

## Indian Paper Scenario – April 2002

The Indian Newspaper Society (INS) has voiced its concern over the imposition of four per cent entry tax on newsprint by the state government. In a statement issued to the press in Delhi, INS president Mr. Pratap G Pawar said that a detailed memorandum had been submitted to Tamil Nadu Chief Minister Ms. J Jayalalitha to give up the move to impose entry tax. The Supreme Court, in one of its judgements, had observed that a tax on newsprint amounted to a tax on knowledge and a burden imposed on the readers. Newspapers were an essential commodity, vital for spreading information and literacy. Any unreasonable burden on the newsprint amounted to a violation of freedom of the press, Mr. Pawar noted. The newspaper industry in India was, at present, confronted by multiple crises arising from the implementation of the Manisana Wage Board's Awards, the need for withdrawal of customs duty on newsprint, unremunerative advertisement rates paid by the government, the steep decline in advertisement revenue and competition from the electronic media. Moreover, price of newsprint constituted 60 to 65 per cent of the turnover of the industry. The imposition of entry tax will place the newspapers in Tamil Nadu at a disadvantage vis-à-vis their counterparts in the rest of the country particularly when states like Karnataka and Kerala where some major newsprint mills are situated, do not levy entry tax on newsprint. He further stated that extending this levy to imported newsprint would amount to violation of the Constitution of India as interpreted by various courts. The Supreme Court's Judgment on Indian Express Vs Union of India (1985)(1) SC (641) inter alia, avers "in view of the intimate connection of newsprint with the freedom of the press, the tests for the vires of a statute taxing newsprint have, therefore to be different from the tests usually adopted for testing the vires of other taxing dues. In the case of ordinary taxing statutes, the laws may be questioned only if they either openly confiscate, or are a colourable device to confiscate. On the other hand, in the case of a tax on newsprint it may be sufficient to show a distinct and noticeable burdensomeness clearly and directly attributable to the tax". The Central Sales Tax Act and all the States Sales Tax Acts had exempted newsprint from their net. Taking the Supreme Court Judgment into account, the Central Government had restricted the levy of customs duty on newsprint to five per cent. When the whole country was heading towards value-added tax system, the move of Tamil Nadu Government was regrettable, Pawar said.

The Hindustan Paper Corporation, even after earning a net profit (provisional) of Rs. 450 million on a sales turnover of about Rs. 5830 millions during the financial year ended March 2002, is apprehensive about its growth. This is due to certain inherent problems that the corporation is facing in optimising the level of production at its two operational mills in Assam. HPC intends to grow fast through brown field expansion of its two units, namely Nagaon Paper Mill (NPM) and Cachar Paper Mill (CPM) in Assam, each having an installed capacity of 1,00,000 tons of writing and printing paper. The corporation has, in fact, plans to expand each unit's capacity by at least 30 per cent in the next few years. It proposes to invest about Rs. 500 millions during the current fiscal towards implementation of modernisation and expansion programme. Highlighting the problems that are affecting HPC growth in the north-eastern region, Mr Raji Philip, Chairman and Managing Director, told newsmen, that all efforts had to be made to improve roads from forests to mills and the "unigauge" in the Railway network (between Lumding and Silchar) had to be made available. Moreover, there was a need to have a policy decision on earmarking and allocating degraded forest land for cultivation of high and quick – yielding pulpable species.

HPC's two units in Assam jointly achieved a record production of 1,93,011 tons of writing and printing paper. Similarly, it achieved an all time high sale of 1,96,269 tons, an increase of 11.37 per cent over the previous year (Rs. 5230 million). Its wholly-owned subsidiary, Hindustan Newsprint Limited. (HNL), achieved 100 per cent capacity utilization. But due to the sluggish newsprint market during the year under review, the sale at HNL (96,105 tons) was less by 7.5 per cent over the previous year's 1,03,923 tons. Due to a lower volume of sales coupled with price reduction over the previous year, the sales turnover of HNL at Rs. 2235.60 million has dipped by about 8 per cent over the previous year (Rs. 2530 million), resulting in the profit plunging to Rs. 300 million. Mr. Philip said the Union Cabinet had recently approved a proposal towards financial restructuring of the company's accumulated loss (in the form of interest). It would soon be a 100 per cent debt – free company with an accumulated loss of about Rs. 4420 million being waived. He said the operating net profit of Rs. 450 million, which was expected during the year under review, was inclusive of dividend income of Rs. 180 million from HNL. In reply to a question, the HPC Chairman said that a total of nine prospective investors, responding to a global tender had submitted expressions of interest (EOIs) to SBI Caps for purchase of 74 per cent equity of HNL. The due diligence process was now on. He said that HPC has two sick subsidiaries – Mandya National Paper Mills Limited. (MNPM) and Nagaland Pulp and Paper Co. Limited. (NPPC). MNPM went into liquidation with effect from October, 2000 and the liquidation move had recently been approved by the Karnataka High Court. Explaining the status of NPPC, he said that HPC had filed a petition before AAIFR (Appellate Authority on Industrial and Financial Reconstruction) for reconsideration of a decision of the Board for Industrial and Financial Reconstruction (BIFR) which had ordered last month for winding up of NPPC. The city based Development Consultant Limited. (DCL) had been assigned to examine if there was any scope to revive NPPC whose mill at Tuli in Nagaland has an annual installed production capacity of 33,000 tons of writing and printing paper.

In a bid to turn around the loss making Hindustan Paper Corporation (HPC) and to wipe out the accumulated losses by 2004-05, the government has approved the financial restructuring package for the company. The decision was taken by the cabinet committee on economic affairs (CCEA) recently. Under this restructuring the frozen past interest including penal interest would be written off, said the Parliamentary affairs Minister, Mr. Pramod Mahajan. He said the CCEA also approved a package for payment of salary and wages of HPC's employees and also for redemption of non-cumulative redeemable preference shares.

The government should increase Import Duty on newsprint to 25 per cent from five per cent at present and provide a zero per cent floor rate under the proposed Value Added Tax to allow the industry to withstand global competition, a committee on public undertakings said. The committee's study report on Hindustan Newsprint Limited was tabled in Parliament early this month. In order to mitigate hardships caused by the bleak marketing scenario and higher cost of production, government should provide relief to newsprint industry including a zero per cent floor rate under the proposed VAT system to enable them to survive and withstand the global competition, the committee said. Import duty on Newsprint should be increased from the existing five per cent to the WTO-bound rate of 25 per cent, while Import Duty for intermediary consumables like spares could be reduced to a level below 25 per cent from the current rate of 40-78 per cent to safeguard the domestic industry, it said. The committee also recommended imposing Anti-Dumping Duty on newsprint imports to prevent multi-nationals from capturing the domestic market. Further, since newsprint is a commodity of special importance in the inter-state

trade, it should be considered for inclusion under Section 14 of the Central Sales Act as declared goods. The committee noted that the newsprint industry in India as well as abroad has been facing difficult times. Due to the economic recession, demand for all grades of paper, including newsprint, had weakened in US and Canada, resulting in reduction of price of newsprint and dumping of excess quantities by the international newsprint suppliers in the Asian region on marginal costing basis, it said. On account of drastic fall in the price of imported newsprint, the Hindustan Newsprint as well as other newsprint manufacturers have also reduced their basic price by Rs. 1500 per MT from July 2001, it said. The committee noted that the PSU was incurring operational losses on account of increase in the prices of forestry raw material as also due to 25 per cent increase in power tariff imposed by the Kerala State Electricity Board. To overcome the shortage in raw materials faced by HNL, the committee said. The Union Government should take up the matter of allotment of additional land with the Kerala Government at the highest political level and help the company secure possession of the required land within the shortest possible time. It noted that though the company required allotment of land for forestry operations to the extent of about 10,000 hectares, the state government had so far allotted only 5,600 hectares.

**JK PAPER LIMITED:** This Company has drawn up plans to tap the semi-urban areas in a bid to expand its market. The company will primarily focus on increasing its distribution network in these regions. Currently, it has over 80 distributors, 10 warehouses and 4 regional marketing offices primarily located in the urban areas.

**SIRPUR PAPER MILLS LIMITED:** This paper mill is in the process of expanding the captive power generation capacity. The company has already placed order with BHEL for the generators. The project, which is estimated to cost Rs. 150 million, is likely to be operational in the year 2003-04. The company recently increased its production capacity from 61,550 MT to 83,550 MT per annum, with an investment of Rs. 600 million funded through a term loan of Rs. 350 million from the financial institutions and Rs. 250 million from the internal accruals. It has set up new bleach plant, soda recovery boiler and brown stock washers to improve the quality of the pulp. For the financial year 2001-02, the company has reported a turnover of Rs. 1763.20 million as against Rs. 1780 million in the previous year.