

Indian Paper Scenario – February 2001

The international prices of pulp have increased from around US\$443 per ton in May 1999 to US\$550 per ton in November 1999. The up trend is expected to continue for another two years and the current cycle is expected to peak by the end of 2001 or by early 2002. Printing & writing paper (PWP) and paperboard prices have been lagging pulp prices but they are expected to move up backed by improvement in fundamentals of Asian region. The Asian region accounts for 30 per cent of the global pulp, paper and paperboard consumption. The demand for industrial paper has also picked up but the prices of Kraft paper and paperboards have not moved up significantly due to an increase in supply. Most paper companies are catering to the lucrative export market leading to a reduction of supply in the domestic scenario. The rise in wood pulp prices has in turn been because of scarcity of the commodity and higher demand from international paper manufacturers. If the results of paper companies are any indication, better prospects are just round the corner.

Operating margins of the two largest paper manufacturers, namely, Ballarpur Industries and ITC Bhadrachallam have expanded. The buoyant international paper demand has improved the export outlook for most of the paper manufacturers. There are no firm figures as to the export revenues earned by the paper producers but given that there is shortage of paper in the domestic market it is clear that most of the mills are catering to the lucrative export demand. Considering this, the prospects for paper firms look bright.

In a bid to consolidate its position as market leader in the paper industry, the Thapar Group flagship Ballarpur Industries Limited (BILT) is considering a proposal to take over Indonesian paper major Sinar Mas' Indian Operations. BILT, now focusing in the writing and printing paper businesses after its revamp, has been offered Sinar Mas' equity in its Indian subsidiary, as a result of the Indonesian parent's Asia Pulp and Paper global realignment plans. BILT Managing Director, Gautam Thapar, declined to comment but company officials talks were under-way with Sinar Mas, which made a Rs 40 – million profit for the first time last year, has been received. They said acquisition of 100 per cent stake in Sinar Mas will make BILT, in the long run, a large-scale paper company and Sinar Mas' operations were synergistic with its own. Managing Director of Sinar Mas India, Vipin Kapur, was also tight-lipped, but company sources said the Indonesian parent Asia Pulp & Paper was taking a fresh look at its global paper business. It will soon make up its mind on the exposure to various countries. The sources said talks were going on with the Thapars, besides several other Indian companies. A decision is expected within a month. However, BILT sources said Sinar Mas was saddled with an unfulfilled export obligation against some machines it had imported in the past. This could prove to be a liability for an acquirer. Also, if BILT were to acquire Sinar Mas' operations, it would need to take a look at the debt position of the beleaguered company. Sinar Mas, with its 0.12 million paper production capacity plant at Bhigwan, near Pune, has reportedly accumulated losses worth Rs 2,900 million, caused mainly due to delay in starting commercial production after being mired in controversies. Its bottom line was also hit by the decline in paper prices after it commenced production. On the export front, Sinar Mas' performance improved last year, with 20,000 tonnes of coated paper shipped.

Leading Coated paper manufacturers have cut the prices of one-side and two-side coated paper by six per cent to eight per cent, following a sharp decline of prices in the international markets due to over supply. Market leader Sinar Mas Pulp & Paper India

took the lead in cutting prices which was followed by other manufacturers. On the impact of the price cut on the domestic paper industry, Mr. Vipin Kapur, Managing Director of Sinar Mas Pulp & Paper India, last year the coated Paper industry had resorted to price hike. Sinar Mas India had hiked the prices of coated paper by 18 per cent last year and therefore the current domestic coated paper prices were still ruling higher.

BALLARPUR INDUSTRIES LIMITED: This company is all set to increase its copier market share through its proposed Rs. 5000-million overall expansion programme. This exercise will be carried out at the company's units at Ballarshah (Maharashtra) and Sewa (Orissa) by adding an additional 30,000 tonnes. The company currently has a capacity of 0.22 million tonnes in the writing and printing paper category and 0.34 million tonnes of pulp manufacturing. According to sources, the entire expansion programme would entail Rs. 5,000 Million of which Rs. 2,500 Million has already been put. The company is hoping to raise Rs. 2,500 million from the sale of its 24 per cent enquiry stake in the Thailand based Phoenix. BILT has tied up with IFC, under which the latter will offer partial credit guarantee for Rs. 1,500 million, 10 years bond issue. Through a partial guarantee, IFC will mobilise additional funds by having investors buy debentures in excess of IFC's guaranteed amount.

TAMIL NADU NEWSPRINT LIMITED: TNPL has lined up a Rs. 400 million capacity addition plan, which would make it one of the largest manufacturers of quality paper and newsprint in the country. The company, has awarded an Euro 8.7 Million (approximately Rs. 400 million) to the German paper technology giant, Voith Paper to upgrade its existing plant and machinery. The update would help the existing machinery to be more efficient, besides making substantial improvement in quality of the product. As part of the modernisation, a new shoe press with ceramic rolls and a steam-box for better quality, would be added to its existing plant and machinery.

WEST COAST PAPER MILLS LIMITED: In order to benefit from the current upsurge in pulp prices and the strong growth in packaging, West Coast Paper Mill, will set up a new unit at an estimated cost of Rs. 2145 million to manufacture heavy weight coated (HWC) paper for the sophisticated packaging industry. It currently has a capacity to manufacture 120,000 tonnes of paper and paper board. With the new HWC unit, the capacity will go to 164,000 tonnes. Part of the raw material for HWC paper, which is pulp, will come from its current unit. While the market rate for pulp is Rs. 30,000 per tonne, they will get it for Rs. 12,000 per tonne. The other raw material is waste paper which will be sourced locally.

YASH PAPERS LIMITED: This company has reported a net profit of Rs. 2.3 million for the quarter ended December 31, 2000 against Rs. 1.2 million recorded in the same period, in the previous year. Net sales stood at Rs. 51.1 million. For the nine-month period ended December 31, 2000, the company has reported a net profit of Rs. 8.3 million. Net sales during the first nine months of the current fiscal stood at Rs. 153.8 million.