

## Indian Paper Scenario – May 1999

It has been a downhill path for the 10000 million paper and paperboards industry during the previous two years viz., 1996-97 and 1997-98. The reports available from various paper markets and paper industry circles for the year just ended on March 31, 1999, show that there is no improvement in the fortunes of the paper industry as yet. An analysis of the trends in the industry during the last three years clearly indicated that while sluggish demand, rising imports, overflowing godowns and poor level of capacity utilisation have eroded the bottom lines of the companies engaged in this sector, the problem of ensuring adequate supply of raw materials has proved intractable and little progress has been achieved in regard to modernisation and environmental safeguards. To add to the woes of the industry, it has to grapple with relentless cost pressures and a pile-up of inventories. Several paper mills are facing a cash crunch and have put on hold expansion plans not only in relation to capacity but also relating to the time schedule. In the event, the outlook for the future is rather negative.

Compared to the spurt of 10.6 per cent in 1994-95 and 7.6 per cent in 1995-96, the growth in production had decelerated to between 3 and 4 per cent during the last three years, viz, 1996-97, 1997-98 and 1998-99. According to a survey conducted by the Confederation of Indian Industry, the output of paper and paperboards was 0.5 per cent lower in the first half of 1998-99 as compared to the same period of the preceding year. The major cause for the setback was weak demand evidenced by the sluggish trend in prices. Imports were resorted to on a large scale in view of the favourable price sentiment abroad. The phased reduction in import duties from 140 per cent a few years ago to 40 per cent last year has played havoc with the fortunes of the indigenous industry. The situation has worsened on account of the spurt in imports of paper.

In April 1999, in the writing and printing paper segment, the price increase of Rs. 0.6-1 per kg was successfully passed on to the consumers. In the industrial paper segment, prices continued to be adversely affected by sluggish demand and excess supply. In the creamwove variety, demand improved due to higher offtake from notebook convertors. According to sources, wood-based mills are expected to increase their market share in the 1999 notebook conversion season. Many notebook convertors have installed new rotomatic machines which require high strength paper. Wood-based mills were able to increase prices in April 1999 due to lower supply. These mills are planning to increase prices further, by Re0.5 per kg from May 1999. However, in the second quarter of 1999-2000, prices could come under pressure due to the end of the notebook conversion season in June 1999 and increased supply of creamwove from the newsprint mills. In the maplitho variety, the price increase of Re 1 per kg in April 1999, was successfully passed on to the consumer. Inventories with mills had declined in the last quarter of 1998-99 due to the closure of JK Corporation, Orient Paper and Century Paper. In addition, demand of base paper from offline coaters improved due to the lower supply by Sinar Mas.

The paper industry which had just started to look up after three years of dismal performance is again on shaky grounds. The current political turmoil and the resulting uncertainty is now forcing manufacturers to shelve their restructuring plans which they had started formulating after the market reacted positively to an increase in paper prices. The price increase would not add to the

industry's profit but would certainly help in cutting losses. The industry had started to make various plans to improve its performance but with advent of political crisis at the centre, the plans had to be suspended. The market forces are not getting an opportunity to take the shape of pattern on the basis of which entrepreneurs usually make plans.

Paper mills in the country, which faced a difficult situation in the fiscal 1998-99 are expecting a rise in demand of paper. The prices of all categories of paper printing and writing paper was hiked to a tune of Rs. 600 by all the mills in the country April 1999. The prices vary from Rs. 30,000 to Rs. 34,000 per tonne depending on the type of paper. With the market absorbing the price, the manufacturers have proposed for another hike of Rs. 500 with effect from May 15 of this year. The inventory levels were encouragingly low for most mills, with the southern mills Tamilnadu Newsprint and Papers Limited (TNPL) and Seshasayee Paper and Boards, closing the year with zero stocks. For the southern mills there was another advantage during the close of the previous fiscal. The lock-out in some paper mills (Century and JK) eased pressure of supplies here giving the south based mills an opportunity to make good the shortfall.

With all pipeline stocks eliminated and fresh stocks doing the rounds, paper manufacturers are no longer indiscriminately dumping with dealers who have not proven credit worthy in the past. Companies like TNPL have utilised the opportunity towards rationalising discount structures and doing away with cash incentives while increasing basic price by Rs. 350 per tonne. While the notebook season has proved encouraging, elections are expected to lead to an unexpected increase in demand. Already at the state level TNPL has received enquiries towards supplying paper for election work.

**ORIENT PAPER AND INDUSTRIES LIMITED:** This company has incurred a four-fold increase in the net loss at Rs. 723.7 million during the financial ended March 31 1999 compared to Rs. 144 million in the previous fiscal. Official sources here said after a board meeting in New Delhi that decline in other income and increase in interest during the year had adversely affected the performance while turnover remained stagnant at around last year's level.

**SAURASHTRA PAPER AND BOARD MILLS LIMITED:** This company has been downgraded by the Crisil from 'FB+' to high risk category 'FC'. The revision in rating takes into account the stained liquidity position of the company that has resulted in interest and principal repayments to the financial institutions through the company has sought re-schedulement of term loans from institutions. The rating also factors in the deterioration in the financial performance which is characterised by decline in the profitability, mainly on account of decline in average realisations in the paper industry and increase in operating expenses.

**SIRPUR PAPER MILLS LIMITED:** The board of Sirpur Paper Mills Limited has recommended a dividend of 15 per cent for the year 1998-99, thus maintaining the same per centage as in the previous year. This is despite a dip in net profit to Rs. 27.1 million as against Rs. 61.4 million in the previous year. The company's net sales registered at Rs. 1278.9 million during the year under review as against 1379.3 million in the previous year ended March 31, 1998. The profit after interest but before depreciation and tax was Rs. 60.7 million as against Rs. 97.1 million. Provision for tax amounting to Rs. 3.5 million has been considered on the basis

of financial results for the whole year. Pre-tax earnings per share works out to Rs. 3.25 as against Rs. 7.37 for 1997-98.

**TAMIL NADU NEWSPRINT AND PAPER LIMITED:** This southern based company is mulling a proposal to manage the Karnataka based Mandya National Paper Mill (MNPM), a sick unit, as a pilot project for a limited period. TNPL which has reported a handsome profit, made a turn around this year is considering the possibility of managing MNPM, which is a subsidiary of the Hindustan Paper Corporation, a state Government enterprise. This will be on a “no-commitment” basis to assess the viability of the proposal, and decide on a possible takeover. MNPM located in the sugarcane belt in Karnataka is a 18,000 tonne per annum capacity mill which was closed in April 1993, and subsequently rehauled at a cost of Rs. 80 million in August, 1997. However, the unit has not recovered and has been on the block, but a sale is yet to be finalised. Meanwhile, TNPL has shelved for the present, the proposal to put up a paper unit at Guddalore following the high costs that a greenfield venture will involve. While the present unit was put up at a cost of Rs. 2390 million with capacity of nearly 1,00,000 tonnes, representing an investment cost of Rs. 27,000 per annual tonne, the subsequent expansion programme at a cost of 6000 million represented an investment cost of Rs. 67,000 per annual tonne. Further, sources said that this expansion had not involved a doubling of facility. However, a greenfield venture would cost upward of Rs. 1 lakh per annual tonne or more than 10000 million.