

***Sesbasayee Paper and  
Boards Limited***

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*Speech delivered by:*

***Sri N Gopalaratnam,***

*Chairman and Managing Director*



*50th Annual General Meeting*

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*July 24, 2010*

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Dear Shareholders,

I and my colleagues on the Board have great pleasure in extending a warm welcome to all of you to this Fiftieth Annual General Meeting of the Company. This indeed is a joyous occasion - this AGM marking the successful completion of 50 years of sustained operations of the Company.

Your Company which came to be established on June 22, 1960 is the brainchild of Sri S Viswanathan, who was introduced to the Corporate World by Sri V Seshasayee, a renowned Industrialist of South India. Sri S Viswanathan, an eminent Lawyer and imprisoned Freedom Fighter, succeeded in mobilising the active support and guidance of the then Madras Government. Sri R Venkatraman, as the Minister of Industries, had played a major role in the conceptualisation and realisation of this project - with the Government providing all necessary assistance at all times, including an investment of Rs 1.00 crore, through the Madras Industrial Investment Corporation Limited (TIIC - now), in the Rs 3.50 crore Equity Capital of the Company. Till today, TIIC continues to be our major shareholder.

The Company enjoyed tremendous goodwill and popularity from day one. The subscribers to the Memorandum of Association included well known dignitaries, Sri Jaya Chamaraja Wadiyar (Maharaja of Mysore) - Sir C P Ramaswamy Aiyar, the much admired lawyer - turned diplomat - turned

administrator and educationist. The initial Public Issue of Rs 1.45 crores was oversubscribed nearly three times and the Company had 14 501 shareholders, reflecting one of the largest spreads of shareholding in those times in South India. Indeed, among them, 1 467 shareholders continue to remain with Company, even now. The foundation stone for the Mill was laid by Sri Lal Bahadur Shastri, the then Union Minister of Commerce and Industry on September 18, 1960 in the presence of Sri K Kamaraj, the then Chief Minister of Madras.

Parsons and Whittemore South Asia Company Inc., the well known American Company, engaged in building paper mills in India, Thailand, Vietnam, etc., was the technical and financial collaborator. The Mill turned out its first sheet of paper in November 1962, in a record time.

Sir C P Ramaswamy Aiyar who had not accepted any corporate position in his long and illustrious career, was persuaded to become the first Chairman of the Board of Directors of your Company. He was succeeded by the genial economist and stock broker Sri S Narayanaswamy whose eloquent writings and lectures were treatises on the arts and science of management. Sri S Narayanaswamy was succeeded by Sri S Viswanathan whose vision and tireless pursuits had laid strong foundations for the Company to overcome many a challenge in

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the past, providing confidence to face the future with hope and determination. His stoic struggles to build a strong Company continued until his demise in 2001. On this occasion we pay our respectful homage to the memory of this great visionary.

In its journey over these five decades, the Company encountered many a challenge. The financial performance of the Company took deep hits in the first decade of operation when the price of printing and writing paper was under Government control; again between 1983 and 1990 when the quantum of production as well as the prices of popular varieties of paper, viz., white printing and writing, creamwove and other papers were subject to Paper (Control of Production) and Paper (Control) Orders. The Company was also under compulsion to adapt to various raw material mixes, etc., owing to changing raw material scenario at that time. The Company's operations stabilised by 1990, paving way for capacity additions and technological upgradations.

Never during this arduous journey, the Company had lost the trust, support and encouragement of its stakeholders - customers, financial institutions, shareholders, employees, government authorities, etc. To them all we owe a deep debt of gratitude. The Company's contribution to the society - long before the term CSR (Corporate Social Responsibility) was invented - has always been exemplary.

Such has been the proud and praiseworthy past of the Company that all of us should deem it an honour to have been associated with this great enterprise.

What are the praiseworthy points of SPB's accomplishments?

Besides being rated high, as an extremely trustworthy organisation, SPB's role in single handedly promoting larger use of sugarcane bagasse and other agro residues as alternate raw materials to wood for paper manufacturing in a fibre deficient country, is indeed commendable. That, nearly a third of India's current production comes from these agro residues - is a testimony to SPB's foresight and leadership in building the Indian Pulp and Paper Industry.

Equally challenging and successful was creating a world class bagasse based paper project for the Government of Tamilnadu. SPB spared no efforts to successfully build this mill which enjoys premier status, today, in the domestic sector.

SPB's vision came into play again in the successful establishment of linkages between Paper Mill, Sugar Mill and Farming Community, for utilisation of the treated waste water of the paper mill, for raising sugarcane by the farming community, for supply to sugar mill which will use alternate fuel and release its bagasse for paper making. This unique synergistic model is in successful operation for over 25 years now,

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adding great value to all the stakeholders - SPB, Ponni Sugars and the Agricultural Co-ops.

SPB's offspring, SPB Projects and Consultancy Ltd which has been providing world-class engineering services to the Indian Paper Industry as well as overseas clientele for over 25 years - is yet another contribution of SPB to the Industry. Similarly, Ponni Sugars, established primarily to supply bagasse to SPB, is a unique model and has earned a name for itself for efficient and profitable operations.

It has indeed been my fortune and privilege to be a part of this eminent Institution for over four decades in various capacities. I wish to thank all our stakeholders, present here and elsewhere, for their support given to us so unreservedly in reaching this milestone of 50 Golden Years of 'fine-paper making'.

I and my team, on this glorious occasion, wish to assure all our stakeholders that SPB will carry forth the rich tradition of nurturing good relationships across the entire range of stakeholders who have made this Company robust, resilient and reliable. It will be our endeavour to strive hard for furthering the prospects of the Company and be worthy of their Trust, as ever.

Now, reverting to the business on hand, the Annual Report and Audited Accounts of the Company, for the year ended March 31, 2010, are with you for some time and

I would like to, with your permission, treat the same as read.

## ECONOMY

The global economy which was impacted by the Global Meltdown of 2008-09 started witnessing signs of recovery during 2009-10, thanks to the policy intervention and support provided by the Governments and Central Banks of various countries across the globe. However, the recovery scenario is now plagued by the sovereign debt crisis in several European countries, especially the PIIGS, comprising, Portugal, Italy, Ireland, Greece and Spain. This has created new hurdles in sustainable growth and stability. The fallout of the European debt crisis has been contained to a considerable extent by the US Dollar 1 trillion aid package provided by the European Union, IMF and European Central Bank. Despite this, if there is going to be any further sovereign debt crisis, it can adversely affect market sentiments, trigger interest rate hikes, impact capital flows and ultimately impede the growth process. This apart, for sustained global economic recovery and growth momentum, the challenges will be in areas of unemployment, fiscal deficit, high debt to GDP ratio prevailing in many developed countries and the need to unwind fiscal and monetary stimulus measures in the near future.

As against the above gloomy Global scenario, Indian economy witnessed

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stronger and faster recovery during 2009-10. The GDP growth was 7.4% during 2009-10, as against 6.7% during 2008-09. Industrial output, with a growth rate of over 10% and services sector, with a growth rate of over 8%, accelerated the recovery.

The year 2010-11 bears a buoyant outlook, with projected GDP growth rate of over 8%, subject to good monsoon, higher agricultural output, continued momentum growth in industrial output, exports, etc. However, on the down side, risks include drop in consumption, both private and Government, decline in savings rate, adverse global developments, and early exit from the stimulus supportive measures.

However, spiraling inflation is a matter of great concern for policy makers. The benchmark Wholesale Price Index surged to 10.55% in June 2010, as against 9.9% in March 2010, mainly contributed by high food and fuel prices. Reserve Bank of India, in an effort to contain the inflation through monetary measures, has been consistently increasing the policy rates. So-far, Reserve Bank of India has hiked policy rates by 75 basis points, in three tranches, in the calendar year 2010, the last one being a surprise hike of 25 basis points on July 02, 2010, just before the monetary policy review for 2010-11 due on July 27, 2010. It is widely expected that another 25 basis point hike will be announced in the monetary policy review for 2010-11. It is also widely argued

that to contain the current inflation, monetary measures alone will not suffice and effective mechanism should be in place to address the supply side constraints.

## **PAPER INDUSTRY**

### **Global**

The Global Pulp and Paper Industry is slowly coming out of the economic crisis that hit the World in the second half of 2008 and there are signs of optimism for various grades and regions.

Resource Information Systems Inc.'s (RISI) forecast shows significant rebound in 2010 and 2011.

RISI also predicts no recession for the Pulp and Paper Industry, during the next 5 years, only a mid-cycle slowdown in 2013.

### **Domestic**

Fitch Ratings has projected a stable outlook for the Indian Paper Sector for the year 2010.

Fitch Analysis shows that India's Paper Sector should benefit from recovery in macro-economic factors, such as industrial output, an increase in corporate marketing spend and greater education and business activities.

Significant investments in capacity creation are under way in the Indian Paper Industry, especially in the Printing and Writing Segment.

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The domestic consumption growth, according to Fitch, should trend upwards after declining to 4.5% in 2009.

Factors such as economic growth, Government spending on education and a rising standard of living should support long term growth of the domestic paper sector.

While Indian Paper Industry is expected to operate under stable conditions in 2010, the new capacities coming on stream will enhance the competition amongst the domestic manufacturers.

This, coupled with rising input prices of Raw Materials, Chemicals, Imported Coal, etc., will exert pressure on the margins.

The Industry will once again be required to look for avenues to eliminate waste and improve productivity in their manufacturing operations to keep the margins under control.

## **PERFORMANCE REVIEW**

All the equipment, forming part of the Mill Development Plan Project, were commissioned before end March 2009. The year 2009-10 was the full year of operation for the said equipment and rich benefits were reaped during the year under review.

During the year the Company produced 1 17 989 tonnes, as against 1 19 779 tonnes, in the previous year and also achieved 'zero stock' of finished goods at the end of the financial year, a record repeated for

the thirteenth time in the last sixteen years. Gross turnover was Rs 529 crores, against Rs 561 crores, in the previous year.

The lower production was mainly on account of higher downtime in Paper Machine - 5, disruptions in the operation of the Captive Power Plant and outages due to restrictions in drawal of power from Tamilnadu Grid. The gross turnover declined steeply on account of repeated price reductions effected on account of unfavourable market conditions during the year and reduction in rate of Excise Duty to 4% effected with effect from December 2008, as part of relief package announced by the Central Government which formed part of the gross turnover, since the price structure for the Company's products is cum duty price.

Due to softening of prices in the international markets, the export quantum was restricted to 5935 tonnes.

Operating profit (PBIDT) moved up steeply to Rs 121.72 crores, compared to Rs 76.29 crores in the previous year, an increase of nearly 60%. This was mainly due to the advantages derived by the Company by implementation of the Mill Development Plan Project. The savings came through reduction in use of imported pulp, due to higher production of in-house pulp, reduction in energy costs and elimination of loss due to currency fluctuations on imports and foreign currency loans.

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Interest and Financing Charges and Depreciation were high at Rs 28.40 crores and Rs 33.61 crores, respectively, compared to Rs 26.09 crores and Rs 26.29 crores, respectively, in the previous year, due to higher term loan borrowings for the Mill Development Plan and capitalisation of all Mill Development Plan assets by March 31, 2009.

Profit After Tax (PAT) was Rs 39.93 crores, as compared to Rs 15.03 crores, in the previous year.

Being the Golden Jubilee Year, Board of Directors have recommended payment of Dividend of 60% including a special dividend of 25%.

## **CURRENT YEAR**

Market condition, so far, during the current year, has been significantly better than last financial year.

Shortage of pulp internationally and the increase in cost of waste paper forced the paper mills to go in for two price revisions during the first quarter.

The spurt in demand for paper was also contributed by large volumes of requirement in the international markets which was responded to by many integrated and recycled paper mills with significant enhancement in exports, resulting in

shortage of paper availability within the country. The Industry was, therefore, comfortable in order booking and coverage of machines for the first quarter.

With the closure of notebook season by end June 2010 and release of additional volumes from new capacities, the gap between demand and supply has narrowed down. This has resulted in slowdown of placement of orders, as the lean season commences. Further, additional capacity is expected to come on stream and this will widen the mismatch between demand and supply.

The International market is beginning to soften up from July 2010, resulting in prices coming down for the popular writing and printing grades. This fall in prices is due to the increased availability of paper. Thus, demand resistance is forecast from the end of the second quarter of the current financial year.

Your Company is currently engaged in identifying appropriate growth plans consistent with market requirements. The Company also intends to intensify its efforts in tree farming activities.

## **DIRECTORATE**

Sri Arun G Bijur, Sri K S Kasi Viswanathan and Sri V Pichai, Directors, retire by rotation at the conclusion of this Meeting and being eligible, seek re-election at this Meeting.

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## ACKNOWLEDGEMENT

I wish to thank wholeheartedly the shareholders of the Company for their enduring confidence in the organisation.

I wish to place on record my great appreciation of the fine performance of our Executives and Employees of all ranks that enabled the Company to record improved financial results during the year.

I take this opportunity to thank my colleagues on the Board who have always evinced keen interest in the operations of

the Company and for their invaluable counsel and guidance.

My thanks are equally due to the various Departments of Central and State Governments, Banks, Indentors, Stockists, Customers, Overseas Agents, and Suppliers for their sustained co-operation.

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 Annual Report and Accounts.

Thank you Ladies and Gentlemen for your forbearance.

*This does not purport to be a record of the proceedings  
of the Fiftieth Annual General Meeting*

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