

# *Sesbasayee Paper and Boards Limited*

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*Speech delivered by:*  
***Sri N Gopalaratnam,***  
*Chairman*



*59th Annual General Meeting*

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*July 27, 2019*

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Dear Shareholders,

I Welcome you all to this 59th 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 trust you would have reviewed the same and felt elated at the outstanding results posted by the Company. It has indeed been an year of “Records”. More on this later

It is customary, in the meeting of shareholders, to review the status of global and domestic economy as well as its impact on the Indian Industry.

Let me do so now.

## **ECONOMY**

### **Global**

According to IMF -“one year ago, global economic activity was accelerating in almost all regions of the world and it was projected to grow at 3.9% in the year 2018-19. However one year later, much has changed - the escalation of US-China trade tensions, macro-economic stress in Argentina, Turkey, disruptions to the Auto Sector in Germany, tight credit policy in China have all contributed to a significantly weakened global expansion, especially in the second half of 2018”.

Global economic growth is now projected to decelerate from 3.6% to 3.3% in 2019. Of this, share of Advanced Economies would be 1.8% as against 4.4% for Emerging Market and Developing Economies.

A pick-up in second half of 2019 is predicted, on ongoing policy stimulus in China, recent improvements in global financial market sentiments and gradual stabilisation of conditions in stressed emerging market economies. By contrast, advanced economy would slow down gradually as the impact of US fiscal stimulus fades away.

### **Domestic**

Indian economy has shown remarkable resilience amid global headwinds. The size of the economy witnessed a 50% rise in the five years since 2014. It is poised to become a US\$ 3 trillion economy in the current year itself, while the Government has resolved to reach US\$ 5 trillion mark in the next two years. The Economic Survey 2018-19 highlights the need to sustain a real GDP growth rate of 8% to achieve same. For this, it has emphasized the role of investment, especially private investment, as the ‘key driver’.

India is now the 6th largest economy in the world and in terms of purchasing power

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parity, we are in fact the third largest economy, next only to China and the USA. India is also the top ranked economy in the South Asia. It has moved to 77th rank in the World Bank's 'Ease of Doing Business' survey 2019. It is further expected to stay unchanged as the fastest growing emerging market economy.

Our GDP growth for 2018-19 is now pegged down to 6.8%. Average inflation in the last five years was less than half the inflation level of the preceding five years, matching the lowest levels attained in the country's post independent history. The current account deficit remains within manageable level while foreign exchange reserves have risen to all time high, emboldening the Government to meet part of its gross borrowings from external markets in external currencies.

India however requires to undertake many structural reforms to achieve 8% GDP growth. The Government has already done well in terms of reforming the indirect tax system through GST and bringing in the insolvency and bankruptcy code for swift resolution of troubled accounts. It is certainly within our capability to achieve the set goals. That however demands steadfast focus and drive.

## **STATUS OF PAPER INDUSTRY:**

Paper Industry world-wide occupies a prestigious position amongst various manufacturing industries. Despite predictions that the on-going digital revolution would make it obsolete, paper remains central to our lives.

Global consumption of paper has been growing steadily year after year. It grew from 169 million tonnes in 1981 to 253 million tonnes in 1993, 352 million tonnes in 2005. The current consumption is in excess of 400 million tonnes and is forecast to grow to 482 million tonnes in 2030. China is the largest consumer of paper and paper board at more than 100 million tonnes annually.

The domestic market / consumption of paper is over 18 million tonnes per annum inclusive of 3 million tonnes of imports. By 2024-25, domestic consumption is projected to rise to 23 million tonnes per annum.

While the industry has already made significant capital investments to ramp up production capacities, the gestation period of green field investments is long and economic viability weak, being impacted by poor raw material availability and rising imports of paper into India.

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The Indian Paper Industry has strong agro forestry roots and backward linkages with farming community. More than two third (2/3) production come from agro residues as well as recovered paper. The balance one third (1/3) is wood based where again, 90% of wood required is sourced from Industry driven agro and farm forestry sources.

Imports of paper, paper board and newsprint have been steadily increasing at the rate of 10.85% CAGR including newsprint and at 18% CAGR excluding Newsprint over the last 7 years. Import of Copier and maplitho grades from ASEAN countries, taking advantage of the zero duty concession available for such imports under the Free Trade Agreements, grew over 40% annually in the last 7 years. Such concession is now available for imports from South Korea as well and imports from Korea is beginning to grow over 50% per annum. In addition, Government, in its wisdom, has extended tariff concession for imports under Asia Pacific Trade Agreement to the APTA member countries including China. Paper imported from these countries will now attract a reduced duty of 7% against 10% imposed hitherto. Import from China is now growing at an average of 15% per annum.

The Industry's plea to the Government to suitably increase the basic customs duty from the current level of 10% to save the domestic industry from the onslaught of sustained imports has not met with success.

The Government has however, in the recent budget proposal, withdrawn the exemption of basic customs duty of 10% hitherto granted, for import of newsprint.

Another area of concern is Government's reluctance to allocate non-allotment of degraded waste lands for setting up plantation of wood by the domestic paper industry. This plea is four decades old and despite frequent discussions and deliberations, no real progress has been made. The Paper Industry has been pursuing this with Government relentlessly and will continue to do so.

The Indian Paper Industry ranks 5th in global production. Our per capita consumption is meagre at 13 kgs against global average of 55 kgs. This would mean opportunities are plenty for the growth of the domestic industry.

With deceleration of economic growth of China, paper industry's growth in China is weakening. Strong market pulp prices had kept up paper prices high during

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the last couple of years. This is likely to be reversed during the current year and this may lead to gradual decrease in pulp prices, resulting in lower paper prices - a likely scenario for the current year.

### **PERFORMANCE REVIEW:**

The Directors' Report provides a detailed account of the physical and financial performance of the Company during the year under review. The Company achieved excellent operational and financial results, both in Unit : Erode and Unit : Tirunelveli. Record levels of production, sales, turnover and profits were achieved during the year under review. Higher in-house wood pulp and De-inked Pulp production that enabled replacement of costly Imported Pulp, yield improvement in Raw Material and Chemicals, better product mix resulting in higher sales realisation, favourable market conditions and lower interest and financing charges, due to repayment of loans and non-utilisation of working capital limits, contributed to higher earnings.

The Company also achieved excellent export performance in the year with 20% growth by volumes and 38% growth by value.

Members are aware of the Mill Development Plan (MDP) II undertaken at a cost of ₹125 crores in Unit:Erode to augment production of paper to 1,30,000 tonnes per annum and production of un-bleached wood pulp to 1,45,000 tonnes per annum. Simultaneously, Mill Expansion Plan, undertaken in Unit:Tirunelveli at a cost of ₹75 crores providing Film Press and Top Wire Former to the Paper Machine and recommissioning De-Inking Plant enabled the Unit:Tirunelveli to improve quality of paper as well as step-up production.

These projects undertaken at both the Units have helped the Company to maintain higher levels of production, contributing to higher level of profitability and thus enabled the Company to recommend higher dividend distribution of 200%, a record, in itself.

The Company has now drawn up Mill Development Plan-III at an estimated cost of ₹ 315 crores to further increase production of Paper and Pulp in Unit : Erode. This Project is expected to be implemented in phases and completed in 21 months. This project will involve up-gradation and modernization of Paper Machines 4 and 5 to increase the production capacity from 1,30,000 tonnes

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per annum to 1,65,000 tonnes per annum, up-gradation and modernisation of RDH Pulp Mill to increase the Unbleached pulp capacity to 1,54,000 tonnes per annum, up-gradation of Recovery Island, and augmentation of Waste Water Treatment Plant.

To take advantage of increasing growth prospects for Paper Industry, the Company is also actively pursuing both organic and inorganic growth opportunities.

### **Sub-division of Equity Shares**

Members are aware that the Operations of the Company has grown significantly over the last few years, generating considerable interest in the Company's Equity Shares in the market. However, liquidity for the Company's Equity Shares in the Stock Market is very thin. Hence, in order to improve the liquidity in the Company's Equity Shares and to make the shares more affordable for the investors, the Board of Directors has approved sub-division of each Equity Share of face value of ₹ 10/- (Ten) fully paid up, into five Equity Shares of the face value of ₹ 2/- (Two) each, fully paid up. Record date for the same will be announced shortly.

### **CURRENT YEAR**

Both Mettur Dam (for Unit:Erode) and Papanasam Dam (for Unit:Tirunelveli) have low water level due to poor rainfall. The Barrage across River Cauvery downstream of Unit : Erode and scattered rains in southern parts of Tamilnadu have helped the two Units to maintain uninterrupted production.

Upgradation works in P/Mc 5 in Unit:Erode comprising installation of a modern head box and replacement of machine drives with state of art A.C. Drives, of PM5 were undertaken during May/June 2019.

Paper Market was stable during the first quarter. However, with the weakening of pulp prices in the global market, paper prices can be expected to slide.

### **ENVIRONMENTAL POLLUTION AND TREE FARMING:**

The Company continues to strengthen its environmental protection measures with significant investments in controlling pollution at source rather than treatment at the end of the pipeline.

These measures helped the Company to win "Tamil Nadu Pollution Control Board Green Award" for the year 2017 for the excellent contribution to environmental

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protection. The Company's Erode Unit also won the "CII Excellent Energy Efficiency Unit Award" for the year 2018.

Our Tree Farming efforts continue. We helped in marginal farmers planting over 12 crores of seedlings in about 13 000 acres of land, last year. We do hope to take up this number further with improved rainfall.

### **Paper Day Celebrations:**

With a view to highlight the importance of paper in our lives and its eco-friendly characteristics, August 1 is being celebrated as Paper Day, by the Paper Industry from last year onwards.

The second Paper Day will be celebrated on the upcoming Aug 1.

Our Company will celebrate Paper Day in a grand manner including arranging educative presentations on "Paper" in nearby Schools and Colleges besides conducting various contests for school children.

### **DIRECTORATE**

During the year, Tamilnadu Government withdrew the nomination of Mr.Md Nasimuddin, IAS, and in his place nominated Sri Shambhu Kallollikar, IAS, Principal Secretary to Government,

Environment and Forests Department, as its Nominee Director on the Board of our Company.

Sri R V Gupta stepped down from the Board of our Company at the close of business hours on March 31, 2019 after a long tenure of nearly 16 years as a Director on the Board of our Company.

Your Directors place on record the valuable services rendered by Sri R V Gupta and Mr.Md Nasimuddin, IAS, during their tenure as Directors of the Company.

Mr Mohan Verghese Chunkath, IAS (Retd.) was appointed as an Independent Director on the Board of our Company for a period of five years with effect from April 01, 2019.

### **AUDITORS**

M/s Maharaj N R Suresh & Co., and M/s R Subramanian and Company LLP continue to be the Statutory Auditors of the Company.

### **ACKNOWLEDGEMENT**

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

I am extremely grateful to my colleagues on the Board for their guidance, support

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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 Ninth Annual General Meeting)*

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