

THE SOUTH INDIA PAPER MILLS LTD.

Chairman's Speech at the 61st Annual General Meeting:

Ladies and Gentlemen,

A very Good Morning to all of you!

I once again extend you all a warm welcome to our Company's 61st Annual General Meeting.

To say the least, these are unusual times as is evidenced by the fact that we have to meet virtually.

As we went into the details of organizing this meeting, we realised that there are many 'virtues' in virtual Meetings - not the least being that it is now possible for more members to be 'present' at this AGM.

Besides this, on-line voting, although it's been around for a few years, has now gathered momentum and travel logistics are no longer an impediment to fuller participation in the voting process.

Over the last few months, a lot of the Company's business internally, with Customers and Vendors has been transacted through virtual meetings without any loss of effectiveness. I am also happy to say that all Board Meetings since the first lockdown have had full attendance and, all members of the Board have been able to participate well due to the elimination of travel time.

PANDEMIC EFFECT:

Having highlighted some of the positives of the 'new normal', I would like to address concerns that I am sure many of you have about the current and future business prospects of our Company in the backdrop of the global pandemic.

For you to fully appreciate where we stand currently and our future prospects, I must begin by putting into perspective the specific segment of the Paper Industry we operate in.

When most people think about paper, what comes to mind are Graphic Grades - Writing Paper, Notebooks, Text Books, Newspapers and Magazines. If they think harder, they realise that Personal Hygiene Tissue and Packaging for many Durable and Fast Moving Consumer Goods is made of paper. Your increased on line shopping, in the new normal, is being delivered in a cardboard box. I am sure that it would be news to many of you, that many Construction Materials like Plasterboard, 'Wooden Floors' and Decorative Laminates are made of paper.

Whilst there has been a continuous decline in Graphic Paper Grades due to online magazines, e-learning, e-billing and other changes that the internet, mobile network revolution and now, the pandemic have wrought, there is no decline in the consumption of paper for packaging and other industrial applications.

I would hazard to state that, for many of these 'other' segments, there is not only growth, but there are no discernable substitutes on the horizon for now.

I am sure that all of you are aware that our Company operates not only in the Packaging Paper segment of the industry but, is also integrated downstream into the Converted Paper Products segment of the Paper Industry.

Being a supplier of paper to FMCG Packaging Producers and also being ourselves, a producer of packaging for the FMCG Segment of consumer products, we have suffered less due to the drop in demand during the Pandemic than producers of Graphics Grades of Paper who have seen almost a complete erosion of demand for Writing and Printing Paper due to Education shifting on-line and declining circulation of Newspapers and Magazines and other publications.

Moving away from merely expressing relief, I must state that the pandemic and, increased Environmental consciousness are presenting new opportunities for our segment of the industry as new paper based packaging and plastic substitution initiatives gather momentum.

At this stage, I would like to try and reassure you by simply stating that your Company has included in its product capability mix, for the expanded capacity, grades that will address the opportunities in these 'other' segments of the Industry.

CURRENT & FUTURE PROSPECTS:

THE YEAR SO FAR:

The Lockdown imposed by the Government from the last week of March 2020, had an impact on the operations of our Company. The Paper Division was completely closed during April and for the first week of May due to local restrictions. The Box Division, was declared as an Essential Goods Supplier and ran at 25% of normal output during April and served FMCG Brand Owners producing Essential Goods like, Reckitt-Benckiser and Britannia.

In May, operations at the mill were restored to 80% of the pre-lockdown levels as demand for paper from FMCG packaging producers and the Company's own Box Division was restored. Operations in June, July, August and thus far in September, in both Divisions, have moved up to about 90% of the pre-lockdown level.

The first quarter results were taken on record by your Board in July 2020 and an Operating Profit of about Rs.6.58 Cr on a turnover of Rs.34.63 Cr was reported as against Rs.9.18 Cr on a turnover Rs.61.05 Cr during the same quarter in the preceding year. Lower priced inventory on hand, higher post lockdown prices of paper and boxes and, a steep fall in fuel prices were the main reasons for the improved profitability. The investment in a new CFBC Boiler and Turbine system in 2016 are yielding excellent results in terms of lower energy cost per unit.

Your Management expects to report second quarter results that are much better than the preceding two quarters.

PROSPECTS FOR THE REST OF THIS YEAR:

Whilst the going this year, has thus far been good, given the tough circumstances, there continue to be the headwinds of poor demand growth in the economy, escalating costs and poor consumer sentiment, limiting spending. Fortunately, our Company serves, to a large extent, the non-discretionary segment of the FMCG market which has witnessed relative stability and a faster recovery in terms of demand.

The intensity of competition is however, increasing as the many existing and new players in the paper and packaging segment chase the same business. Increasing commodity costs, rising international raw material and fuel costs and, our ability to pass these on, are a matter of concern.

Your Company, is nevertheless, confident of countering these headwinds successfully by judicious purchasing and by strictly maintaining its quality standards to remain a preferred supplier to large Brand Owners for box supplies and important Paper Customers for paper supplies.

During the third and fourth quarters of the current financial year, your Management expects to sustain Operating Profits at least at last year's levels. However, it expects to see a much higher interest load as it draws down loans to complete the Expansion Project during the same period.

This will result in a lower Net Profit and EPS in the short term but, will move the Company closer to achieving its strategic objective of increasing its capacity, turnover and sustaining its profitability over the medium and long term.

FUTURE PROSPECTS:

For those of you who are not aware, I would like to inform you that the addition of a new state-of-the-art Paper Machine and Pulping system is the final step of a comprehensive Mill Modernization Plan.

The preceding investments in the modernization exercise were in a new Cogen Plant comprising of a 50 MTPH CFBC Boiler and 11 MW Turbine synchronized with the grid at 66kV and a new state-of-the-art Effluent Treatment Plant comprising of an Anaerobic Reactor and Aeration System. The new Cogen plant was commissioned in 2016 and the new Effluent Treatment Plant in 2018.

These important auxiliary systems were sized to accommodate the expanded capacity and I am happy to report that both are working well and delivering excellent results.

Our medium to long term prospects depend heavily of the successful implementation and start-up of the new paper machine.

In configuring this machine and its associated pulping line, your Management has factored in not only the evolving market conditions in the domestic Corrugated Case Raw Material market but also, looked at lucrative opportunities in other segments of the Industry to fill the capacity of the new plant.

The Pulping System, the Paper Machine and, the Finishing and Packing System have been designed with a product mix in mind that includes many new segments that we currently do not operate in.

A successful start up of the new machine will enable us to exploit more lucrative segments of the Paper Industry and, enter new geographic markets in 2021 and onwards.

Besides new market opportunities, I would also like to mention that this machine is expected to deliver significant savings in terms of fibre, energy costs and productivity.

STATUS OF THE CAPACITY EXPANSION PROJECT:

The expansion project has been delayed by six months due to the cessation of all construction activity during the Lockdown and for some time thereafter due to non-availability of construction crews, quarantine and other local restrictions.

Currently, site activity is in full swing and we expect to start up the new Paper Machine in March 2021.

Your Management expects to complete the installation and commissioning of the new Paper Machine (of capacity 330-380 MT/day) at a cost of Rs. 215 Cr including GST (approximately Rs.32Cr).

Thus far, a total cost of about Rs. 56 Cr. has been incurred of which Rs.3 Cr is funded by way of term loan drawn down and, the remaining Rs.53 Cr is funded from Internal Accruals. Your Management is confident of completing the project on schedule with cash flows from operations and undrawn sanctioned credit facilities.

CONCLUSION:

At this time of much uncertainty, I have to state that the mood of the Operating Personnel and the Company Management is one of cautious optimism and this gives me much hope and confidence that we will achieve all our objectives in due course.

I take this opportunity by thanking all the employees of the Company who have strived hard to beat the odds in these troubled times.

We have been privileged to enjoy the wholehearted support of our Bankers in our ventures over the years and I thank them for supporting us on this new growth plan.

It is a strong testimony to our ethos of building win-win partnerships that many of our customers and vendors have worked with us continuously over a few decades. I would like to extend my thanks to them as we continue to seek their support.

I would like to thank all my colleagues on the Board of Directors for their help and guidance over the years.

Finally , I would like to thank all of you, the members, for your patience and whole hearted support of our Company.

Thank you All for attending this Meeting.

Manish M. Patel

Chairman & Managing Director,

The South India Paper Mills Ltd.