

# *Sesbasayee Paper and Boards Limited*

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



*57th Annual General Meeting*

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*July 29, 2017*

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Dear Shareholders,

I and my colleagues in the Board extend a warm welcome to all of you to this Fifty Seventh Annual General Meeting of the Company. The Annual Report and Audited Accounts of the Company, for the year ended March 31, 2017 have been with you for some time. I am sure that you would have observed with extreme satisfaction, the stellar performance turned out by the Company and the recommendation of the Board of Directors for Dividend payment of 100%.

## ECONOMY

Global growth is firming and contributing to an improvement in confidence, as per a recent World Bank Report. A recovery in Industrial activity has coincided with a pick-up in global trade after two years of marked weakness. This report predicts an acceleration in global growth to 2.7% in 2017, up from a low of 2.4% in 2016 before strengthening further to 2.9% in 2018-19. The growth is likely to be broad-based with signs of rising demand for high tech goods.

Activity in advanced economies is expected to gain momentum in 2017 supported by an upturn in the United States. Both Euro area and Japan present better growth prospects, reflecting strengthening domestic demand and exports.

Against this improving international backdrop, growth prospects in EMDE (Emerging

Markets and Developing Economies) have strengthened from a low of 3.5% in 2016. It is projected to reach 4.1% in 2017 and 4.5% in 2018.

India continues to maintain its top-spot among the global economies with an estimated GDP growth of 6.8% in 2016 which is projected to accelerate progressively to 7.2% in 2017, 7.5% in 2018 and 7.7% in 2019. China's economy, on the other hand, is projected to decelerate from a growth rate of 6.7% in 2016 to 6.5% in 2017, 6.3% in 2018 and 2019.

Lower energy prices and more stable economic conditions among developing economies are exerting downward pressure on inflation. Among the advanced economies, inflation decelerated in the Euro Zone and the United States while price pressures intensified in United Kingdom. The most notable exception is China where prices are recovering following the slump observed in the early months of the year. India has been witnessing an unusually low level of inflation.

India is well poised to take advantage of the predicted good monsoon, though exports have slowed down in the past three months. Growth in imports too had slowed down, but it is still faster than growth in exports. Like merchandise exports, services exports have been falling since

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April 2017, presenting downside risks for the growth of economy.

A detailed analysis made by World Bank suggests that GST, introduced this month, will deliver substantial gains while the demonetisation effected in November 2016 may have a disproportionately high impact on the poor and vulnerable though demonetisation has the potential to accelerate formalisation of the Indian Economy, increase tax collection and allow greater digital financial inclusion.

In short, as OECD puts it succinctly: "Outlook for Global Economy is better, but not good enough".

## **STATUS OF PAPER INDUSTRY**

Paper Industry is a significant player in the World Economy. This US\$ 500 Billion Industry has been growing steadily in the last 40 years, though at a slower-pace in the last 10 years. Current consumption stands at 402 million tonnes and projected to grow to 482 million tonnes in 2030. India, China and ASEAN countries will be the main participants in this growth story.

Last year, in my address at the AGM, I had touched upon couple of major challenges confronting the Paper Industry, which continue to persist. Let me dwell on them briefly.

As you are all aware, Paper has been around for more than 2000 years and for

good reason. It is a highly effective and versatile means of communication. Even in today's digital age, with the vast array of alternative media to choose from, paper's unique aesthetic qualities and practical appeal are unmatched.

Paper also has many unique sustainable features. But as attention to environment has increased, so have myths and misconception that the paper industry is responsible for large scale deforestation and adverse impacts on environment. This is far from the truth. Paper Industry, has been supporting large scale wood plantation for decades now.

Paper industry plants, worldwide, at least 3 trees for every tree it fells and has been foremost among industrial sectors in greening the earth. It is an equally well known fact that young trees absorb more carbon-di-oxide from the atmosphere and help in controlling climate change and global warming than older trees. Felling old trees for useful purposes, like paper manufacture, construction, etc., and planting new trees in their place, is an activity that largely benefits the environment. Claim that "making paper destroys forests" is a myth and the fact is "Paper production supports sustainable forest management".

The other major challenge confronting the Industry is the digitalisation and its eating away printing and writing paper market. It

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is estimated that the segment of printing grades has lost over 6% in 2014-15 and 15-16 to the 'e' platform, mostly in North America and Western Europe. However, not everyone is in favour of digitalisation. Sure, it is convenient and fast. However, environmental foot-print of the electronic media is questionable and 'e-wastes' are the most challenging environmental threat currently. Paper's "retain, recall and retrieval" attributes are superior and its benign end-of-life character makes it eco-friendly. Paper is a re-usable, recyclable, bio-degradable and sustainable product, well in harmony with Nature.

After a recent Global study, Paper 360 (TAPPI, USA Magazine) has concluded that "most people highly value Paper and Print". The study has brought out that there is a clear preference for print on paper across all countries and regions analysed (Australia, New Zealand, South Africa, United Kingdom, United States), indicating a more fundamental and human way that people react to the physicality of print on paper. Many prefer paper based communications to digital options for a variety of reasons, including ease of reading, tactile experience and a lack of internet access.

Other highlights of this Study are that an overwhelming percentage of respondents (above 80%) agree that: when responsibly produced, used and recycled, print and

paper can be a sustainable way to communicate; when forests are responsibly managed, it is environmentally acceptable to use trees to produce wood for paper for printing and environmental claims such as "go-green, go-paperless" are merely seeking to save costs.

Looking at the Indian scenario, Paper Industry has been growing steadily over the years at a CAGR of around 6% per annum. Present annual demand of 17 million tonnes of paper is slated to grow to 24 million tonnes in 2025-26. However, the Industry's survival is threatened by two major issues. Foremost among these two, is the unbridled imports of paper and paper board taking place in the last 5/6 years, taking advantage of the FTAs entered into with various trade blocs and nations. Imports, in the last 6 years rose at CAGR of 18% in volume terms. The ASEAN FTA has facilitated imports of paper and paper board at NIL duty from these countries since January 2014. Consequently, paper imports from ASEAN countries are growing at a CAGR of 43%. Come April 2018, imports from South Korea will attract zero duty. Industry's plea to Government to review these treaties, has yielded no favourable response. Nor has the demand for imposition of Anti Dumping Duty on imports from China and ASEAN countries (as has been done in USA and EU for imports from China) met with any success.

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For over four decades, the Industry has been pursuing with the Government allocation of degraded forest lands for industrial plantations for the Paper Industry. This has remained a worthless paper-chase. In the absence of such large scale plantations, paper industry has been sourcing 90% of its wood requirements through tree farming activities undertaken by individual units in close co-operation with marginal farmers. While this venture has been largely successful and helped the industry to meet its current needs, cost of wood from such sourcing is expensive.

Cost of wood for the domestic Paper Industry is US\$ 30 to 40 higher when compared with competing paper making countries, inflicting a huge US\$ 100/t higher cost in paper production. This places the Industry in an uncompetitive position, exposing itself to the risks of enhanced paper imports at lower prices. Zero import duty further weakens the competitive strength of the industry.

If these two major issues confronting the Industry are promptly addressed, the Industry, I am certain, can grow and offer healthy competition in the global market.

### **PERFORMANCE REVIEW**

I would like to draw your attention to Directors' Report which provides a detailed account of the exceptional operational results posted by the Company during the year under review.

Record levels of production, at both of our Units, stable market conditions that prevailed thro' the year, favourable input prices, various strategic steps initiated by the Company to enhance the operational efficiencies, besides successful cost compression measures undertaken yielded record level of profit during the year. In addition, the Company achieved the customary "Zero" stock at the end of the year. All these outstanding results have made the year truly exceptional and memorable. Year 2016-17 is the 'best year' in the history of our Company in respect of production, turnover, profits, etc. Your Directors have appropriately recommended a dividend payment of 100%.

### **CURRENT YEAR**

Current year has a different story. Facing huge water scarcity, in both Cauvery and Thamirabarani Rivers, the Company's operations at both the Units nearly came to a stand-still. By curtailing production, stopping manufacture of water-intensive grades and helped greatly by ground water resources, the Units managed to survive the crisis with creditable performance. Few good spells of rains have improved marginally the water flow in both the Rivers and our Units are able to maintain production currently, by succeeding in cutting down water consumption. The crisis, however, is hardly over.

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GST, regarded as a game-changer, introduced this month is yet to settle down. The confusion prevailing in the trade circles, is yet to get cleared and may take quite some more time. This disrupted considerably the manufacturing and marketing cycle for the Paper Industry. I do hope that things will settle down, ere long, allowing us to maintain full production and optimise our operations.

### **MILL DEVELOPMENT / EXPANSION PLAN**

Our Company has secured necessary Environment Clearance(EC)s for stepping up paper production capacity to 1 65 000 tpa and Wood/Bagasse pulp production capacity to 1 80 000 tpa at Unit:Erode and for stepping up paper production to 90 000 tpa at Unit: Tirunelveli. Since our Unit: Erode is located within 5 KM distance from the River Cauvery, our Company has also secured the GO relaxing the 5 KM restriction.

As part of Mill Development Plan at Unit:Erode, retrofit done in our Captive Power Plant has helped us not only to meet 100% power requirement at Unit:Erode, but also to export nearly 3 MW of power to our Unit:Tirunelveli. Improvement works done in our Wood Pulp Mill and installation of the second Electrostatic precipitator in our Chemical Recovery Boiler Plant have helped us to step up pulp

production and to despatch more pulp to our Unit:Tirunelveli thereby reducing use of expensive imported pulp.

As part of Mill Expansion Plan in Unit:Tirunelveli, a Metering Size Press was installed resulting in a significant improvement in quality of our paper. All the residual works in Deinking Plant have also been completed and the Deinking pulp production is being gradually stepped up.

All the above up-gradation works have helped us to step up pulp production in Unit:Erode and paper production in Unit:Tirunelveli. Significant cost reduction could be achieved through enhanced in-house pulp supply and power wheeling from Unit:Erode to Unit: Tirunelveli. All these projects undertaken have been bearing fruits and contributed to the record level of profits achieved in 2016-17.

### **GREENCO GOLD**

I am happy and proud to share with all of you that our Company was awarded the GreenCo-Gold Rating in June this year. "GreenCo" is a green rating system developed by CII which is a holistic assessment of the performance of the Company in the areas of minimising environmental impact and global warming, elimination of wastes, maximising green resources in the operations and achieving sustainable development in Business. This Award, will certainly motivate our Team to

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enhance our achievements further in the above areas.

### **TREE FARMING**

Our Company continues to provide quality clonal seedlings of Eucalyptus as well as Casuarina at subsidised rates to interested farmers. Our Company also provides guidance to the farmers, in association with the Department of Forest College and Research Institute attached to Tamil Nadu Agricultural University, Coimbatore. This year our Company distributed clones of "Melia Dubia" or "Malai Vembu" also to the farmers.

During the year under review, Our Company distributed over 12 crores of seedlings for planting in over 14000 acres of farm lands. The good news is that with our sustained efforts to help the farmers in planting over 12 crores of seedling, the Company has become 'Wood Neutral' which means we are now helping in planting as many trees as we consume in our pulping process.

Equally creditable is that this massive effort in tree-farming has also helped the Company to become "Carbon Neutral". These achievements are indeed praiseworthy and I complement our Team in achieving 'self-sufficiency' in wood usage.

### **DIRECTORATE**

During the year, Tamilnadu Industrial Investment Corporation Limited (TIIC) withdrew the nomination of Mrs Supriya

Sahu, IAS and in her place nominated its Principal Secretary / Managing Director Mr Md Nasimuddin, IAS, as its Nominee Director on the Board of our Company. The nomination of Mr Md Nasimuddin, IAS, was also withdrawn and in his place nominated its Chairman and Managing Director, Sri Satyabrata Sahoo, IAS, as its Nominee Director.

During the year, Government of Tamilnadu, nominated Sri Atulya Misra, IAS, Principal Secretary to Government, Environment and Forests Department, to represent the Government, as its Nominee Director on the Board of our Company, in the place of Sri Hans Raj Verma, IAS. The nomination of Sri Atulya Misra, IAS, was also withdrawn and in his place nominated Mr Md Nasimuddin, IAS, Principal Secretary to Government, Environment and Forests Department, as its Nominee Director on the Board of our Company.

Your Directors place on record the valuable services rendered by Mrs Supriya Sahu, IAS and Sri Atulya Misra, IAS, during their tenure as Directors of the Company.

Mr Md Nasimuddin, IAS was appointed as an Additional Director and retires at the conclusion of this meeting. He seeks approval of the Members for his re-appointment.

The three Executive Directors, including myself, whose term expired on 31st March 2017, seek the approval of the Members

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for their re-appointment for a further period of three years from 1st April 2017. Details of terms of their appointment are provided in the Notice of this meeting.

### **AUDITORS**

M/s Suri & Co., and M/s S Viswanathan LLP, Chartered Accountants, Chennai shall cease to hold office at the conclusion of this 57th Annual General Meeting having regard to the provisions of Section 139(2) of the Companies Act, 2013. Your Board wish to place on record the excellent professional services received from them all along.

M/s Maharaj N R Suresh & Co., will continue till the conclusion of the 58th Annual General Meeting, subject to ratification by Members at every Annual General Meeting. M/s R Subramanian and Company LLP has been appointed as the Additional Auditor to hold office for a term of five years from the conclusion of this 57th Annual General Meeting and till the conclusion of 62nd Annual General Meeting.

Accordingly, requisite Resolution for ratifying the appointment of M/s Maharaj N R Suresh & Co., and approving the appointment of M/s R Subramanian and Company LLP is proposed in the manner

stated in the Notice for the 57th Annual General 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 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 Sixth Annual General Meeting)*

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