

The South India Paper Mills Ltd

66th Annual General Meeting, 18th September 2025

Chairman's Address to the General Meeting

Ladies and Gentlemen,

A very Good Morning to all of you on this virtual 66th Annual General Meeting of our Company.

I would like to begin our AGM this morning by placing on record our gratitude to the retiring Independent Directors for their very valuable contribution over the last many years.

I would also like to introduce you to the new Independent Directors on our Board, who have joined us virtually.

Since the details of their qualification and experience, which are indeed impressive, were circulated to the General Body of Shareholders in May 2025, I will avoid repeating them here.

However, I must state that we are privileged to have them with us, and we look forward to their contributions to the Board's responsibilities.

(Introduce the Independent Directors individually)

Mr Shivakumar M, our Audit Committee Chairman, is a qualified Chartered accountant from Mysore with over 4 decades of experience in the industry and independent professional practice and having experience in the internal audit and design of Cost management System Models (CMS) tailor made to suit the decision needs of Businesses.

Mr Gomatam Ravi is currently working as a Chief Technology Officer, for GPS Renewables, Bangalore. He has very vast industry Expertise in the fields of Chemical Engineering, Gas Processing, Renewable Energy, Polymers, Oil & Gas.

Mr Nagaraja Srivatsa – Practising Company Secretary from Bangalore with over 30 years of work experience in Corporate, Legal, Banking, Secretarial, fund raising and practising areas.

Mr Purushotham J – Practising Advocate and Legal consultant from Mysore and main area of expertise being Labour laws.

Mrs Gargi Ojha is a marketing communication professional from Bangalore and is a certified Independent Director. She has 3 decades of work experience in the business domain – IT, FMCG and Media. One of her focus area being Corporate Social Responsibility.

Moving on to my address:

I am sure all of you have received a copy of the 66th Annual Report with the Accounts and Auditors' Report and hope you have had time to study it carefully and cast your votes electronically on the Resolutions proposed.

In this address, I would now like to report on how the year went, the Current situation and Future Prospects. I will not dwell too much on precise numbers as the details are with you in the Annual Report. Instead, I would like to give you a broad understanding of the underlying factors that affected our operations, our financial position and our prospects.

Financial Position:

I would like to begin this address by saying that, in the financial year that went by, we fared better than in the preceding year. I also hasten to state that whilst we did do better, we did not achieve the operating results that are required to place us in a comfortable liquidity position without resorting to fresh equity infusion or long-term debt.

During the year, we generated operating profits adequate to meet finance costs and a part of the repayment obligation. The shortfall was met by raising some long-term Security Deposits from Dealers and by raising some long-term Intercompany Deposits. As such, these funds have enabled us to meet scheduled loan repayments to our Term Lenders.

Our attempts to dispose of the old plant and machinery to improve liquidity did not materialize as well as we would have liked due to a general reluctance in the industry to invest in new capacity. This was an additional factor that compelled us to raise funds through long term debt.

Although it has been a slow and arduous task, I would like to state that during the year, our strategy of building volumes and populating our paper product mix with a higher proportion of high contributing, value added grades progressed well. In the current year we are seeing the true value of our state-of-the-art production facilities emerging. More on this when I discuss current operations and prospects later in this address.

Operations:

The Paper Division continued to gain traction for its value-added grades. The contribution to Operating Profits from both divisions was almost the same. Paper production was 76,721 MT as against 69,833 MT in the preceding year. The quantity converted in the Box plant was lower at 23,918 MT as against 25,789 MT in the previous year.

The production team at SIPM is now comfortable with the new, technically sophisticated Pulping Line and Paper Machine. They have progressed well up the learning curve. Downtime on account of insufficient training and lack of experience with advanced machinery has been practically eliminated.

Whilst there was some downtime due to breakdowns and machinery upgradation activities during the year, the main reason for the less than the desirable capacity utilization continues to be an insufficiency of orders for smooth continuous running without frequent grade and grammage changes.

Therefore, having adequate orders of the “right grades” on hand and a steady inflow is imperative for profitable operations.

The average market realisation per MT of paper produced by us in 2024-25 improved from 41,361 Rs/MT to 45,076 Rs/MT. This increase was however, set off by an almost like increase in raw material costs. This is illustrative of the fact that pass through of cost increases or reductions is rapid in the prevalent environment of intense competition. The increase in operating profit in the Paper Division was achieved both by a higher volume and a reduction in Energy Costs.

The Current Raw Material and Energy Cost Scenario:

Wastepaper and Energy constitute the largest two components of direct manufacturing cost for us. I would like to highlight some important changes in the factors that affect the supply and cost of these main inputs.

Raw Materials:

Those of you who were at the last AGM may recollect my extensive description of the raw materials scenario and the factors that affect its cost for our Industry segment. I will take the liberty of avoiding a repetition of this and would urge those interested in more details to go through my address at the 65th AGM which is available on the Company's website.

To summarize the scenario and its conclusion, I would like to state that the usage of imported Old Corrugated Containers (OCC) and other prime grades of recycled fibre constitutes the “top-up” component of the Indian recycled fibre basket for Containerboard.

This “top-up” is by the use of prime imported wastepaper for the production of the higher grades of Containerboard being produced in India.

Our product mix is comprised mainly of these higher grades, and our costs are therefore, significantly affected by the dynamics and developments in the global market for these grades of raw material.

To explain further, 75% of our imported material is sourced from the USA. The rest is mainly from UK, Ireland and Europe.

Currently, availability of wastepaper from the USA is much better than it was around the same time last year. Prices for delivery to India, in dollar terms, are lower by about \$20-25 per MT. The prices of OCC in the US domestic market have fallen in recent months from a high of \$100 per short ton to about \$60 a short ton.

Underlying this, are the weak demand from US mills and exports to Southeast Asian mills. Several industry specific economic and international trade flow factors are at play in this.

Most of the growth in corrugated box demand in the US market between 2020 and 2024 was on the back of e-commerce which is a packaging multiplier as goods in bulk packaging are shipped to e-commerce buyers in smaller discrete packages – substantially in corrugated boxes. Containerboard produced with recycled fibre is adequate for boxes used in e-commerce. Thus, the demand for e-commerce packaging has a direct effect on US domestic demand for recycled fibre.

After the pandemic-driven boom, e-commerce growth has slowed and plateaued. While e-commerce is still an important demand driver for Corrugates, online retail is showing a slight deceleration in demand and no longer exhibits the significant growth rates seen in 2020-2021. As a result, corrugated packaging needs have declined proportionally, especially in non-essential categories like electronics, apparel, and household goods.

Slowing economic activity, persistent inflation, and rising interest rates have dampened consumer spending in the USA. The Trump administration's tariff imposition has disrupted trade patterns, causing U.S. imports from China and other consumer goods exporting countries to drop as much as 40% as per news reports. Additionally, industrial production slowed in 2023-2024, affecting bulk packaging demand in segments such as automotive, appliances, and furniture.

At the same time, there has been significant merger activity in the Containerboard Industry, both in the USA and Europe by dominant global players to consolidate the market and improve pricing. The consolidation strategy has included the shutting down of several containerboard and virgin pulp production capacities.

Large capacities of recycled containerboard were added between 2021 and 2024 in Southeast Asia on the back of the complete ban on imports of wastepaper into China. The utilization of these capacities depends significantly on demand from China and to a lesser extent on other countries in Asia, the Middle East and Africa.

An assessment of the balance in the fibre basket for these countries makes it clear that imports of recycled fibre from the US and Europe for these capacities would be driven significantly by a balancing demand for Containerboard for export of consumer and other goods that are packed in corrugated boxes. Alternately, these capacities would have to depend on export of Containerboard to maintain capacity utilization and sustain imports of wastepaper from the US and Europe.

Currently, it appears that the disruptions in international trade arising from the US Tariff War and, the uncertainty arising from it has kept a lid on imported wastepaper demand from these countries.

Dominant players in Southeast Asia seem to have chosen the alternate strategy of supply consolidation and forward integration into conversion in local markets to maintain prices in the entire supply chain, rather than make aggressive, unremunerative exports to tepid, oversupplied markets.

The implication of these developments, in the near term, is that the availability and pricing of imported wastepaper is likely to be stable in dollar terms. However, for us, the uncertainty in the landed cost is entirely a different matter due to the sharp depreciation of the Indian Rupee over the last few weeks.

Energy Cost:

The most significant impact on direct costs and profitability over the past few years has come from changes in the cost per unit of energy purchased.

Whilst cost of imported coal had risen from an average of 1.90 Rs/'000 kcal in 2021-22 to a peak of 2.65 Rs/'000 kcal in 2022-23 due to the steep rise in global energy prices, in 2023-24 it dropped to 2.00 Rs/'000 kcal as the impact of embargoes on the use of Russian fuels effectively petered off. In 2024-25 the cost of energy further dropped to 1.85 Rs/'000 kcal and is currently about 1.68 Rs/'000 kcal notwithstanding the large depreciation in the Indian Rupee.

Consequently, from the high of 12,500/- Rs/MT in 2022-23, the energy cost per MT of Paper dropped to about 7,750/- in 2023-24. In 2024-25 the energy cost per MT of paper dropped further to about 6,850/- with energy priced at 1.85 Rs/'000kcal. For Q1 of the current year, it was about 6,400 Rs/tonne and is likely to be even lower for Q2.

A further reduction in specific energy cost is expected to be achieved with a better capacity utilization and the substitution of electricity sourced from the DISCOM by cheaper renewable energy from our participation in a group captive generation facility in the current year.

As the world benefits from green energy both in commercial terms as well as environmental terms, the impact on pricing of conventional fossil fuels is likely to be significant and, it would be reasonable to expect a further reduction in cost per unit of energy going forward.

Government Action to reduce the Carbon Footprint of the Indian Paper Industry:

Through a notification under section 14 of the Energy Conservation Act, 2001 (52 of 2001), the Central Government in consultation with the Bureau of Energy Efficiency, has specified the minimum share of consumption of non-fossil sources (renewable energy) by designated consumers as energy or feedstock.

Effectively, this notification makes it mandatory for all paper mills to source at least 29.91% of the electricity consumed from Renewable Sources for 2024-25. The requirement goes up to 33.01% for 2025-26 and progressively increases every year to 43.33% for 2029-30. The definition of “Designated Consumers” in terms of the total energy consumed, effectively covers all mills (recycled or virgin stock based).

The BEE is entrusted with monitoring this and requires paper mills that do not meet the renewable energy consumption norm to bridge the gap by purchasing Renewable Energy Certificates from the market. Accordingly, we have purchased the requisite quantity for 2024-25 and the estimated quantity for 2025-26. As demand for REC’s increases on the back of mandatory obligations, costs will go up.

The imperative of enhancing Sustainability:

As far as Extended Producer Responsibility (EPR) targets go, we as a recycling industry, inherently meet the requirements.

As we come closer to the 2030 deadline for eliminating carbon dioxide emissions under the United Nations Framework Convention for Climate Change (UNFCCC), sustainability in terms of a reduced carbon footprint, efficient water use and eliminating the use of plastic, are now as important to the long-term value of our Company as its financial performance.

Whilst meeting these goals does present challenges, it also promises exciting possibilities for reducing cost and acquiring competitive advantage.

At this time, I would only like to state that your Management is working on an investment road map for achieving sustainability objectives. Hopefully, with good financial returns.

Current Operations:

New capacities in various domestic geographical markets have intensified and competition is highly localized even as growth in demand is tepid. Timely delivery, flexibility in production and consistent quality continue to be the key factors for retaining and growing business share with the top brands in the FMCG and Durable Consumer Goods segments. The sophistication of our production machinery and captive supply of quality paper continue to be our strengths in delivering value to our box customers.

With over-capacity in both the paper and corrugated container businesses, competition remains intense for common product grades in both segments.

In a situation where box prices are already at optimum levels due to intense competition, further, genuine savings can be provided to box buyers only by re-engineering box designs using lighter but stronger paper. Our efforts towards this end have been rewarding and we have been able to provide win-win solutions to a few reputed brand owners in the consumer durables segment.

We have also been able to provide re-engineered substitutes for many performance-oriented boxes, the construction of which, thus far, has been specified with imported paper. Much of this has been possible due to our ability to provide performance-oriented paper grades that meet protection and aesthetics requirements at lower costs. To practically demonstrate this, the SIPM Team has utilized its

knowledge of corrugated boxes and our box plant facilities to provide samples for packing and transit trials.

I must also state that, even as we have gained traction with such grades of paper, we are in direct competition with duty free imports from countries in Southeast Asia under Free Trade Agreements.

It is indeed my pleasure to report that this strategy has been successful as is evident from the Q1 2025-26 results. This is the first quarter when we have had a positive bottom line since the start-up of the new paper plant in 2022-23.

However, the operating profit for Q1 is still slightly short of the requirement to meet all our debt servicing and repayment obligations. Details of the results of Q1 2025-26 can be accessed on the Company's website.

Currently, in mid-September 2025, I am happy to report that Q2 of this financial year is going well too, and we should be able to generate adequate operating profit to fully meet debt servicing and repayments.

Having said that, I must also bring to your attention that there is a need for Capital Expenditure towards capital spares and some process improvements that would improve uptime, save cost, improve quality and provide access to new markets. Various options for funding this Capex are being explored, and the Management will be presenting them to the Board of Directors soon.

Outlook – Significant External Developments:

Impact of the Tariff War and the uncertainty in International Trade:

Since February 2025 international trade has been in disarray. The firing of tariff salvos at various countries by the US in rotation has yo-yoed their trade prospects between opportunities and disasters adding a large dose of uncertainty that precludes any rational strategic planning.

In early March, with China and many South Asian and Southeast Asian countries being targeted for massive tariff increases, an opportunity for alternate, enhanced sourcing from India for garments, consumer electronics, toys and consumer durables emerged and exporters from India enjoyed a brief boom.

Growth in the export of these products presents a huge opportunity for your Company's products which are ideal for delivering the quality of export packaging required.

With the recent moderation of tariffs on Chinese goods as an outcome of trade negotiations and the concurrent levy of punitive tariffs on Indian exports, such opportunities have lost lustre.

However, consumer electronics and pharmaceuticals from India are still outside the purview of this massive increase in tariffs on Indian exports to the USA. Fast Moving Consumer Goods, Gems and Jewellery, Leather Goods, Auto Components and Garments which are large consumers of quality packaging have been hit by the recent revision in tariffs.

The flip flop on tariff rates and the associated uncertainty is throwing a spanner in the works for many export projects by large consumer electronics brand owners. We are hoping for some stability and a rationalization of tariff rates for these "China plus one" projects to go through.

Packaging demand for two-wheeler and three-wheeler exports is healthy and growing as these exports are mostly to the third world countries. Similarly, packaging demand for fruits and vegetables exports remains largely unaffected.

Changes in GST Tariffs:

In late August 2025, the Government announced changes in the GST tariff rates for various items and services which are to be effective from 22, September 2025.

Ostensibly, the rationalization of rates is aimed at stimulating domestic consumer demand.

Significant reductions in GST rates for Fast Moving Consumer Goods, Consumer Durables and Cars are expected to improve discretionary spending and will certainly improve the demand for paper-based packaging. We are expecting an increase in the demand for White Goods which will, in turn, drive up the demand for the prime quality Liners in our product mix. This is a very welcome development and is expected to contribute significantly to our bottom line

However, there are some serious anomalies in the proposed GST tariff structure in the supply chain for Corrugated Packaging that will adversely affect its smooth functioning.

The GST on paper is proposed to be increased from 12% to 18%. Simultaneously, GST on Corrugated Board and Boxes is proposed to be reduced from 12% to 5%. This seems to be a misguided or ill-informed decision that assumes the cost of packaging material for consumer products will come down.

Contrary to this expectation, the proposed inverted duty structure coupled with a low value addition over paper cost, will result in an accumulation of GST credits with box makers, drive up the requirement of working capital and increase interest cost for box makers. It is also likely to increase the working capital requirements of paper mills with a slower turn-around of bills receivable.

Further, this tariff structure, would result in an accumulation of GST credits on capital expenditure that would remain unabsorbed if the inverted duty structure continues. The impact would be a curtailment of capital expenditure by Box Makers. This is perhaps, a welcome development considering the overcapacity in the Corrugated Box Industry.

The Industry has petitioned the Government to bring about a parity in the rates for inputs and outputs in the supply chain and put in a quick refund mechanism for input credits should this not be possible.

Prospects:

Finally, in terms of prospects, I would like to state that these depend heavily on the continued scaling up of output with a higher proportion of value-added grades on the new paper machine. We are progressing well on this path, and we are cautiously optimistic about the future.

Gratitude:

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

I take this opportunity to thank 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 thus far.

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 once again thank all the retiring Board Members for their help and guidance over the years, even as I whole heartedly welcome the new ones and look forward to their guidance.

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

Thank you All for attending this Meeting.

Manish M. Patel

Chairman & Managing Director,

The South India Paper Mills Ltd.