

## Indian Paper Scenario – May 2001

The four-year period, from 1995-96 to 1998-99, was one of the toughest in the history of the Indian paper industry. With demand registering a modest decline and imports recording a sharp rise, prices of most of the varieties of paper suffered a marked fall. The growth rate of the industry dwindled to just around 2.2 per cent and many units plunged into the red. Hundreds of small and medium-sized companies were either closed down or their capacity utilisation came down steeply.

However, the outlook for this cyclical industry underwent a change from 1999-2000 when the international paper market turned buoyant. The marked rise in prices in the overseas market not only reduced imports of paper into India but also led to a higher demand for the products of the Indian paper manufacturers. The growth rate shot up from 2.2 per cent to 9 per cent and capacity utilisation improved from 74 per cent to 79 per cent. The uptrend in demand, production and capacity utilisation was well sustained in 2000-01 with the output registering a further 9 per cent growth on top of a similar growth in the previous year, and capacity utilisation improved further to 82 per cent. Reflecting the upturn in the fortunes of the industry, the major players in the sector could show a noticeable improvement in their financial performance.

The noticeable recovery in the paper sector recorded during the last two years (1999-2000 and 2000-01) is primarily attributed to the upswing in the overseas paper markets. With the country moving distinctly in the direction of globalisation, the domestic paper industry's fortunes are now substantially linked to those of the paper markets abroad. It is the international demand and the price levels which will have a direct impact on the Indian paper market. For example, during the South East Asian crisis, players in these markets resorted to large-scale dumping that eventually led to a condition of depressed prices, which touched a bottom of around \$ 500 per ton in the second half of 1998. This immediately influenced the Indian paper market with prices hitting Rs. 30,000 per ton. But, with the revival of these economies, the demand increased and large-scale consolidation took place at the global level. This resulted in the prices improving to around \$ 700 per ton. In line with this, paper prices in the Indian market also increased by around 10 per cent and this trend continued in the early part of the current year too. The industry people, however lament that despite these price improvements, paper prices are still lower than those in the mid '90s when they were around \$ 1,200 per ton. Domestic prices were around Rs. 43,000 per ton during the same period. As trends in the international market have a direct bearing on the performance of the domestic players, the recent strike in the Finnish market is likely to result in a tightening of supplies across the globe. As a result, global pulp and paper prices are expected to remain strong in the short term. This unexpected development has proved beneficial to the domestic industry to a large extent. However, raw material costs in terms of pulp, energy costs, etc. have also risen at a fast pace, which has, to a certain extent, nullified the impact of the rise in prices of paper. The profitability of majors, especially those who use wood pulp material, like BILT, JK Corp., and West Coast Paper, have been affected on this count. On the other hand, some other major companies like TNPL and Seshasayee Paper Boards, which predominantly use bagasse as their raw material have managed to combat these cost increases. The Indian paper industry's growth has not been on scientific lines. While the paper industry in other parts of Asia is emerging as a global low-cost producer, challenging established producers in Europe and North America, the Indian paper industry continues to be restricted by several inhibiting factors. The industry's growth has been lopsided. Though the annual production is around five million tons, there are no more than 10 large-scale plants, the balance of

over 200 plants being in the small sector. During the four year recessionary phase between 1995-96 and 1998-99 as many as 150 small units were forced to roll down their shutters. Of course, this situation led to a phase of acquisition, merger and consolidation, which enabled a few large players to expand their capacity within a short time

Newsprint has for long been an area of contention between manufacturers and users in India. It is essentially used in making newspapers and magazines, low-priced annual reports and circulars. This segment comprising the plain and glazed varieties accounts for an estimated 19.0 per cent of total domestic production. What sets newsprint apart from other grades of papers is the considerable lobbying power the end-user segment has in shaping government policy. Due to this, newsprint manufacturers are often faced with unfavourable regulations. The first newsprint mill, National Newsprint and Paper Mills, began operations in 1995 with a capacity of 80,000 tons per annum. Till then, consumption was met by imports. Till the early 1980s when TNPL went on stream, no new capacities were added. Subsequently, the government encouraged domestic production through a series of incentives particularly for non-wood based newsprint. The purpose of this policy was to reduce the rapidly escalating import bill. Newsprint being a low grade paper, can be manufactured from wood – substitutes such as bagasse and waste paper. Hence, it is ideally suited for production in the sugar belts. Tamil Nadu was the major producer of newsprint, mainly for this reason. As literacy rates grew in the country to exceed 50 per cent around 1990, the number of newspapers and periodicals along with their print runs increased dramatically. Government policies like quantitative restrictions and import duties attempted to balance supply from local manufacturers and imports. However, publishers have always favoured imported newsprint because of superior quality and lower prices when import duties were nominal. Lobbyists for the user industry managed to bring the import duty down to 5 per cent from 10 per cent fixed in 1997. At this point, local manufacture was rendered uncompetitive, due to which almost all newsprint consumed in the country at present is imported from countries like Russia, Canada, Indonesia and New Zealand. The future for local mills does not seem bright on account of the rapid pace of liberalisation. Consequently, import duties are unlikely to be raised significantly. The demand for newsprint in the Indian market is projected to grow at around 6 per cent per annum to nearly 0.86 million tons by 2001. This is against the 1998 level of 0.71 million tons per annum. However, increasing imports will result in lower capacity utilization in the country.

**ANDHRA PRADESH PAPER MILLS LIMITED:** This company has posted a turnover of Rs. 2855.50 million, other income of Rs. 62.70 million and net profit of Rs. 280.40 million during 2000-01. The company's turnover as well profit had increased compared to the previous year's turnover of Rs. 2702.10 million and net profit of Rs. 143.50 million. As per the unaudited financial results, during 2000-01 the company incurred an expenditure of Rs. 2435.40 million and provided Rs. 79.20 million towards interest charges, Rs. 99.20 million for depreciation and Rs. 24 million for taxation.

**ITC BHADRACHALAM PAPERBOARDS LIMITED:** ITC has reported a turnaround performance for the year ended March 2001, even as its profitability was effected in the last quarter. The company registered a net profit of Rs. 348.90 million on a turnover of Rs. 6234 million for the fiscal. The company had posted a loss of Rs. 321.20 million on a Rs. 4571 million turnover during the previous year. Operating profit grew by 51.81 per cent to Rs. 1177.60 million, while turnover was up by 36.37 per cent. The company could improve profitability by changing the product mix in favour of value-added products



on the one hand and improving operational efficiency on the other. Interest cost of the company has also come down substantially to Rs. 418.40 million for the fiscal 2000-01, as against Rs. 671.70 million in the preceding year, due to the substitution of high cost debt with low cost debt.

**WEST COAST PULP AND PAPER MILLS LIMITED:** This company has posted an 88 per cent rise in net profit to Rs. 285.20 million in the year ended, March 31, 2001, from Rs. 152 million in the previous year. Turnover went up by 7 per cent to Rs. 3513.30 million from 3286.80 million. Operating profit margin improved to 16.8 per cent from 11.6 per cent on better price realisation for paper and encouraging demand for paper and board. Consequently, operating profit rose by 102 per cent to Rs. 379.20 million.