



**AMALGAMATED PLANTATIONS
PRIVATE LIMITED**

**CHAIRMAN'S
ADDRESS
2017**

ECONOMY INDUSTRY TRANSFORMATION



AMALGAMATED PLANTATIONS

AMALGAMATED PLANTATIONS PRIVATE LIMITED
Economic Inclusion through Industrial and
Business transformation

**Address by Chairman
Ranjit Barthakur**

at the

Tenth Annual General Meeting
On Wednesday, 30th August 2017

Dear Members,

Namaste and welcome to the 10th Annual General Meeting of your Company, Amalgamated Plantations Private Limited.

Let me begin by conceding that the Board of Directors and I are very concerned with the performance of the industry on the whole and with your Company in particular. Three consecutive years of adverse results makes it imperative that goals and deliverables get reprioritised and we dedicate our focus based on the emerging realities.

Despite adverse business outcomes in recent years, a lot of good work is being done with an eye on the future to hasten a quick turnaround of your Company, which the Board and I acknowledge.

Operating in a commodity industry is always challenging since price realisation, hence profitability, largely depends on market vagaries. It is our endeavour to work out ways by which we can improve the size and quality of our cash flows and offset cost pressures that currently eat into our margins. Opportunities to derisk the business in whatever form, if found expedient, would be pursued.

Given the current situation, Governments, both in the Centre and the States have increased interventions/ support and the industry, like-wise, has responded similarly.

As I move ahead, I will cover the following:

- i. Macro perspective
- ii. Industry situation
- iii. Company performance
- iv. Company initiatives- way forward
- v. Sustainability initiatives
- vi. Welfare initiatives
- vii. Conclusion-our reprioritised goals.

Macro perspective

Economic inclusion, Government support

At present the Governments, both at the Centre and States, continue to focus on reforms to promote inclusiveness through access to entitlements. Despite global and local challenges, India continues to be one of the fastest growing

economies of the world. Targeted reforms are being implemented across major sectors, with an eye to accelerate socio-economic prosperity. Each industry is redefining its future strategies to stay relevant for the long term and benefit from the overall economic development.

Tea plantation industry has for long provided sustainable livelihood to millions of people in India, especially in the states of Assam and West Bengal. It has also been a major foreign exchange earner for the country with hefty contributions to the exchequer. Given its significant reach and size, it is essential that we re-invent ourselves to assist and be active participants in the endeavour of national wealth creation.

Through recent budgetary support and policy interventions, the receptive Central and State governments are delivering grassroots development schemes targeting education, financial inclusion, housing, healthcare and welfare; along with promotion of culture, health insurance, fuel subsidy, augmentation of potable water resources, furtherance of sports and so on. Independently, the fraternity of small tea growers (STGs) receive support for their economic development.

The black swan event of demonetisation has helped India create an economic order that is cleaner, cheaper and more efficient, through technology and its widespread deployment. Recently implemented Goods and Services Tax, is another transformational reform that is expected to benefit the industry with an opportunity of cost set off.

I am sure all of you share my enthusiasm and hope that these reforms will ensure a brighter and more prosperous future for the generations to come.

Industry Situation

The tea industry at the crossroads

At the industry front end, i.e. at the consumer level, tea as a beverage faces unforeseen challenges for 'throat share' vis-à-vis other alternatives. Choices and preferences are evolving fast with economic development and exposure to developed countries through digital and social media. For example China, a predominantly green tea market has started consuming significant quantities of black tea, albeit in urban centres. We are focusing on wide-ranging innovations to help recreate the relevance of tea. Despite all efforts, we don't find tea prices improving significantly.

At the back end, newer entities or forms of ownership like the mainly proprietary small tea growers (STGs) and bought leaf factories (BLFs) are emerging. Such a scenario calls for urgent interventions from the regulated tea growers (RTGs) like us who work under the corporate model, for sustainable growth of the industry. It would be prudent to see these changes as opportunities, rather than threats to strengthen our business model and thus, remain relevant.

The world over, STGs and BLFs are successful as low cost producers. To compete with these mainly proprietary operators and remain profitable, we as corporates or RTGs have to consistently recalibrate our operating strategies and cost bases. The reason is simple, the dynamics affecting us, are quite onerous when compared to the compliances and obligations of the STGs; least of which are fast-changing weather patterns, swiftly deteriorating land terrain and ageing of the leaf-producing plants. A higher level of statutory compliances and obligations to provide our workforce sustainable living environments, which cater to personal well-being add to cost.

Despite this dichotomy, we acknowledge a complementarity, where each type of tea producer works for its own niche and our advocacy is only for a level playing field as far as cost bases are concerned, for example wages or related liabilities, should mandatorily be made the same for all producers, STGs and RTGs.

The RTG market construct where APPL operates in, continues to be predominantly buyer- centric over so many years. This situation permits value capture by the packeteers at the customer level as opposed to the RTG supplier.

Tea Business Scenario

At 1,239.15 mn kgs, 2016 All India production was 30.49 mn kgs higher than previous year's, up 2.52%. Assam and West Bengal gained in production by 10.96 mn kgs (+1.74%) and 32.97 mn kgs (+10.16%), respectively. However, South Indian production declined, by 15.36 mn kgs (-6.75%). Exports were flat at 216.80 mn kgs (217.67 mn kgs in 2016).

Rise in production is noticed only among STGs with RTGs reporting a negative trend. In North India, the RTGs contributed 56% of the crop in FY 17 vis-à-vis 61% in FY16 while STGs' contribution increased to 44% against 39% in the previous year.

Concentrated heavy rainfall has caused unprecedented floods in parts of Assam with resultant increase in pest activity.

Indian tea, especially brand Assam is among the finest in the world. And it is time, we recapture the spaces vacated by us through growing investments in tea processing units, continuous innovation, augmented product mix and strategic market expansion. It is imperative that an overall national strategy is formulated, which controls the quality or compliance of STG produce.

Company performance

Tea Business & overall financials

I hope you have had the opportunity to peruse the Annual Report where your Company's performance is discussed in detail under the section, 'Director's Report'. I concur that the year under discussion was in many ways the most challenging yet, however, I summarise below the highlights that deserve a special mention:

Crop production stood at 41.2 mn kgs in FY 17 (38.07 mn kgs in FY16), reporting a rise of 8%, achieved through a combination of higher own and purchased crop. Dooars and North Bank estates have shown a remarkable turnaround in yields and have delivered a higher crop than in the previous year, supported by better implementation of field practices.

Bought leaf procurement increased 17% to 15.48 million kgs in FY 17 (13.23 mn kgs in FY 16), due to on-streaming of two mega factories at Hattigor and Lattakoojan. Hathikuli Organic crop grew 10.70% and stood at 0.302 million kgs.

Revenue from operations stood at Rs. 622.52 Crores in FY17 (Rs. 569.86 Crores in FY 16) buoyed by the additional throughput and a vigorous orthodox tea market.

Average price realisation dipped to Rs. 144.23 per kg in FY 17 (Rs. 150.56 per kg in FY 16), primarily due to a higher purchase leaf component in the mix. As we all know, the purchase leaf business is akin to trading operations. Overall, it is fairly profitable and allows a company to spread its overhead costs across a higher volume base, by filling up under-utilisations of own capacities. Moreover, it provides a scope to increase scale through new units.

While our own teas fetched a higher than industry average realisation, the market was dull for the

plainer varieties. Dooars prices surged on the back of uptick in South India teas. A bumper orthodox tea manufacture at 6.46 million kgs, helped capture an additional price differential of Rs. 57.79 per kg over CTC tea.

In the markets, we continued to offer a mix of CTC or orthodox teas, which included some high-quality teas, to private buyers from Gujarat and Maharashtra. The combination strategy worked very well, with major packeters and blenders buying significant quantities. In the overseas market, China is developing into a significant opportunity and we expect increasing orders, going forward.

Income from Other Sources, at Rs 37 crores (Rs 10 crores in FY 16) , increased on account of one time land compensations.

The Financial Result was stressed due to increased cost, which was not purely inflationary. Total expenses stood at Rs. 695 Crores in FY 17 (Rs. 590 Crores in FY 16). Apart from higher production linked expenditure there were higher spends on pesticides due to climatic fallout, foodgrain procurement on delay in introduction of National Food Security Act (NFSA), medical and social infrastructure costs and repricing of retirals at prevailing low discount rates.

Total Comprehensive Income was negative at Rs. 49.25 crores in FY 17 (Rs. 22.47 crores in FY 16). Aggregate loss for the last three-year period stands at Rs 85 crores approximately.

Under this scenario, to avoid depleting the Reserves further, your Directors have, as a matter of abundant conservatism, not recommended any dividend.

I would like to take the opportunity to compliment the management for a timely and successful implementation of a real time and on line integrated ERP solution under extremely challenging geographical odds. This would afford a much tighter and faster operational and financial control over the activities of the company.

Agri-business

Cropping seasonality and adverse precipitation affected in-garden pepper production. Realisations came in lower due to softer markets on the back of comfortable supplies. The opportunity to scale up is well understood; and experiments under controlled cropping environment are being

piloted to ascertain results before we adopt the methodology on a larger scale. This would help monitor the cropping volumes more closely.

The Spice factory was set up with a view to diversify risk of dependence only on the single tea business. However, the state-of-the-art unit has been affected by continued manpower and mechanical challenges. To overcome these repeated issues, the facility has recently been technically reviewed by a team of engineers from Group companies. I am confident of finding a solution which would be in the best interests of all stakeholders.

Despite these challenges, there is no denying the tremendous potential in the ready-to-use cooking ingredients market. Your Company is making all efforts to capitalise on this potential.

Notwithstanding the effects of demonetisation, retailing through kiosks witnessed buoyancy with higher turnover and profitability compared to the previous year. We believe this operation could be actively scaled up and for which a plan is afoot to expand the kiosk business at select locations.

Company initiatives – the way forward

I share your concerns regarding the future and what would it take for us to reinvent ourselves and pull the Company out of the situation we are in. I firmly believe that this turnaround architecture has to be a matter of co-creation among all internal stakeholders of APPL, and I would strongly urge all concerned to put up their best efforts. The Board, on its part, is always available for guidance.

The Key focus areas are-

- crop stability with quality improvement of our own production in line with consumer expectations
- encouragement of STGs, business partners for critical input material supply
- strategic cost optimisation through rounds of mechanisation
- augmentation of plantation throughput by aggressive cultivation of pepper
- pursue direct consumer connect through retailing
- pursue revenue enhancement through other agro businesses

Further, questions of **prudent capital allocation** assume increased importance during such times of

distress. Since capital availability generally becomes scarce when business is under pressure, it is our mandated task to curb wastefulness, to ensure that sloth and inefficiencies get systematically and systemically weeded out of operations. Conservation of capital and its redirection only into growth initiatives is of paramount importance.

A belief in the long term prospect of the industry as a whole and to effect a turnaround, your Company needs to consistently **invest in all classes of assets**, including physical, human, and intellectual, among others.

Excellence in modern field practices, a belief in which your Company continues to invest in activities such as draining, irrigation, cold weather cultivation jobs and which I believe will have to continue apace. We must realise that these investments over time would help us to sustain and rejuvenate our weather beaten supply source. Sustained efforts over a three-year period appears to have borne fruit in the Dooars and North Bank areas, which for years were traumatised by inclement weather resulting in crop deficiencies. I laud the efforts of the Company in this respect.

Skill development through selective mechanisation to modernise operations, supplement labour shortage and improve quality appears to me as another intervention of primary importance. We cannot let our efficiencies wane, since they have a direct bearing on the quality of output and level of cost. Modern agriculture uses superior mechanical devices and we should with an open mind embrace them to make our operations more efficient and quality oriented.

The lesson that we learn from price movements in various quality brackets is that 'only quality will pay'. Therefore pursuit of quality should be a duty of single minded devotion.

Cost optimisation and elimination as a motto should be etched into our DNA , where each one of us is financially aware of cost implications of any activity. To optimise in costs, we would apply aggressive expenditure planning and control and continue to modernise and mechanise our plantations as warranted. Power sprayers, tractor mounted machines, and pruning machines have been deployed at several estates. In the coming seasons, we plan to use harvesters and hand shears for better crop, effective manpower and time management during the plucking season.

I am a huge advocate for tight cost-control and monitoring. Any expenditure not directly related to production, sales or operations need to be scrutinized under a microscopic lens and the legitimacy questioned. We are seriously looking at all options of financial and operational restructuring.

As a strategy, your Company promotes **business partnering and STGs** are important stakeholders in the tea supply chain. To them, your Company offers a comprehensive package of extension services under Good Tea Cultivation Practices. The package includes intensive field training, technical and technological intervention, financial support, and more. Importantly, we have established Trustea certification for quality tests of contract tea procured from them.

Sustainability initiatives

Your Company has been involved in various sustainability initiatives to reduce its environmental footprint. I am highlighting the following initiatives of your Company that have had significant impact.

Organic soil replenishment

Hathikuli estate's crop has stabilised post correction of soil nutrition status by feeding organic manures with higher nitrogen content. The use of bio-pesticides has helped in revival of helopeltis affected areas and repelling crop deterrents like weed, that further act as host to helopeltis. This offers newer insights in sustainable pest management in the estates.

Energy

Your Company had made a presentation to the Union Labour Ministry, to commission solar-powered habitats in its estates. The proposal envisages integrated application of solar energy for electricity supply, sewerage treatment, flushable toilets, and community livestock sheds, and composting applications. The proposal could revolutionise community living in tea estates.

Moreover, your Company has sought Government aid for a pilot project of 32 solar-powered housing units.

Water management and allied practices

For plantation industry, changing weather patterns is a foremost concern. Thus, your Company has

taken several timely measures to mitigate risks emanating from growing climatic vagaries. Drip and micro irrigation have been introduced at various locations on test basis, and the results are very encouraging. Moreover, your Company has initiated rainwater harvesting in catchment areas. Effective pest management, compost plants, use of organic manures, planting of shade trees, and other such measures will help in growing tea more sustainably and profitably in future.

Welfare initiatives

APPL is a responsible corporation and we believe a fair portion of the wealth should be given back with gratitude to the communities and the society.

Welfare initiatives are mostly implemented in Assam and North Bengal and leveraged through APPL Foundation in the areas of education, skills development, healthcare, environment, livelihoods, and conservation of tribal art, crafts and culture.

In FY17, a unique innovation - E-hub for tele-medicine at select tea estates was implemented. This hub is linked to the Referral Hospital at Chubwa. Going forward, it will be facilitated with leading medical experts from Kolkata, Delhi and Mumbai. Project Unnati, the flagship CSR initiative, which aims at all-round improvement of employee habitats provides living quarters, toilets and bathrooms, hygienic kitchens, and water supply. APPITI Rowta and VTCs are functioning satisfactorily. We are actively looking at options to make them independent financially so that their activities may be scaled up for the larger good.

Your Company engages in various sustainability, environment conservation and wildlife protection initiatives. In FY17, your Company undertook farm-to-market initiatives for sustainable turmeric and black pepper crops. The initiative will increase the livelihood of thousands of households.

Conclusion- our reprioritised goals

The underlying themes of my annual address to you in the last three years have been, “greener ideas changing lives nurturing nature” to “nurturing agriculture” to “rural prosperity in Assam and North Bengal is interdependent on inclusive agriculture”. Our focus areas on “LEWWAC, i.e. land, energy, water, waste, air and carbon continue to be areas of primacy which affect the industry

in all fundamental ways. Your Company has , as explained earlier, taken several steps to address each and every focus area and is committed to do so in the future.

Time has now come to acknowledge the huge role that the Government can play in order to promote transformation in the challenged RTG industry. And if you have noticed, that is the theme around which I have built this address. Your Company has always advocated inclusive agriculture, which serves the purposes of all stakeholders in the agriculture value chain.

To bridge the gap between intention and fulfilment, government intervention emerges as the best-fit solution. In the operating environment, multiple cost escalations and deflating margins have become a norm rather than an exception. Climate change, wages, cyclical highs and lows, commodity market disparities, and uneven playing fields have their genesis not in the industry, but in the larger system. Mitigation measures must therefore, emanate from government reform.

A Unified Tea Policy, which I had advocated in my last address, still remains the mainstay of inclusive agriculture in the context of tea and covers all aspirations towards a more equitable future based on reruralisation, sustainability and empowerment. I will continue to direct my energy and resources to such a policy's fructification.

To recapitulate our focus areas, they are-

- crop stability with quality improvement of our own production in line with consumer expectations
- encouragement of STGs, business partners for critical input material supply
- strategic cost optimisation through rounds of mechanisation
- augmentation of plantation throughput by aggressive cultivation of pepper
- pursue direct consumer connect through retailing
- pursue revenue enhancement through other agro businesses

A silent revolution, appears to be underway, which is becoming more vocal by the day. It is through private- public joint endeavours that Tea industry can continue to survive as a direct agent of happy

and hearty refreshing moments in people's lives. Tea is not just a brew, it is a mission to delight the consumer. Your Company, the industry, its people and the Government must come together in making this endeavour sustainable, enjoyable and profitable.

I end by thanking my colleagues on the Board, Jagjeet Kandal, the Managing Director, the operating management team, staff and workers for all the efforts put in against heavy odds. As I mentioned, we must always have faith and never lose heart, and I hope to meet you in much better circumstances next year and I wish you and your families good health and happiness.

Thank you,

RANJIT BARTHAKUR
CHAIRMAN
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