TELMARK

Indian Paper Scenario – June 1999

The global paper industry seems to be on a comeback trail and the Indian players seem to be following. After having languished for three years, there has been a marked turnaround. International pulp prices showed the way with prices of Indonesian pulp moving smartly from US$ 350 a tonne in the last quarter of 1998 to around US$ 500 a tonne now. The situation in the Indian paper industry had been compounded by liberal imports, price cuts, rising input costs, an additional non-modvat duty of 4 per cent and a depreciated rupee. On the global front, the paper industry was in need of resuscitation following decreasing demand and falling paper and pulp prices. The Indian economy is now globally interlinked. Whatever happens in other country affects the Indian markets. In the last few months, pulp prices in international markets have moved from US$ 360 to US$ 510 a tonne while paper prices have shown signs of looking up.

Indian manufacturers have already increased paper prices by about Rs. 1,000 a tonne while traders have confidently hiked their prices by about Rs. 1,500 a tonne. With input costs remaining more or less un changed, the benefit of the price hike will accrue directly to the bottom lines of most companies. Some companies had shown signs of a revival in the first half of 1998-99 itself. This followed the fall in the price of imported wood-free pulp from US$ 450 to US$ 310 a tonne. There was also the advantage from increased cost of imported finished paper due to the depreciating rupee.

The manufacturers increased the prices of different varieties of industrial grade kraft paper by Rs. 1000-1500 a tonne. Further, measures like production cuts also benefited some of the smaller players. In March 1999, prices for writing and printing paper were unchanged and offtake improved on higher demand from notebook converters. The excess capacity built up over the last few yeas could be absorbed mainly due to the temporary closure of JK, Orient and Century paper mills. However, in the first week of April 1999, writing and printing paper mills announced an increase of Rs. 600-1000 a tonne which is likely to be absorbed due to the seasonality of demand.

The Finance Ministry has rejected the recommendation of the imposition of
an anti-dumping duty on imported newsprint. The recommendation to impose an anti dumping duty had come from the anti-dumping authority in the ministry of commerce. The recommendations had been made in March 1998. The Finance Ministry has decided against the imposition of the duty on the grounds that the international price of newsprint had hardened and the exchange rate had also depreciated since the investigation period. As a result, the difference in the price between imported and domestic import had been neutralised. The Finance Ministry's decision will benefit the newspaper industry, which primarily depends on imported newsprint. Most leading newspapers are printed on imported newsprint. The anti-dumping authority had recommended imposition of anti-dumping duty on newsprint (other than glazed newsprint) imported from Russia, the US and Canada. In its findings, the designated authority had found that newsprint originating in or exported from the US, Canada and Russia had been exported to India below its normal value and the domestic industry suffered material injury because of this.

In the paper industry, there are a number of well-established companies that have been around for a long time. But the stocks of some of these companies have fallen out of favour with the market not only due to a deterioration in their fundamentals, but also because of the market's concern over the share holder value aspect. Virtually every major paper company in the paper industry has been caught up in a major restructuring exercise and/or is diversified into other businesses. This creates uncertainties and the fortunes of the business could also run impact on the paper business. In such a milieu, two companies with a fairly impressive scale of operations and with a sharp focus on paper and paperboards are Tamil Nadu Newsprint and ITC Bhadrachalam.

The paper industry which is already incurring huge losses due to the anomalies in the custom tariffs that led to rising imports of paper and newsprint since 1995, is further constrained by the fall out of the 1997-2002 import and export policy, according to Indian Paper Manufacturers Association (IPMA). The delegation of clause 5.4 of chapter 5 of import and export policy restricts import of secondhand capital goods; having serious ramifications for the Indian paper industry. The sudden shift in policy governing secondhand import of capital goods will hurt indigenous mills who can ill-afford to buy latest capital goods. The government's fear is that manufacturers would import old technology or junk in the name of secondhand machinery and equipment. It could be taken care of by providing adequate safeguards and strict implementation code in the import policy.

Stocks of companies in the paper and paperboards industry have been on a steady up-trend in the last two months. The Business Line paper and paperboards index rose close to 100 per cent from a low of 470 points in April 26, 1999. Stocks such as Ballarpur Industries, ITC Bhadrachalam Paperboards, Seshasayee Paperboards and Tamil Nadu Newsprint have all seen their valuations improve sharply. This is more or less in tune with the recent market fancy for economically-sensitive and commodity stocks. While some of the rise in stock prices may be exaggerated, there are signs that the worst may be over for the paper industry. Just in the last two weeks, prices rose around US$ 25 per tonne. Whether the global demand situation would continue to improve, to support the recent improvement in paper prices, remains to be seen. Certainly, the demand position is not as gloomy as it was a year or 18 months back when the Asian meltdown affected demand.

BALLARPUR INDUSTRIES LIMITED: This company has decided to take a relook at its three proposed joint ventures to make speciality paper. It had earlier signed a Memorandum of Understanding (MoU) for the same. This is largely a fall out of the company's decision to focus on commodity paper instead of speciality paper. Also, the company had signed an MoU with Finland-based paper major Ahlstrom to make speciality paper. It had inked an MoU with Swedish paper heavy weight Stora to make fine paper and with Ffrancehah, a European paper manufacturer, to produce paper sack. The company decided to sign these MoUs because it felt the value-added segment would contribute to future growth.

SINAR MAS PULP AND PAPER (INDIA) LIMITED: The All India Federation of Master Printers has expressed resentment over the upward revision of coated paper prices by this company. The hike in coated paper prices by Rs. 3 per kg last month is the second such move in 3 months. India has around two lakh small and large printers who use coated paper for printing various materials.

SIRPUR PAPER MILLS LIMITED: This company has maintained the dividend at 15 per cent for the year 1998-99, same as last year, thorough the net profit dropped to Rs. 277.10 million as against Rs. 61.40 million the previous year. The company pointed out that the selling prices of its products were under pressure throughout the year owing to weak economic conditions and the recessionary trend prevailing in most industries. However, the paper industry has shown an improving trend and the present financial year is expected to witness a partial revival with better realisation.

TRIBENI TISSUE LIMITED: The company Tissue, a subsidiary of tobacco giant ITC Limited, has decided to shut down its pulp mill. The company said it is unable to continue with the unit, which uses jute fibre as raw material for producing paper, as jute prices have gone up significantly. It further said that the imposition of fresh duties in the last Budget has added to its woes as imported wood pulp is now cheaper than jute fibre. The company said it would compensate all the workers of the unit suitably and a final decition would be taken.