

## Indian Paper Scenario – April 2001

While the prices of pulp have come down both globally and in the domestic market, paper companies are confident of ending the year on a good note due to increase in demand. Prices of softwood pulp which had risen to US\$ 750 per tonne in the third quarter has stabilized at US\$ 475 now. The industry has, however, said that unless the government improves the customs and excise norms, the bottomline would still be affected. According to the Indian Paper Manufacturers Association (IPMA), despite the fact that standard newsprint, glazed newsprint and light weight coated paper (LWC) are different varieties of paper, these are still being classified separately and different tariffs are applied.

The IPMA has suggested that the tariff structure be simplified with a single rate of duty for newsprint and another for all types of paper and paperboards including LWC. In its post budget submission to Union Finance Minister, the IPMA has pointed out that LWC be treated as a variety of coated paper and not that of newsprint. However, LWC continues to be treated by the government as a variety of newsprint for customs duty purposes, attracting a concessional duty of five per cent. This has resulted in a variety of coated and uncoated papers flooding the domestic market in the guise of LWC. The association has said that if the government treats LWC as a paper and not club it with newsprint this trend could be arrested. Highlighting the applicability of the Special Additional Duty (SAD), IPMA said that the budget proposals have once again exempted LWC imports from SAD as well as Countervailing Duty (CVD) though domestically produced LWC paper attracts a central excise rate at 16 per cent along with the local sales tax as leviable by states. There is no rationale in keeping LWC at par with newsprint and not bringing imported LWC at par with domestic produce.

While Cenvat at 16 per cent has been levied on most of the products including all varieties of paper and paperboards, the government has kept open a window allowing exemption of excise duty for units producing up to 3,500 tonnes per annum using unconventional raw material. This, the association fears, will lead to the government losing out on substantial excise revenue. It would also affect other manufacturers as excise duty benefits will tempt mill owners to reduce prices in the market and thus start a price war. Moreover, mills with a capacity of more than 3,500 tonnes have been reportedly evading excise duty payment by declaring clearances under different names. The association had called an amendment in the excise duty notification to address this anomaly. Though prices of pulp have come down, paper manufacturers are confident that the scenario should improve within three months.

To set up a one tonne plant, the cost comes to around Rs. 70,000/-. So with such high cost, there is very little scope for new capacities to come up. The size of the entire writing paper industry is 3.5 million tonnes and along with newsprint, it comes to 5 million tonnes. The industry is also currently facing a problem of wood, which is their main raw material. The sector has therefore asked the government to give 10 per cent of the degraded forest area in the country to the paper industry. Degraded forests involve wastelands and less fertile areas and amounts to over 30 million hectares. This would help paper companies to meet raw material problems to some extent.

Though the paper industry has had a spell of growth, it is largely a price-driven trend. Volumes continue to be on the lower side. In the three years preceding the recent bullish phase in price, volume growth dipped below five per cent. Though it may not be obvious,

demand levels in the paper industry clearly do have linkages to the level of economic growth. In the writing and printing paper segment, the growth rates may continue to be 5-7 per cent on a long – term basis. Much of the growth may come from higher value-added segments, where profitability has dipped over the years. As more players target this segment, the intense competition has curtailed the ability of producers to effect price hikes to maintain profitability levels that prevailed when only a couple of players dominated this segment. In the industrial paper segment, growth rates are likely to be better and at 10 –12 per cent in the long term. The coated paper board segment, where ITC Bhadrachalam has a strong position, may also show good growth given the rising preference for better packaging and the increasing spread of the kind of goods that entail such packing.

At the structural level, a key factor continues to be the high degree of fragmentation in the industry. There are less than 10 players with capacities of over 60, 000 tonnes per annum (tpa) in an industry where the annual demand is close to 4.4 million tonnes. Only a few, such as ITC Bhadrachalam, Ballarpur Industries, Tamil Nadu Newsprint, J. K. Corp and Orient Paper have the volumes that could generate cash flows for further expansion plans. Orient Paper also has to complete its restructuring before it can embark on growth in the paper business. What also stands out is the fact that unlike the global scenario, where consolidation has been a big - time game in the last two years, the Indian Industry has simply not made a move in this direction. To some extent, the threat from imports appears to have receded somewhat in the last year or so due to the run – up in the process and higher tariff rates. But with import tariffs now lower by close to 14 percentage points, global prices are set to soften and the possibility of lower demand levels in some major global markets and higher imports cannot be ruled out. In this context, the two bouts of depreciation in the rupee value has enhanced protection levels.

**HINDUSTAN PAPER CORPORATION LIMITED:** After abortive attempts to infuse fresh funds into its ailing subsidiary Mandya National Paper Mills, HPC began winding up of Mandya in line with the verdict of the Karnataka High Court. Confirming this development, the company sources said that the company has given voluntary separation scheme to all 650 workers, barring 12 employees and is looking for buyers for land and other assets of the closed writing and printing paper maker. The assets were valued at Rs.430 million in 1994 and would fetch much less than Mandya's outstanding of nearly Rs.2300 million to the government. Its accumulated losses stood at Rs.2460 million. HPC took over Mandya as sick unit in January 1974 and has so far invested Rs. 840 million.

**ORIENT PAPER MILLS LIMITED:** This company is in the process of raising Rs.195 million by issuing 7.5 million ordinary shares of Rs.10 each at a premium of Rs.16 to its promoters on preferential basis. This is necessary due to losses incurred by the company during the last three financial years causing substantial erosion of the net worth of the company.

**WEST COAST PAPER MILLS LIMITED:** In order to benefit from the current upsurge in pulp prices and the strong growth in packaging, this company is planning to 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. The company currently has a capacity to manufacture 120000 tonnes of paper and paper board. With the new HWC unit, the capacity will go up to 164000 tonnes.