

## Indian Paper Scenario – July 2001

The domestic paper industry and trade are in rough weather in the wake of the continuous fall in prices of pulp and paper in the international market during the last couple of months. Paper mills are being obliged to cut ex-mill price of paper and paper products while traders are unwilling to take deliveries from the mills apprehending a loss if the price falls further. Between 1997 and October 2000, things were fine in the domestic paper industry because of “boom” conditions prevailing in the global market. Wood pulp prices had touched a record high of \$800 per tonne. Accordingly, paper and paper products were ruling steady and exports were fetching good returns. From November, the paper market dipped and pulp prices are now ruling at around \$ 400 a tonne. This has pushed down the cost of paper and paper products production in the international market resulting in lower prices for finished products. The fallout of this on the domestic market has been serious. From the beginning of the current year, domestic paper mills in the organised sector, which were exporting every year about 0.2 million tonnes of writing, printing and speciality paper, failed to compete in the international market. More importantly, the unsold quantity of paper and products, meant for exports, is now being diverted to the domestic market at discounted prices. According to paper trade sources, the excess supply of paper and paper products by the mills, coupled with “clandestine import” of newsprint, writing and printing paper and packaging materials, have depressed the domestic paper market. While mills are frantically trying to liquidate their inventories, traders, on the contrary, are trying to maintain business with very low inventory. Sources in the organised paper mills, however, say that the market situation will return to normal within a few months. The mills have already reduced the price of the standard varieties of writing and printing paper by about Rs. 4,000 a tonne, to Rs. 28,000 a tonne, during the last couple of months. They do not rule out a further reduction of prices to facilitate liquidation of inventories lying with the mills. Paper trade sources point out that the present market condition would have been much worse if the import duty on paper and paper products had not been pegged at the level of 63 per cent. Even at the prevailing global market prices, the landed cost of imported paper is on higher side, thus discouraging traders from importing. They indicate that Nepal, being a member of SAARC, is the only country entitled to export to India without paying any import duty. Two paper mills in Nepal are said to be dumping cheaper varieties of paper and paper products in Uttar Pradesh and Bihar.

ITC Bhadrachalam Paperboards Limited a subsidiary of ITC, embarked upon a programme to modernise its pulp mill at an outlay of about Rs. 2270 million. The company has also made a recent foray into the Chinese and South African markets to consolidate its position in the export front. The company has made a turnaround in the year 2000-2001 posting a net profit of Rs. 348.90 million against a loss of Rs. 321.20 million last year. The turnaround was made possible by upgrading the product mix to high value paperboards of international quality, deriving economies of scale through effective technology absorption and full capacity utilisation of machines and realising cost efficiencies though consistently high resource productivity and energy management. The 0.12 million tonne capacity paperboard machine presently operates at a capacity utilisation of 106 per cent. Despite the continuing oversupply in the paper industry, sales during the year increased to 204,649 tonnes (Rs. 6110 million) from 179,715 tonnes (Rs. 4440 million). Sales of the value added products grew to 30,233 tonnes from 15,183 tonnes last year. Exports have also doubled from 19,896 tonnes (Rs. 428.20 million) last year to 39,228 tonnes (Rs. 944.10 million).

Reliance Industries Limited is marketing a synthetic fiber product for the paper industry under the 'Recron' brand name, making a foray into non-textile application for the polyester business. The product, recently developed by Reliance Technology Center, is being marketed as an eco-friendly fiber which can be used as an additive with paper pulp. Sources said that the company has introduced the product in the market few weeks ago after conducting trial runs at various paper mills. Reliance Technology Centre, the research outfit of the company, has been working on the development of the product for the last few years. Sources said that the product is essentially a 1.5 denier, uncrimped specialty fibre with a 6mm size and is termed as short-cut polyester staple fibre. This can be added to the cellulose pulp for improving the strength of the paper, including the tear factor. Paper industry circles said that Recron brand will be beneficial only for small paper mills since they mainly use waste paper and agricultural residues as raw material which do not have high tear strength. Sources added that large paper mills use conventional raw material or virging pulp which are known for good tear factor.

Asian newsprint prices for the third quarter are lower with Indian publishers opting to buy cheaper newsprint from Russia and Indonesia. India is touted as among the fastest growing newsprint consumers in Asia, owing to its huge populace and increasing literacy rate. But traders said the economic slowdown, coupled with shrinking advertising revenues, had forced most Indian publishers to skimp on production costs. Traders said most Indian publishers would rather go to sellers, that can offer cheap newsprint. With demand down, prices have likewise fallen.

**SESHASAYEE PAPER AND BOARDS LIMITED:** This company has reported a net loss of Rs. 32 million on an income from operations of Rs. 733.10 million during the quarter ended June 30, 2001, against a profit of Rs. 16.20 million on an income of Rs. 431.60 million during the corresponding period in the previous year. The sources said that the loss might be attributed to the new investments. (The expanded production achieved at a cost of Rs. 2220 million commenced in July 2000. SPBL's production capacity is now 1,15,000 tonne compared to 60,000 tonne, earlier.) Interest charges had mounted and paper prices had also dropped since April this year. However, the company hoped to finish the year on a positive note. Sales had increased and the export market was buoyant. The new machine had stabilised and operations were according to budget and schedule.

**WEST COAST PAPER MILLS LIMITED:** This company has entered the final stages of negotiations for acquiring a paper plant. Top sources in West Coast said that the Rs. 3570 million paper and paperboards maker would acquire a paper plant within a month's time. Talks are in a final stage with two companies – North Indian paper plant and a Bangalore-based company. The proposed acquisition, along with the on-going Rs. 2145 million modernisation-cum-expansion plan, would help the company record a turnover of Rs. 5000 million by 2002-03, with 80 per cent of sales coming from paper and 20 per cent from cables. The company has also decided to raise Rs. 215 million through rights and debenture issues to part-finance its expansion plan slated to be completed within this year. The rights issue will offer one equity share against every 10 equity shares, while two optionally fully convertible debentures will be issued against every 5 shares held. The expansion plan was aimed at raising the paper making capacity from the present 124,750 tonne per annum (tpa) to 164,000 tpa. A new duplex board machine was being set up with a capacity 33,000 tonne to produce HWC (heavy weight coating) duplex boards. The company has already installed a large recovery boiler with a capacity of 500 tonne per day.