TELMARK

Indian Paper Scenario – January 2001

Credit quality of domestic paper companies is now on a positive outlook due mainly to a considerable improvement in market conditions after an extended downturn. Credit rating agency Crisil has forecast that domestic paper prices will remain firm in the medium term. Large and integrated players are expected to benefit the most from this upturn and are expected to report significant operating cash flows in the medium term. These cash flows are expected to be utilized for meaningful debt reduction improving their financial risk profile and making them less susceptible to the inherent cyclicality prevalent in the industry. While the players present in the printing and writing paper and newsprint segments are expected to benefit significantly from the same, the gains for the players in the domestic packaging paper segments are expected to be moderate due to considerable demand-supply imbalances. Further, the increased paper prices have been accompanied by an increase in international prices of softwood pulp. Accordingly, the gains for the domestic manufacturers who depend on external sources for fibre (virgin or recycled) are expected to be limited due to a typical time lag in passing the increase in raw material cost to the customers.

International paper prices have been steadily improving after reaching their cyclical low in early 1999 and further strengthening is expected in the year 2001. This is primarily on account of modest capacity additions globally and the improving economic conditions in Western Europe and Southeast Asia. In line with the international trends, domestic paper prices have increased by more than 25 per cent since its low in early 1999. Further, the increase in international prices has helped in reducing imports. This, together with improved paper demand during the last one year has resulted in increase in capacity utilization for the domestic players, said Crisil. Domestic prices are expected to remain firm during the next 18 months in line with the international scenario. Further, limited capacity addition in the domestic market would also support the domestic prices in the medium term. Despite demand supply imbalances in the packaging paper segment, ITC Bhadrachalam Paperboards (ITC BPL) is expected to report a substantial improvement in profitability in the medium term, on account of its backward integrated operations, significantly improved operating performance, and a reduction in interest charges subsequent to the implementation of debt substitution programme. However, the continued support from its parent, ITC, would continue to be a key rating driver for ITC BPL. For players in the paperboard, kraft and speciality segments like Balkrishna and Pudumjee, the gains from improved realization would be somewhat offset by the increased raw material prices, according to Crisil.

Asian news print prices were mostly unchanged until 15th January 2001, but higher on a month on month basis, tracking a scheduled March 1 price increase in the US. Singapore-based traders quoted 48.8-gm-a-square-metre (GSM) newsprint at US$ 675-$720 a tonne, C&F delivered, for the first quarter, little changed from the previous week's US$ 680-$720 per tonne. But traders noted that compared with last month, prices were on the upswing for the first quarter of the year. In December, the product was offered at US$ 650-$700 per tonne, C&F delivered, for the fourth quarter. A trader connected with one of Asia's biggest consumer of newsprint said newsprint companies in the region were just following the price uptick in the US - the world's biggest consumer of newsprint. The US newsprint producers will increase their prices for newsprint US$ 50 per tonne by March 01, despite reduced demand for newspaper ads due to a decelerating US economy.

With prospects of a stagnant growth in the current fiscal, the paper industry has said that the Government should allocate 4,00,000 hectares of degraded forest land for its exclusive use, to deal with the problem of raw material shortage and high prices. "The Government should provide 10 per cent of the 4 million hectare degraded forest land for our use, rationalize tax structure and increase customs duty on light weight coated (LWC) paper to 35 per cent to bail out the paper industry," Mr. S.K. Bangur, President, Indian Paper Mills Association, told the media. He said the industry was not expecting any growth this fiscal and production would stay put at the 1999-2000 levels of five million tonnes against a targeted growth of eight per cent. Capacity utilization would also remain stagnant at 82 per cent, he added. He said inadequate availability of raw material and high costs were major reasons for the stunted growth. The industry was promoting farm forestry to raise high yielding pulp woods, but availability of such raw material was inadequate and not cost-effective. It was also using other raw materials such as bagasse, agri-residues and waste paper, but the entire production could not be met from the sources. He said that with the reduction of import tariffs, domestic paper prices were now linked to the international market, and cost of domestic inputs such as electricity, coal, labour and freight were increasing consistently. Profit margins were getting squeezed because sales realization was pegged to international price levels and vital inputs were not made available at globally competitive rates. He said the Indian per capita consumption of paper was only four kg compared to 15-20 kg in South-East Asian countries. Demand will not be stimulated adequately, unless paper was made available at more reasonable rates, by reducing tax burden which constituted 30 per cent of the selling price. He demanded that LWC paper should attract current applicable rate of customs duty for paper at 35 per cent and not be clubbed with newsprint on which a concessional import duty of five per cent was imposed. Since the domestic LWC paper attracted a 16 per cent excise duty and sales tax, an equivalent countervailing and special additional duty should be levied on imported LWC. He said to curb an unabated influx of imports, custom duties should be brought to the WTO bound rates which were 25 per cent and 40 per cent for newsprint and paper/paperboard respectively.

ITC BHADRACHALAM PAPERBOARDS: This company has registered a net profit of Rs. 105.10 million on a total income of Rs. 1647.40 million for the third quarter ended December, 2000 as against a net loss of Rs. 35.60 million during the corresponding quarter last year. It may be noted that the company, which suffered a net loss of Rs. 320 million during the last financial year, has turned the corner this year with a net profit of Rs. 99.00 million for the second quarter due to improved productivity, better price realization and reduced interest burden. With this, its net profit for the first nine months of this fiscal stood at Rs. 304.10 million as against a loss of Rs. 240 million during the same period last year.

ORIENT PAPER MILLS LIMITED: This company has announced a net profit of Rs. 350 million in the quarter ended December 2000 compared to a net loss of Rs. 208.00 million in the corresponding quarter last fiscal. After accounting for an interest outgo of Rs. 187.00 million profit before depreciation and taxation stood at Rs. 32.00 million compared to a loss of 148.00 million in the corresponding period last year. Net sales stood at Rs. 1228.00 million compared to Rs. 1142 million. The company has made an application to the Department of Company Affairs, seeking exemption from providing depreciation in respect of assets of Brajrajnagar paper plant and new capital investments in cement expansion.

SIRPUR PAPER MILLS LIMITED: This company has posted a net profit of Rs. 48.60 million on a turn over of Rs. 454.10 million for the third quarter-ended December 2000, showing an increase of 9.95 per cent in the bottom line and 15.57 per cent in the top-line, as compared to the same period last year. Considering the fact that the company earned Rs. 28.70 million from the sale of land and building at Hyderabad during the third quarter of last year, its operating profit still shows an increase of 106 per cent from Rs. 31.50 million to Rs. 64.90 million this quarter. With the above results, the company's net profit for the nine month period ended December stood at Rs. 121.20 million on a turn over of Rs. 1322. 60 million, as against Rs. 77.70 million net profit and Rs. 1110 million turnover during the corresponding period last year.

TAMIL NADU NEWSPRINT AND PAPER LIMITED: As part of its upgradation and capacity expansion programme, TNPL is planning to invest around Rs. 1450 million. It will raise the resources through internal means. It will be used for upgrading both the paper machines and increase the annual production capacity by 25 per cent from 1,80,000 tonne to 2,25,000 tonne, within the next two years. In the first nine months, TNPL achieved a production of 1,42,000 of newsprint, printing and writing papers, which marked 105 per cent capacity utilization.