

Indian Paper Scenario – June 2002

The crumple in the paper and paperboards industry continues to remain mainly because of the sluggish trends in prices. What started off as a modest decline in profits early 2001 has continued with no signs of the industry turning the corner quickly. The feeble signs of economic recovery in the US have improved the chances of paper and pulp prices looking up. But whether the recovery at its present modest level would last and then gather momentum would be the key factor in shaping the demand for paper products and therefore, prices. The picture now is vastly different from what seemed to be emerging turnaround in the industry's fortunes at the turn of the decade. Starting in mid-1999 and lasting through 2000, paper and pulp prices enjoyed a sharp bull run. Prices in most categories rose by 50-60 per cent. The recovery came after a downturn that lasted four years, from 1995-96 to 1998-99. However, pulp prices did not touch \$1,100-1,200 per ton, earlier the position in the bullish phase of 1994-95 (again an upturn that lasted a short while). Pulp prices are usually good indicators of what is happening and what is to come in various paper categories. In the 1999-2000 upturn, prices moved up to around \$750 per ton. Various paper varieties, including newsprint, followed suit. But the slowdown in the global economy, exacerbated by September 11, 2001 had an adverse effect on paper demand. Producers have had difficulty in pushing through modest price hikes. The prices of most varieties declined considerably in the last two quarters. Pulp prices showed a flat trend. The uncertainty imposed by the events of 9/11 was so pronounced that global paper majors were unwilling to take a call on likely price trends.

International Paper, the world's largest player, termed the outlook uncertain and declined to make any forecast on price trends and company performance in 2002. The decline and the sluggish trends in various paper varieties have happened despite the flurry of consolidation at the global level and producer side discipline. This only reflects the weakness in underlying demand. Unlike in the past, the upturn of 1999 and 2000 was not marked by a rush to create fresh capacities. This was a major problem earlier as rapid capacity creation led to a quick change decline in prices. It truncated the upside price cycle, even as the traditional 4-6 year period continued to prevail on the downside. This time around the downside cycle looks set to last three years – stretching into 2003 if not beyond. The latter is a distinct possibility if the US economic recovery turns out to be a dead eat bounce. However, the cycle may well have bottomed out. But this does not automatically mean that price increases are in store. Stora Enso, the industry's second largest player, has taken the view that although market conditions are showing signs of more favourable conditions, a clearer upturn would be needed before the financial performance of the group improves. This was the note the company struck in its 2002 first quarter earnings announcement. The possibility of any sharp improvement in prices is also precluded by the fact that inventories are still a problem (though they have declined in the last six months or so) coupled with a continued weak undertone in demand. But what first signs if economic recovery in the US has done is to consider a scenario where prices have bottomed out and producers are tempered to try and push small price hikes. In its commodity report for April, the Bank of Montreal noted that the mood among pulp producers improved during April. While prices remained unchanged at \$ 465 per ton, statistics showed that inventories declined further. Consequently several producers announced price increases ranging from \$20-30 per ton effective in May. With the world economy on a stronger footing, we believe conditions are in place for those increase to stick and represent the start of an up trend. As far as even these modest price increases go, one would have to wait three-four months to see if the hikes

are absorbed. A similar situation of producers announcing price increases did prevail in 2001 only for the plans to fall flat as there were no takers.

Asian producers also have excess capacity that could dampen any price up trend in the next couple of quarters. Domestic prices have moved in line with global trends from the second half of 1990s as Customs tariffs have been reduced. The tariffs were brought down to 20 per cent in 1997 only to be hiked up to 40 per cent following industry demands. Now the tariff stands at 30 per cent as the peak rate has been cut to this level. The linkage with global prices, however, has got more to do with the direction of prices rather than the magnitude. The magnitude of price increases/declines has been lower than the trend in the global market. Since December 2000, the domestic price of maplitho has been struck in the Rs. 32,000-34,000 per ton level. These were the levels that prevailed in the boom period of 1995 as well. Then the prices declined by around 17.6 per cent even as global prices fell sharply. The subsequent rise was also to the tune of 21.4 per cent, again lower than global trends. The fact that Customs tariffs have been in the 30-40 per cent range in this period probably insulated the domestic price trends somewhat. As of paper companies, they have almost come to solely depend on price increases to boost earnings. Administered costs have increased steadily even as raw material intensity has become high. In such a situation, price has been the key driver of profitability. With the outlook not looking good for any significant increases, paper companies may be sent to report flat or declining trends on earnings.

The Indian Paper Industry is getting back on its feet. Most companies engaged in the manufacture of printing and writing paper have hiked prices by Rs. 500 to Rs. 1,000 per ton in the past few weeks. Moreover, most of these firms have also threatened to effect another increase by the end of the month. Average prices of printing and writing paper now average upward of Rs. 40,000 per ton, against around Rs. 38,000 per ton earlier this year. Paper prices in the country had taken a beating over the past few years. Prices came down steadily to around Rs. 38,500 per ton over the past three years from a peak of Rs. 43,000 per ton in 1999. Considering the current rate of increase, trade circles say paper prices might soon attain the earlier peak level by the end of the year. The latest to increase prices is Hindustan Paper Limited. They have raised prices of the cultural variety paper which are used for printing books and making exercise books for school and college students from today by Rs. 800 per ton. HPL had increased prices by Rs. 600 in April. Trade sources said the latest increase of around Rs. 800 per ton from Hindustan Paper within a couple of months was unexpected, especially since the company raised prices by as much as Rs. 600 per ton just about a couple of months ago. The other major paper makers which increased prices are the Thapar group's BILT Industries, Andhra Pradesh Paper, Bangur group's West Coast Paper and J. K. Paper. While BILT increased prices by Rs. 1,000 per ton for its cream wove variety, the group has threatened another hike from July. Andhra Pradesh Paper has increased prices of different varieties by Rs. 500, Rs. 750 and Rs. 1,000 per ton. JK Paper also increased prices by Rs. 1000 per ton. Smaller firms such as Super Paper and Gulmohar Paper belonging to the Emami group, too have increased prices by Rs. 1,000 per ton to around Rs. 32,000 per ton. Market sources said that the manufacturers are expecting an increase in demand for paper.

The manufacturers of various paper mills in the state have agreed to the government's proposal to purchase their bamboo requirements from the forest department. An understanding has been reached in this regard between the paper mills and the forest department. The agreement between the two parties had paved the way for resumption

of bamboo sales, which was stalled for the last two years. The forest department is expected to earn a revenue of Rs. 14 million as a result of selling bamboo to the paper mill. The total production of bamboo in the state is 2,00,000 tons annually. Out of this, the government permitted the forest department to sell 30 per cent of the yield to the paper mills, 35 per cent in the open market and rest to co-operative societies. The paper mill managements stopped purchasing bamboo following differences over price. The bamboo policy of the state government had triggered the controversy. The opposition parties raised the issue in the assembly when the state government took a decision to decrease the price of bamboo by 20 per cent instead of rising it by 10 per cent. The state government was charged with reducing the price to help the managements of the paper mills. A cabinet sub-committee was constituted to study the problem in its entirety. The cabinet sub-committee studied the policies and prices in other states. A consultancy agency appointed by the government also went into the whole range of issue and submitted a report to the government. The cabinet sub-committee took a decision recently to hike the price of a ton of bamboo from Rs. 1380 to Rs. 1450.

JK PAPER LIMITED: This company has joined the race to acquire a controlling stake in Hindustan Newsprint Limited, a 100 per cent subsidiary of Hindustan Paper Corporation Limited. HPL, which manufactures 100,000 tpa of newsprint at its facility in Kottayam, is the largest manufacturer of newsprint in the country.

SESHASAYEE PAPER AND BOARDS LIMITED: This paper mill has recommended a dividend of Rs. 1.20 (12 per cent) per equity share of Rs. 10 for 2001-02. The company has reported a net profit of Rs. 73.5 million on an income from operations of Rs. 1018.10 million for the quarter ended March 31, 2002. During the corresponding period in the previous year, the company reported a net profit of Rs. 20.5 million on an income of Rs. 730.7 million. During the current year, the company has targeted a production of 1,10,000 tons of paper and paper boards and proposes to increase its exports to 30,000 tons. During 2001-02, the company manufactured 101,000 tons and exported 20,295 tons, representing nearly 20 per cent of its production.