

Indian Paper Scenario – January 1998

The pulp and paper industry, which hitherto flourished under the protective policies of the Government, is now losing out to the emerging global competition with liberalisation of the Indian economy. Though many pulp and paper mills have invested in modernisation and expansion of capacities to achieve economies of scale and withstand the competition in the post-liberalisation era, adequate returns from these in this investments are stated to be in serious jeopardy on account of recession and large scale import of newsprint and paper, facilitated by a drastic reduction in import duty. Stating that India imported pulp, paper and other wood-based products worth US\$ 1000 million during 1996-97, the Indian paper makers are now asking the Government to restore the import duties to at least 40 per cent level on paper and paperboards for a minimum period of five years. This, they say, will enable the industry to redeem some of the recent investments and also provide time to acquire adequate competitive strength to face the emerging global competition. Paper manufactures are of the view that the Government has offered our markets on a platter to global competitors by reducing the import duty, without taking any effective steps to promote the private sector involvement in plantations, or to solve the raw materials crisis which is crippling the growth of the industry. They say the Government policy of not allocating lands for industrial plantation has led to growing shortages of pulpwood and industrial round wood.

The spreads of most Asian papers have widened following the recent economic turmoil, yet Indian paper remains attractive compared to the rest in the region. A report prepared by ANZ Investment Bank on Indian country risk issues', revealed that although the spreads on Indian paper have widened following the crisis, it was significantly less than that of other countries in South-East Asia. According to the report, for Industrial Development Bank of India, paper manufacturing in 2002, the spread over LIBOR is currently about 200 basis points compared with 75 basis points in mid 1997. Also, India will emerge from the Asian crisis relatively unscathed. The economic prospects remain solid but unexciting. Growth in fiscal 1997-98 is expected to be 5.5 per cent, below the Government's target of 6.5 per cent. However, even at these level growth would be higher compared to the South-East Asian countries.

Unlike all the major industries which are crying over the weakening of the rupee and the ensuing general election, newsprint makers have actually gained from it. Reports from different sections of the industry confirm that the sales of all the big newsprint manufactures have risen during December 1997. An executive of a leading public sector newsprint manufacturer said that the weakening of the rupee against US Dollar was a boon for the industry. For more than two years they were selling below their cost price to keep the mills running because imports landing into ports were cheaper. So when the rupee weakened by six to seven per cent in the last one month it has given some advantage over the foreign producers. May be this led to an increase in the offtake.

At present there are four major newsprint manufactures - Hindustan Newsprint Limited, Tamilnadu Newsprint and Paper Limited, Mysore Paper Mills Limited and Rama Paper Mills Limited - apart from the 20 minor mills which also produce ordinary paper from waste paper depending on the demand in these sector. Sources said that these companies were increasing the prices now that the rupee has weakened considerably, and this could also have been another reason for the increase sales. Hindustan Newsprint and Rama Newsprint were serious about increasing the prices of newsprint

from January. So the consumers might have done some extra bit of shopping in December 1997 before the price hike.

HINDUSTAN PAPER CORPORATION LIMITED: The company, the public sector paper industry giant, has made a determined effort to take a slice of the value -added products and widen its range. This company is one of the biggest producers of writing and printing paper in the country. However, it has now decided to shed its dependence on these varieties, and focus on new areas where other major players have already made significant inroads. In the new scheme of things, HPC has introduced copier paper and computer stationery. Laser printing paper is also in the pipeline. In the copier paper market, the company has already entered with a bang with its brand, HPC copier, and is determined to grab 10 per cent of this value -added market

SINAR MAS PULP & PAPER (INDIA) LIMITED: This company is in talks with the Gujarat government for setting up a 20,000 million state-of-the-art paper project. The company had planned to expand its Pune facility but later on decided against this. Company officials are in the process of identifying prospective sites to set up Asia's largest pulp and paper products plant. According to state officials, the currency crisis in Indonesia had caused a degree of uncertainty. The project, when commissioned, will become the state's second largest industrial project, next only to the 15 million tonne Reliance refinery project coming up in Jamnagar. The company manufactures printing and writing paper, coated and uncoated paper, photocopier paper, carbonless paper, coated and tainer board, corrugated shipping containers among others. Its present capacity of pulp and papers is 1.2 million tonnes and 1.88 million tonnes each which is expected to increase 2 million tonnes and 3.2 million tonnes by the year-end.

TAMIL NADU NEWSPRINT AND PAPERS LIMITED: This company has committed in the Chennai High Court that it would stop discharging its effluents into the Pugalur channel within 3 months. Responding to a writ petition filed in the court by the Pugalur Division Consumer Protection Council, praying for a direction to the second respondent (TNPL) not to pollute the Pugalur channel and other irrigation channels in the area and thereby the Cauvery river in any manner. The company also agreed to have a sitting between the counsels, fixing the time schedule.