

Indian Paper Scenario – January 1999

The 95000 million paper industry is still not out of the woods and is looking to the Government for a sizeable fiscal support in the coming budget. Rise in selling prices and hike in import duty in the 1998-99 budget coupled with the depreciation of rupee will help the industry in the current year to some extent. Still a lot is desired from the Government in terms of import duty, easy availability of raw material as well as credit facility at a lower interest rate. The Government has helped the paper industry by imposing an across-the-board import duty of four per cent and an additional import duty of 10 per cent, thus making the total duty 30 per cent. According to industry sources, the rise in import duty has increased the demand for indigenous products and prices of newsprint went up to Rs. 23,500 per metric ton from Rs. 20,000. The packaging paper prices are ruling around Rs. 18,000 per metric ton a rise of Rs. 1,000 per metric ton when compared with June 1998. Similarly, prices of printing paper increased by Rs. 500 per metric ton in the last couple of months.

An industry analyst said that the small players, however, could not push the prices due to competition. The Asian currency crisis intensified the competition as these countries, particularly Indonesia, started heavy exports of quality paper to other countries. The low cost of raw material as well as other inputs as compared to other countries helped Indonesian companies and they started heavy exports with reduction in price. As at the end of 1997-98, total installed capacity of the paper industry stood at 5 million metric ton consisting of 4.2 million metric ton in paper and paper boards and 0.78 million metric ton in newsprint. However, the overall capacity utilisation worked out to only 70 per cent on account of raw material problems as well as oversupply position in the market.

The shortage of natural raw materials is one of the major hurdles faced by the paper industry. According to the Indian Paper Makers Association, the Government should allow industrial plantation which will generate rural employment and also solve raw material problem. The paper market situation has been rendered worse by the general slowdown of the Indian economy, in turn leading to slackness in offtake of paper from domestic players. The pressure on price realisation continued in 1997-98 as also in the first nine months of the current year. The competition intensified and it became necessary to offer extended credit period to push up products in the market. Due to this the interest burden increased, impacting the bottom lines of many players. The poor performance by the major paper manufacturers during last couple of years put limitations on the price movements on the stock exchanges. The large equity capital is also putting pressure on the price movements. Further, the return on investments started sliding down which affected investors confidence. Despite sluggish conditions, the major paper units have undertaken substantial expansion and modernization programme to meet the future growth in demand. However, if the situation does not change favourably, these investments will become additional burden on paper manufactures. ITC Bhadrachalam, Mysore Paper, Orient Paper and Balakrishna Industries suffered heavy setback during the first half of the current year. However, Andhra Paper, Tamil Nadu Newsprint, Seshasayee Paper and Sirpur Paper managed to improve their performance. Ballarpur Industries and J K Corporation achieved satisfactory show during the quarter ended December 1998.

Khadi and Village Industries Commission's (KVIC) Kumarappa National Hand-made Paper Institute (KNHPI) has developed a process to make tissue paper from banana fibre. The tissue developed by KNHPI was acclaimed as an import substitute matching

international standards for conservation purposes by the Indian Conservation Institute and would boost the growth of the hand-made paper industry in the country. KNHPI has already developed technology for production of hand-made paper from jute, sun hemp, common hemp, sisal, ramie, banana and ankara. Set up in 1991 by the Government with the assistance of the United National Development Programme (UNDP), KNHPI is also responsible for standardization and testing of paper and board.

ANDHRA PRADESH PAPER MILLS LIMITED: Despite sluggish market conditions, this company has notched up satisfactory performance during the first half of current year i.e. 1998-99. The net profit went up sharply by 117 per cent to 50.50 million from 20.33 million in the same period of last year on account of better capacity utilization and cost cutting measures. Sales have increased to 1266.80 million from 1135.00 million. The company sold 84,074 metric ton as compared 77,742 metric ton in preceding year. As against the installed capacity of 98,500 tonnes, the production of paper reached at 84,300 tonnes during 1997-98 as compared to 79,861 tonnes. The capacity utilization worked out to 86 per cent. The company may face a raw material problem during the current year as it could not finalize the Lease Agreement with the Andhra Pradesh Government for bamboo, a basic raw material. APPL will have to procure necessary raw material from other states which will increase the raw material cost. The company is now planning to undertake a Mill Development Plant involving a capital outlay of 19.60 million. The upgradation project will be implemented in two phases with technological upgradation, product diversification and capacity augmentation up to 1,08,000 million tonnes per annum. The first phase will cost around 900 million and will improve the quality of products.

ORIENT PAPER AND INDUSTRIES LIMITED: The company engaged in the manufacturing of paper and cement, received a major blow during the first half ended September 1998 and it incurred a net loss of 314.60 million as compared to 70 million in the previous period. Though sales increased to 2463.80 million from 2405.50 million, the low price realization and higher interest cost adversely affected the performance. The company received first set back during the year ended March 1998 due to sluggish market conditions in the paper as well as cement segment. The Brajrjnagar paper unit was totally shut for nearly three months during 1997-98 for modernization. Due to this modernization programme, the production of paper declined to 92,684 from 1,13,194 tonnes in the preceding year. The new tissue plant at Amlai was commissioned and production is stabilized.

SESHASAYEE PAPER AND BOARDS LIMITED: This Tamil Nadu - based company has improved its performance during the first half ended September 1998. Sales increased to 1266.80 million from 1130.50 million. The net profit went up sharply to 50.50 million from 23.30 million in the corresponding period of last year. The scrip is currently quoted at Rs. 27-28 as compared to its 52 week high level of Rs. 35 and lowest at Rs. 18. The company suffered during 1997-98 despite higher production at 54,079 tonnes in the previous year. Its sales dropped to 1873.80million from 1487.30 million. The company is implementing an expansion programme involving a capital outlay of 2220 million. This will increase its capacity from 60,000 tonnes per annum to 1,15,000 tonnes. The expansion programme will be financed through internal accruals of 460.50 million, preference shares of 300 million and term loans of 1460 million. The company has already imported new machines from Germany and the trial production is expected from last quarter of 1999. To part finance the expansion programme, the company is

planning to offer and allot 1.25 million convertible warrants of Rs. 90 each to the promoter group.

SIRPUR PAPER MILLS LIMITED: This company has achieved better performance during 1997-98 and its production increased to 58,457 tonnes from 57,360 tonnes in the previous year. The capacity utilization worked out to 82.20 per cent. Change in raw material mix, optimization of various inputs, considerable reduction in steam/power consumption and improved power generation push the over all working. Sales for the year ended March 1998 were marginally declined to 1584.00 million from 1599.90 million, but the net profit went up sharply to 61.40 million from 24.50 million.