' Report and Annual Accounts. Before doing so, I will be glad to furnish any clarification that the Members may require relating to the Annual Report and Accounts.

Thank you Ladies and Gentlemen for your patient hearing.

(This does not purport to be a record of the proceedings of the Fifty Sixth Annual General Meeting)
