

Sesbasayee Paper and Boards Limited

Speech delivered by:
Sri N Gopalaratnam,
Chairman



58th Annual General Meeting

July 21, 2018

Dear Shareholders,

Welcome to this 58th Annual General Meeting of the Company. The Annual Report and Audited Accounts for the year under review, have been with you for some time now. I am sure that you would have observed with extreme satisfaction, the excellent physical and financial performance of the Company leading to the Board of Directors recommending a record Dividend Payment of 150%.

Such an outstanding performance in a year of multiple challenges, speaks volumes about the Company's resilience. More on this, later.

ECONOMY

It is customary, in the meeting of shareholders to review the global and national economy and the pointers to what is in store for the country and the Company. In the coming year, what can we expect?

IMF's prediction is that the global economic upswing that began around mid 2016 has become broader and stronger. Advanced economies, as a group are expected to continue to expand while the growth in emerging market and developing economies will rise before levelling off.

However, for most countries, current favourable growth rates may not last,

as per IMF. World growth strengthened in 2017 to 3.8 per cent and is expected to expand to 3.9 per cent this and next year.

India's GDP growth after touching a peak of 8.2% in 2014-15 during the current decade decelerated in the next two years both due to back to back drought and the disruptive impact of demonetisation and GST. GDP however is estimated to rebound sharply in 2017-18 to 7.4% supported by all-time high production of foodgrains and horticulture.

This augurs well for your Company since growth of paper industry, generally mirrors the growth in the economy.

As per data compiled by the World Bank, India has advanced to become world's sixth largest economy in 2017 surpassing France and is well poised to go past UK in 2018. While India's growth rate marginally slipped in 2017 below China, it would regain top rank in annual GDP growth rate amongst large economies again in 2018. In fact, India's growth rate of 7.7% in Q4 of 2017-18 has clearly overtaken China's 6.8%. However, in per capita terms, India ranks much poorer than most other large economies, underpinning the need for sustaining growth at high

levels to create enough employment opportunities and reap the demographic dividend.

In this context, it is heartening to note that India for the first time moved into the top 100 in the World Bank's Ease of Doing Business global rankings on the back of sustained business reforms over the past several years. India is the only large country this year to have achieved such a significant shift, having implemented 8 out of 10 Doing Business indicators.

According to OECD, "India's growth is increasing, making India the fastest growing G 20 economy. Investment and exports supported by smooth implementation of the new Goods and Services Tax (GST) are becoming major growth engines. Inflation will, hover within the target band, with upside risks reflecting rising oil prices and an increase in housing allowance for public employees."

STATUS OF PAPER INDUSTRY:

Paper Industry occupies a prestigious position amongst various manufacturing industries in the world. Current global production is in excess of 400 million tonnes. The Industry contributes over \$500 billion dollars to the global economy and has been growing every year during the

last 40 years, though somewhat slowly in the recent years.

Indian Paper Industry stands 5th in global production - our per capita consumption, however, is meagre at 13 kgs against global average of around 55 kgs. The Industry has been growing at over 6% CAGR and is expected to maintain this growth rate in future as well.

Indian Paper Industry however runs the risk of becoming non-competitive as well as face "closure" on account of two issues that I highlighted in my last year's address to you.

First is the un-bridled imports of copier and maplitho grades from ASEAN countries swamping the Indian Markets, taking advantage of the zero duty concession offered to such imports under the FTA signed between India and ASEAN countries. Such concession is now available for imports from South Korea as well from last year. While we have been protesting in all available forums, against such 'suicidal' pacts, Government, in its wisdom, has extended Import Tariff Concessions under Asia Pacific Trade Agreement to the APTA member countries including China under which imports of paper from China etc., will now attract a reduced duty of 7% against

10% hitherto. An ongoing investigation on the dumping of copier grades initiated by the Government of India has put some brakes on the dumping of this grade. High prices ruling in the International market and weakening of Rupee have also helped in lower imports.

The second, is the 4 decades old plea of the Industry for allocation of waste lands for raising wood plantations by the Industry for meeting the needs, going unheeded.

Despite frequent discussions and deliberations, no real progress is seen in Government taking an affirmative decision in allocation of waste lands for raising industrial plantations.

We do hope that we will succeed in both these fronts, ere long.

PERFORMANCE REVIEW:

May I draw your attention to Directors' Report which provides a detailed account of the physical and financial performance of the Company for the year under review.

While the year started with our settling down after the 'demonetisation', we were hit by huge water shortage in the river Cauvery, following failure of monsoon for over 3 seasons. Production had to be curtailed / product mix had to be altered

during April-June 2017 at Unit:Erode. Tirunelveli Unit also faced similar dilemma. Few good spells of rains improved the water flow in the Rivers and we could get back to full production. This was followed by the introduction of GST which saw the Paper Trade coming to a standstill for over 3 months. Revival came in the 3rd and 4th quarter when despatches could be accelerated and our customary Zero Stock achieved, by the year end.

Completion of Phase-I of our MDP Project in Erode unit, which included retrofitting of power boiler, installation of second ESP for the Chemical Recovery Boiler, strengthening of the fibre-line in wood pulp plant with a Twin Roll Press and several up-gradation jobs undertaken in various plants, has helped the Company to reach our goals in wood pulp production, renewable energy optimisation, despatch of Wet-lapped Wood Pulp to Unit:Tirunelveli and wheeling of power. More importantly, these additions have facilitated the Company to operate a more robust 'pollution prevention' system in the various process modules contributing to consistency of operations and easy compliance of the Government regulations relating to emissions and waste water discharge.

In the Tirunelveli Plant, two major additions to the Paper Machine, the Metering Size Press and Top Former Unit, have enabled to improve quality of paper resulting in better appreciation and preference by the market.

These projects, undertaken at both the Units, have helped us to maintain high level of profitability, overcoming various cost related constraints and loss of production due to drought and water shortage, and enabling high dividend distribution of 150%, a record, in itself.

CURRENT YEAR

With better water-flow in the Rivers Cauvery and Tamirabarani and frequent summer showers, both the Units did not face any water shortage during Q-1 and regular production was maintained. However several shocks had to be endured during the quarter - the most severe, is the mind-boggling increase effected by GOTN in the rates for drawal of water from the river by 40 times.

Steep increase in prices of imported pulp and coal coupled with unfavourable exchange rate, the ever escalating Furnace Oil prices (over 50% in one year) have exerted extreme strain on containing costs. Price increases done on sale of paper could only compensate partially the cost increase.

The Company is evaluating various options for augmenting paper production in both Erode and Tirunelveli Units.

ENVIRONMENTAL PROTECTION AND TREE FARMING:

We continue to strengthen our environmental protection measures with significant investments in controlling pollution at source rather than at the end of the pipeline.

In just recognition of our consistent environmental performance, Government of Tamil Nadu was pleased to bestow the State Green Award on our Company for the year 2017. We are indeed grateful for this recognition which will encourage us to do even better in the days to come.

Our Tree Farming efforts continued at the same scale. We helped in marginal farmers planting over 12 crores of seedlings in about 13 000 acres of land. We do hope to take up this number further with improved rainfall.

DIRECTORATE

During the year, Tamilnadu Industrial Investment Corporation Limited (TIIC) withdrew the nomination of Sri Satyabrata Sahoo, IAS, and in his place nominated its Managing Director Dr (Mrs) M Aarthi, IAS, as its Nominee Director on the Board of our Company.

Your Directors place on record the valuable services rendered by Sri Satyabrata Sahoo, IAS, during his tenure as Director of the Company.

AUDITORS

The term of appointment of M/s Maharaj N R Suresh & Co., (Firm Regn. No. 001931S) as Statutory Auditor of the Company expires at the conclusion of this Annual General Meeting. They are eligible for re-appointment for a further term of five years from the conclusion of the 58th Annual General Meeting. Taking into consideration the excellent services rendered by M/s Maharaj N R Suresh & Co., the Board of Directors, on the recommendations of the Audit Committee of the Board, re-appointed them as one of the Statutory Auditors of the Company to hold office for a term of five years from the conclusion of the 58th Annual General Meeting and till the conclusion of the 63rd Annual General Meeting.

M/s R Subramanian and Company LLP (Firm Regn. No. 004137S) continue to be the other Statutory Auditor of the Company.

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 the 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 which enabled the Company to turn-out record performance. My thanks are due to them.

I am grateful to all our Shareholders, 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 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 Eighth Annual General Meeting)