

Indian Paper Scenario – July 2000

The paper industry is set to turn the corner in near future on account of enhanced demand, improved productivity and hike in prices. Cost cutting measures, lower interest rates and rise in international prices are also likely to the domestic industry. After suffering a negative growth for nearly four years, the industry is looking forward to slash its accumulated losses in the current year. However, investors will have to wait for any worthwhile returns on their investments. According to industry source, the paper industry hiked price three times during 1999-2000 by nearly Rs. 4,500 per tonne with rising demand. The industry raised prices by Rs. 5000, Rs. 3,000 and Rs. 1,000 per tonne during April, July and December 1999 respectively. Currently the prices are moving around Rs. 35,000 and Rs. 40,000 per tonne depending on quality. Though the raw material prices like caustic soda, diesel and power also went up, the rise in prices helped the industry to contain its losses or improve profits. The demand for paper increased by 5-7 per cent during 1999-2000 and is expected to improve further in the current year. With the demand for paper products going up, the industry has been able to improve capacity utilization to 80-82 per cent from 72 per cent in the preceding year.

The Union Government has sought to make the Chennai based public sector HTL an attractive buy for the bidders by disclosing certain inherent strengths and intrinsic value of the company. While inviting fresh bids for divesting the government's majority stake, the global advisor KPMG India has improved the "saleability" of HTL by revealing additional information which did not figure in the first announcement. It is leant that the first offer made in November last and which only contained a partial sale of government's holding (50 per cent) to a strategic investor, attracted limited suitors. The list included Aleatel, MTNL and Reliance capital. The "dark horse" which surprised the lot was the State-owned Tamil Nadu Newsprint and Papers (TNPL), apparently with an eye on the prime land of HTL in the city.

Among the old economy stocks, the stock price of Ballarpur Industries has done exceedingly well. From a bottom of Rs. 38 in the first week of March, the stock has now improved to Rs. 75. This steady improvement is not without reasons. For one, the paper sector has shown clear signs of improvement. And being the largest player in the domestic sector, Ballarpur is well poised to take the full advantage of improved scenario. The demand for paper started showing an improvement in the second half of last year which provided the players with an opportunity to increase their selling prices. Besides improving demand, what has helped the sector is an upward move in international paper prices which have risen steadily improved from US\$ 600 per tonne to US\$ 700 per tonne. A recovery in South-East Asian economies has played a major role, and this has reduced the cheap imports drastically which has directly affected the domestic prices. The performance of Ballarpur Industries has already reflected the improvement. For the third quarter(January – March 2000), the company's performance has been extremely impressive.

Yet another proposal has come up to reopen the century-old Punalur Paper Mill which has been lying closed for over a decade now. It is learnt that the Dalmias, who were the masters for long till the mill was closed in 1987, have again approached the Kerala Government for preliminary discussions on piecing together a viable package to revive the mill. According to top sources in the State Industries Department, the Dalmias will soon make a presentation on how they propose to go about it, including the settlement of liabilities and fresh infusion of funds. During the discussions, the State Government

made it clear that there would not be any compromise on the question of ensuring total pollution-free operations in the mill. Obviously, the Government wants to avoid a situation similar to the one prevailing at Mavoor Grasim unit. Consequently, the company has to depend on imported pulp at least for a period of two years till the pollution control measures are in place, the sources said. Apart from the settlement of liabilities to the banks and the financial institutions, any new promoter will have to pump in substantial funds to resume operation in the mill. For, the entire existing plant and machinery have become useless and have to be replaced from the scratch. The State Government had, a few years ago, approached the public sector Hindustan Paper Corporation (HPC) to take over the mill and the latter, in turn, had appointed a consultant to prepare a feasibility report.

The substantial hike in the prices of imported as well as indigenous newsprints in recent months has hit the newspaper industry very badly, according to industry reports. The price of Canadian newsprint has risen by over Rs. 10,000 per metric tonne in the past seven months and that of Russian, by over Rs. 8,000 metric tonne. The Canadian newsprint, which costs, US\$ 480 per metric tonne for the last quarter of 1999 and US\$ 525 per metric tonne for the first quarter of 2000 is costing US\$675 per metric tonne in July –September 2000 quarter. The Kondapoga Russian newsprint, which costs US\$ 450 per metric tonne is being quoted at US\$ 595 in the current July-September quarter. The prices of indigenous newsprints have increased by almost Rs. 7,000 per metric tonne. Though its quality is not up to the mark, the product of the small indigenous mills, is being used by small newspapers. Mysore Paper Mills and Hindustan Paper Limited, which are fully owned by the government of India too have increased their price by Rs. 7,000 per metric tonne over the last three quarters. According to the mill officials, the price hike is attributed to the increased cost of waste papers and imported pulp. The present situation has caused much concern to the small newspaper industry as not only the price has been hiked substantially but the Indian newsprint mills are demanding advance payment for the supply of newsprint and the practice of giving credit has been discontinued.

ITC BHADRACHALAM PAPERBOARDS LIMITED: This company has posted its first quarterly profit since the start of the Rs.6750 million expansion programme in April 1998. For the quarter to June 30, 2000, it has reported a net profit of Rs.98.8 million compared to a net loss of Rs.131 million in the first quarter of 1999-2000. First quarter sales increased 75.8 per cent to Rs.1430.8 million from Rs.813.9 million in the previous fiscal. Total income was boosted by an inflow of Rs.45.5 million, including Rs.40.5 million capital gain from sale of investments under the head 'other income'.

SIRPUR PAPER MILLS LIMITED: This company is undertaking an expansion and modernization programme at a cost of Rs. 500-600 million, in the process increasing the capacity to 82,000 tons per annum from 59,000 tons. It is expected to be completed by December 2001. The project envisaged improvement in the existing pulp mill and modernization of machines. The new machine is designed to produce a wide range of writing and printing, kraft paper and newsprint in reels. The factory located in the backward region of Sirpur-Kaghaznagar (Adilabad District) also produces caustic soda, chlorine for captive consumption and generates 15 mw through co-generation.

TITAGARH INDUSTRIES LIMITED: They are looking for a foreign partner who can pick up equity worth Rs.900 million for revival of the two ailing units of its paper division, which have been closed since last 10 months. Financial instructions including IDBI, IFCI

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and ICICI who had extended loans worth Rs.1600 million to TIL to part finance the Rs.2750 million revival project have asked the company to find a foreign partner as 'no domestic companies were expected to pick up such a big stake'. The amount initially kept for public and rights issues, could not be raised from the market as the primary issue market remained dormant for the last 4-5 years.