

## Indian Paper Scenario – April 2000

Paper manufacturers are hopeful of crossing the next fiscal with no disturbing surprise. For 2000-2001 at least, the international demand and supply is auguring well for domestic players, giving them the much needed justification to increase prices. Prices are going up in tandem with international pulp prices. The price of imported newsprint has also gone up giving the beleaguered newsprint industry a ray of hope. Imported newsprint is now ruling around US\$ 540-\$560 a tonne from the earlier days of US\$ 480-US\$ 490. The domestic newsprint manufacturers increased prices in February 2000 to Rs. 23,400 per tonne from Rs. 22,400 per tonne earlier. Though the printing and writing paper sectors outlook improved significantly from January 1999, newsprint continued to be in doldrums. This resulted in mills making both devote almost entire capacity to printing and writing paper. Newsprint prices are likely to go up again by another Rs 1,500 per tonne, said sources. Meanwhile, printing and writing paper prices have also gone up for all categories by about Rs. 1,250 a tonne are likely to go up further by the second week of May approximately by Rs. 2,000.

Softwood pulp prices have been steadily going up in the last six months from Rs. 480 to Rs. 725 a tonne. This, coupled with lack of new capacities in the paper industry is likely to bring about price increases in the future, which industry officials feel will be well-absorbed by the market. While the sales tax incentives have been removed from Greenfield projects, new projects are unlikely to come up as the paper industry is highly capital intensive. The Asian countries have also become net importers (after a dumping assault during the crisis) with their economy looking up, giving a chance for Indian Exporters to grow.

The Uttar Pradesh Corrugated Box Manufacturers' Association (UPCBMA) has called on the Government to bring corrugated boxes under the 'optional excise regime' to enable the small-scale units avail modvat credit (now cenvat credit) on the cenvat duty of 16 per cent paid on kraft paper. With the excise regime becoming simpler over the last decade and the fact that statutory records are to be dispensed with, they are keen to come under the excise fold and at the same time avail modvat credit on excise duty paid on kraft paper. The corrugated boxes, which are classified as a small-scale industry item, were currently not excisable. Further, the association has also sought a reduction in the customs duty on kraft paper to the pre budget levels (basic customs duty of 20 per cent) to discourage the agro paper mills from exorbitantly increasing their prices. An increase in the basic duty on kraft paper from eight per cent to 16 per cent in the recent budget and an enhanced level of protection accorded to domestic paper mills through an increase in the basic import duty on kraft paper to 35 per cent had enabled the mills to increase prices by almost 20-25 per cent.

As most of the pulp is used up by the paper industry, the price trends in the pulp and paper markets usually tend to move together. That has indeed been the case in the last year, with paper prices too showing signs of a firm uptrend after four years of decline, punctuated by sporadic and short lived price hikes. In the Indian market too, the last year was better, with producers reporting higher profits than in 1998-99. This trend may continue in the first half of fiscal 2000-2001, and for the full year as well. Reflecting the improvement in the industry's fortunes, the stock prices of paper companies have perked up from the lows of March/April 1999 and much of the uptrend took place in the next four months. For the paper industry, perhaps, the most significant development last year was the action on the price front. The 1999 price increase has come as a big relief

to an industry afflicted by declining prices. For the Indian producers, even the sharp hike in the import tariffs in 1996-97 did not provide any respite. The rises in the economies of South East Asia, Japan, Brazil and Russia checked the firm trends of 1997. Prices hit a low of US\$ 500 per tonne in second half 1998, and Rs. 30,000 per tonne in the Indian market in the same period.

Given the price trends, paper producers are likely to report better profitability and earnings growth in the fiscal 1999-2000 as well as in 2000-2001(at least the first half). But with prices of most stocks having run up sharply in the bullish phase in markets, since the last week of April 1999, upside in the near term may be limited. For higher valuations to emerge, the prospect of more stability in the earnings stream may be necessary. Demand growth in the last three years has slowed to just 2.50 per cent. This is out of tune with the GDP growth trends as well. A combination of low volume growth and flat prices has led to a sharp decline in profitability. While volume growth may not pick up much from the present levels, except in the paper boards segment, improvement in price levels may lift profitability levels. But as far as paper industry stocks are concerned, company specific factors seem to be casting a shadow on the valuation. The industry major, Ballarpur Industries, seems to be in a perennially restructuring mode. Over the last five years, there has really been no certainty as to what the ownership claims would represent in the company. The latest change has been the shifting of paper businesses to an associate company, Andhra Pradesh Paper Mills. Given the constant change mode, investors could stay clear of the stock despite its sizeable presence in the paper industry. Of the stocks available in the paper industry, some that could be considered, from a long-term perspective, are Tamil Nadu Newsprints, Seshasayee Paper & Boards and ITC Bhadrachalam may hold some scope for gains if the turnaround in its fortunes evident in recent quarters continues. The other stocks in the industry do not inspire much confidence for consideration, from an investment point of view.

Pulp and paper prices could harden further following a strike by the finish paper industry. With some of the world's leading suppliers halting work, pulp prices are bound to go up, and push up paper prices. If the strike is prolonged, the impact is bound to be felt in India. Hardwood pulp was ruling at US\$ 700 per tonne and CTMP US\$ 450. Prices were bound to harden further on the complete range of papers. Newsprint for export into India from Indonesia, Malaysia and Korea had dried up because of domestic demand there, and newsprint prices were ruling high. Canadian Newsprint at a high of US\$ 560 per tonne and Russian newsprint ruling at US\$ 530 were likely to quote higher during the July - September quarter.

**HINDUSTAN PAPER CORPORATION LIMITED:** This company has posted an estimated profit of Rs. 140.70 million during the financial year ended March 31, 2000 registering an increase of more than 33 per cent over the previous year. Two mills of the company including Nagaon Paper Mills and Cachar Paper Mill achieved a record production of 1,65,096 tonnes writing and printing paper, 15,000 tonnes more than that of previous year. The company recorded a sales of 1,63,523 tonnes of writing and printing paper, representing a rise of 6,282 tonnes in 99-00 over the previous year and seven per cent more than the MoU target. The financial turnover of the company reached Rs. 4,280 million, an increase of 4.73 per cent over the previous year.

**ORIENT PAPER & INDUSTRIES LIMITED:** This company has decided to undertake a comprehensive financial restructuring programme. It has given the mandate to ICICI's

subsidiary I-Sec to prescribe a complete overall plan which will include restructuring of its debt burden of over Rs. 4,500 million and hiving off the Brajrajnagar unit into a separate company. The restructuring exercise would possibly entail retiring high cost debt and raising fresh funds. During the financial year ended March 31, 1999, the company incurred 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 fiscal. Early last year, the company had requisitioned the services of international consultants Ernst & Young for a possible restructuring of the paper mill at Brajrajnagar in Orissa. On the basis of its recommendations, the company had introduced a voluntary retirement scheme to prune the workforce of approximately 3,500. Nearly 1,800 employees of the unit, which has been closed for more than a year now, have already opted for it.

**TAMIL NADU NEWSPRINT AND PAPERS LIMITED:** They have decided to float a subsidiary to take up Information Technology enabled activities. For some time now, the company has evinced interest in IT related areas, and has even expressed its interest in acquiring a stake in the public sector Hindustan Teleprinters Limited. It is among the first paper companies in India to go in for a full-fledged online integrated information system from April 01, 2000. It has linked its production facility with the marketing and stores modules. It is in the process of developing a Wide Area Network linking its branches.