

Indian Paper Scenario – July 1999

Most paper mills including state-owned units have raised prices by over Rs. 3,000 a tonne. Waste paper recycling mills have also announced an upward price revision from Rs. 1,500 to Rs. 2,500 a tonne. Manufacturers attributed the price hike to acute shortage of imported waste paper, an increase in terminal handling charges and a steep spurt in freight charges on imported goods. This increase will only partly compensate for the hike in waste paper price by about US\$ 80 to US\$ 90 a tonne. Mills producing packaging grades of Kraft paper in South Gujarat and Maharashtra said the hike would not make up for the increased production costs. Producers also fear that paper prices would go up further in a month or two. Paper converters and manufacturers of corrugated cartons are the worst hit. Most fear closure, unless the increase is compensated by end-users. Alibhai Nathani, President, Gujarat Paper Mills Association, said that a step-motherly treatment has been meted out to small paper mills. He said that import duty on finished newsprint has been abolished, while the same has been imposed on waste paper. Also, anti-dumping duties are not levied on finished paper which is encouraging bulk imports and dumping of various grades of paper in the guise of newsprint. Central Excise tariffs are encouraging productivity of smaller paper mills in the country. According to him duty-free imports of waste paper should be permitted on actual user conditions as excise and tax structure on locally produced paper is far in excess of the cess levied for finished paper imports. There are over 600 paper mills in the country and over 30 per cent have closed down and many are on the verge of closure due to high finance, power and input costs.

The rally in the paper, paperboards and newsprint sectors is spreading to the second and third-rung stocks. Ridding piggyback on the improved valuations of paper majors like Ballarpur Industries, ITC Bhadrachalam, Andhra Paper and Tamil Nadu Newsprint, the smaller players in the industry are touching new highs on the bourses. Seshasayee paper, for example, has risen by over 40 per cent to Rs. 37.80 in the last ten trading sessions. The stock hit the upper-end of the circuit filter and remained frozen with a pending buy order. Orient Paper Mills touched a high of Rs. 32.65, but closed marginally lower at Rs. 31.60. Balkrishna Industries scaled a new 52-week high of Rs. 42.50. SI Paper remained frozen at its new high of Rs. 21.05 for most part of the day. Even a low-priced stock like Star Paper Mills has zoomed by an amazing 98 per cent in the last ten trading sessions on hopes of a turn-around in the paper industry. Rama Newsprint too has spurted by over 50 per cent to Rs. 3.85, while Nath Pulp has jumped up by 32 per cent to Rs. 4.75. The buying interest in these stocks stems from the perception that the worst is over the paper industry.

Rising international prices have resulted in India paper producers hiking their prices in the last three months by Rs. 500-1000 per tonne. Industry watchers also, there have been a marginal pick-up in demands thanks to the shutdown of a few operating mills. A deep crisis is expected in the supply of fibre for the paper industry. A tremendous shortage of imported waste paper has caused a two-fold increase in landed prices. This added to the recent increase in the terminal handling charges at various Indian ports, and the steep hike in ocean freight has made the sufferings of paper mills in the country unbearable. This has ultimately resulted in a price increase of all grades of paper.

The Centre for Science and Environment's (CSE) study on the pulp and paper industry reconfirmed that environmentally sound practices also made good business sense. Mills, which have better environmental record also, have better bottom lines. The project,

which gave green rating to 28 mills, reveals there is a 69 per cent chance of a mill with a good environment sense making better profits, even in times of recession. For instance, J K Corporation, which has the highest rating, makes 14 per cent profit as a percentage of its turn-over. Andhra Pradesh Paper Mills, which ranks second, has recorded an average profit of 9.8 per cent. Fourth-ranked Hindustan Newsprint of Kerala has posted a profit of 22.1 per cent. All three have shown steady profits over the past three years despite the recession. According to the CSE study, environment and profits are closely connected to each other because good environmental management demands efficient management of fibre inputs, water, energy and chemicals, which reduce cost and generates profits.

The Indian pulp and paper industry has renewed its appeal to the Centre to allot land for taking up captive plantation. This is essential as the industry is facing a serious shortage of fibrous raw materials. The per capita consumption of paper in India is just four kg compared to the world average of 40 kg, the prospects for the industry were bright. To tap the full potential of the industry, concentration on cost reduction and quality upgradation and environmental consciousness was needed. The liberalisation had thrown up several challenges to the industry. Reduction in import duties, growing environmental awareness, and cheaper imports were some of the problems that the industry has to reckon with.

BALLARPUR INDUSTRIES LIMITED: The company, the country's largest paper manufacturer, plans to hive off its industrial paper and board business into a separate joint venture company. BILT is scouting for a joint venture partner in this high-growth segment in which it currently does not have a major presence. It plans to take the acquisition route to venture into the industrial paper business in a big way. The company is also planning to set up a separate firm for this business since the technology and the market for industrial paper was distinctly different from that of writing and printing paper. Putting the business in a separate company would facilitate the entry of a joint venture partner. BILT has set its sights on more than doubling its present paper capacity of 2.75 million tonnes per annum to six million tonnes per annum by 2004-05.

EMAMI PAPER MILLS LIMITED: This Balasore based company has achieved a record jump in turn over during 1998-99 at Rs. 650 million from Rs. 372 million in 1997-98. The company manufactures high quality cream wove writing paper besides newsprint at its 2,400 tonne capacity plant at Balgopalpur, Orissa. It made a profit of Rs. 5.83 million for the year ended March 31, 1999. The sales turnover for 1999-2000 has been projected at Rs. 1000 million.

ORIENT PAPER MILLS LIMITED: This company is drawing up a restructuring programme of hiving off units, pruning its workforce and disposal of non-performing assets. International consultants firm Ernst & Young is preparing a blue-print to make the company leaner and focused on its more profitable businesses. During the financial year ended March 31, 1999, the company posted a net loss of Rs. 723.60 million, a four fold jump, on a lower turnover of Rs. 5350 million against Rs. 5380 million in the previous year. The company is said to be facing a severe cash crunch, and the sale of non-performing assets is aimed to enable it to garner the much-needed cash.

SESHASAYEE PAPER AND BOARDS LIMITED: The company's on-going expansion and modernisation project is becoming a potential drag on its performance. The project has suffered a cost escalation of Rs. 200 million and this may go up further. The current

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cost overruns are due to depreciation of the rupee and hike in import and excise duties. Now, the project, which is scheduled to be commissioned in December 1999, is facing a problem with a change in government policy affecting the import of second hand capital goods. The company has now applied for a new import license, which is expected to be granted beyond July 1999. This may result in a further delay in the commissioning of the project and burden it with additional costs on further depreciation of the rupee.