

## Indian Paper Scenario – July 2002

There is a strong possibility that India will be heavily dependent on imported paper and paperboard within a few years time unless a national policy for industrial plantation is framed to ensure increased availability of “fibrous” raw material at competitive prices to the domestic paper industry. This is the finding of the Indian Paper Manufacturers’ Association (IPMA). An exclusive association for large and integrated paper mills, IPMA has estimated a demand and supply gap of about 3 million tons of paper and paperboard by 2010 in the event of no major new capacity addition by domestic paper mills, mainly due to the non-availability of raw material coupled with a resource crunch. The demand for paper and paperboard is expected to be 8.5 million tons by 2010 as against the current annual demand and production of about 5.5 million tons and 5 million tons, respectively. The demand has been estimated considering that the per capita consumption of paper will grow at least to eight kg by the same year as against the current consumption of five kg per annum. This suggests that the country has to create an additional production capacity of 3 million tons to meet the estimated demand. And to create this additional capacity, the industry may be required to invest about Rs. 2,40,000 million.

Explaining in detail the emerging scenario of the domestic paper industry, Mr. S. K. Bangur, President of IPMA, said they had already informed the appropriate authorities in New Delhi that the raw material problem could be solved if 10 per cent of the total 67 million hectares of degraded forest land were made available for development and afforestation. The plantation at the degraded forest land would be made in addition to the IPMA member-mills initiative for captive plantation and also supporting plantation under social/farm forestry programme. Mr. Bangur said non-wood raw materials-based paper mills were constricted from growing because of dependence on imports for sourcing wastepaper, while the availability of agri-residues was linked to acreage under cultivation. Moreover, quality paper could not be produced from pulp made out of wastepaper and agri-residues. The additional capacity creation would thus largely be dependent on wood-based paper mills. Hence, there is a need for expansion of new areas under afforestation. It is estimated that the annual raw material requirement for wood-based industries is expected to grow up to 9 million tons by the year 2010 as against the current requirement of about 5.8 million tons. Describing the general perception that the paper industry was destroying the natural forest cover of the country as baseless and a myth, Mr. Bangur said the fact remained that the industry consumed only three to four per cent of the total wood available in Indian forests as against 90 per cent that was used for fuel and six to seven per cent for construction, furniture-manufacture and other commercial purposes. What the paper industry was demanding was a national policy for industrial plantation that would be framed by the Government, corporate sector, NGOs and citizens at large. Mr. Bangur was of the view that many small and medium paper mills might face severe competition from imported paper if the import duty on paper was brought down from 35 per cent to below 25 per cent.

Compared to other countries, the cost of production in domestic paper mills was high due to low installed capacity. While the average capacity per mill in India was about 11,500 tons per annum, that in Malaysia was about 65,000 tons, in Thailand about 83,000 tons, in Korea about 90,000 tons, in Indonesia 0.135 million tons, in the US 0.184 million tons, in Canada 0.213 million tons and in Finland about 0.315 million tons. Most domestic paper mills might find it difficult to produce quality paper at competitive

costs because of low capacity. Hence, in the larger interest of the consumer, Mr. Bangur said every effort had to be made to enhance the capacity of individual mills.

The paper industry is highly energy intensive, with energy cost accounting for about 20 to 30 per cent of the production cost. Focus on this cost element is therefore imperative in the industry's pursuit of global competitiveness. In India, the energy cost is as high as Rs. 4.50 to Rs. 5.50 per unit as against Rs. 1.60 in developed countries and between Rs. 1.90 to Rs. 2.60 in China. To reduce the energy cost, paper industries are now investing in co-generation for sequential use of energy to simultaneously produce electrical power usable process steam. But surprisingly, instead of encouraging such activities of the industry, the State governments are planning to impose duty on the co-generation power. Orissa, which is levying 12 paise on every unit produced from co-generation and captive power plants, proposes to increase it to 17 paise. Gujarat is charging about 20 paise per unit. Andhra Pradesh and many other states are proposing to levy duty on the co-generation. The co-generation power cost comes to about Rs. 1.60 per unit. The paper industry now has captive plantation in a meagre 20,000 hectares. India has about 60 million hectares of degraded forest. If the degraded forest land is handed over to the paper industry the country would get fresh vegetation and the problem of raw material for the paper industry would also be solved. But the stringent Central forest law is making difficult the handing over of this degraded forest land for regeneration in the private sector.

Paper prices have shown a significant rise in both domestic and international markets. As paper is in the open general licence (OGL) list, domestic paper prices follow the international trend. Leading domestic integrated players have, therefore, used this opportunity to increase their exports, which come with lot of incentives. As a result, they have cut back on the domestic supply, which facilitates medium and smaller players in the industry, and cater to the domestic market at increased prices. Consequently, there has been an all-round improvement in the margins of the domestic players – be it small, medium or large. Leading domestic players like BILT, AP Paper mills and Hindustan Paper have already increased the prices of different varieties by Rs. 750 to 1000 per ton in the past few weeks. The industry expects that the domestic paper prices will reach their peak (achieved in 1999) by the year-end, if the current trends in the international markets sustain, which they are hopeful of. The production of rayon grade pulp increased by 5.3 % in FY 2001-02. Similarly, paper and paperboard production by integrated paper producers increased by 2.3 % while that by small – scale industries inched up by 1.7% during the above period. However, the fall in the international newsprint prices led to a fall in domestic newsprint production by 2.1%. The production of paper & paper products and printing, publishing and allied industries increased by 1.6% in April 2002 over April 2001, as reflected by the increase in index of industrial production during the above period. Considering the increased prospects of exports, the production of paper and paper products is likely to increase significantly during the current year. The sudden and sharp rise in the international paper prices has made the domestic integrated paper producers to focus more on the export market. These large mills have a capacity to produce about 0.15 million tons per annum of which they are likely to export over 0.2 million tons. These players have cut the domestic supplies and are exploring export avenues to increase their share of exports, and, in the process, also get export benefits, apart from capitalising on the spurt in international prices. The small and medium players in the industry have a capacity of about 3 million tons and the strategy of large players has come as a windfall for these players. Not only are domestic prices increasing in tandem with international prices, but these players are also able to

enhance their capacity utilisation and increase their sales in the rising market. As a result, all the players in the domestic paper market are enjoying the benefit of a sharp and sustained rise in international paper prices.

India Inc. has requested the Finance Ministry to examine the anomalies that have crept in the matter of imposition of Customs duty on newsprint import. Commenting on the issue, the Federation of Indian Chambers of Commerce and Industry (FICCI) said that in the last Budget the Government had taken a pragmatic approach aimed at multi-directional growth of the economy and for the elimination of inherent delays and avoidable expenditure. In the process, however, certain anomalies had inadvertently crept in which required to be reviewed and necessary corrective steps taken, the chamber said. In the matter of imposition of Customs duty on imports, the Government in the Budget had stressed the principle that the duty on finished products should be higher than that on raw materials in order to encourage the proliferation and growth of domestic industries, the chamber said. With considerable restrictions on the use of wood based raw material, mainly keeping in mind and the need for conservation of fast depleting forest resources, and owing to technological handicaps currently involved in the large-scale use of agro residues, more and more responsibility will have to be shouldered by the small paper manufacturers for ensuring sustained growth of the paper industry. FICCI, meanwhile, has also written to the Finance Ministry stating that the paper and paperboard and most importantly the newsprint manufacturers are currently reeling under the impact of recession and during the last couple of years the margin of profit has been considerably eroded and has been alarmingly low and the cash loss is huge. Several of the units manufacturing newsprint, because of their inability to break even and consequential escalation in the input and interest costs and loss of competitive edge, have to close down their operations, FICCI said. The total requirement of newsprint in the country today is around 1 million tons. The domestic production of newsprint by the existing manufacturers can fully meet the country's demand, as the installed capacity is around 1.2 million tons. Currently, approximately 0.5 million tons of newsprint are being imported at the cost of around Rs. 10,000 million to the country's exchequer. Currently on import of newsprint, there is a customs duty of five per cent only. Due to negligible duty on import of newsprint, large quantities of the same are being dumped from South East Asian countries, Russia and America and the indigenous industry is suffering badly. This duty is even less than the duty on raw material i.e. wastepaper whereon the duty incidence is 9.2 per cent (basic duty five per cent plus SAD four per cent). WTO bound rate for newsprint is 25 per cent, FICCI said. To resolve the anomaly, the Customs duty on import of newsprint should be raised to 25 per cent, which is WTO-bound rate, and newsprint import should attract SAD at the rate of four per cent because indigenous newsprint manufacturers are also subject to sales tax and other local levies, the chamber said.

**ITC BHADRACHALAM PAPERBOARDS LIMITED:** The amalgamation of this company with ITC Limited contributed an incremental Rs. 5110 million to the company's gross turnover while the operating profit grew by Rs. 590 million in the last fiscal. Company sources said cash profits from operations increased by Rs.1010 million and the aggregate increase in the capital employed consequent to the amalgamation amounted to Rs. 2810 million. The scheme of amalgamation was effective from March 31, 2002 and operative from April 1, 2001. Commenting on the business environment for the paperboards segment, company sources said, global slowdown in demand, oversupply and the resultant fierce competition characterised the performance during the period. The company said its Rs. 2270 million pulp mill modernisation and up gradation project

at Bhadrachalam was progressing as scheduled and was expected to be fully operational by October.

**SIRPUR PAPER MILLS LIMITED:** In a major breakthrough achieved towards the close of the financial year, this company has completed the expansion of its production capacity by 22,000 tpa. This was completed at its existing plant in Andhra Pradesh. It went on stream towards the end of March this year. Thus, the expanded capacity is likely to boost sales/output volumes in the current financial year. The impact of this would start accruing to the company immediately in the current financial. This apart, the management has decided to buy-back 2 million of its equity shares, at not over Rs. 40 per share. This is a move directed at raising shareholder value, in a stock, which was then quoting at a miserable Rs. 25-26. The stock continues to trade at a low PE of three times its EPS. This is due to the low liquidity in the scrip.

**TAMIL NADU NEWSPRINT AND PAPERS LIMITED:** This company has posted a 56 per cent jump in net profit and eight per cent increase in sales turnover for the first quarter ended June 30, 2002 when compared to the corresponding quarter last year. Net profit was Rs. 122.4 million on sales of Rs. 1404.6 million as against a net profit of Rs. 78.7 million on sales of Rs. 1302.7 million the previous year. Export sales accounted for 5,438 tons worth Rs. 152.9 million during this period as against 3,056 tons worth Rs. 93.9 million during the corresponding quarter of the previous year, TNPL has targeted export sales of 36,000 tons during the year with a free-on-board value of Rs. 1000 million as against 27,780 tons in the previous year with a FOB value of Rs. 733.7 million. The upgrade of Paper Machine II to speed up operations and increase production would be completed by September, while the upgrade of Paper Machine I would be completed by November.

**WEST COAST PAPER MILLS LIMITED:** This company has declared a dividend of Rs. 6.50 per share for 2001-02 against Rs. 5 per share in the previous year. The company's net sales and profit have increased by 14.4 per cent to Rs. 3580 million from Rs. 3130 million and by 11.9 per cent to Rs. 318.6 million from Rs. 284.8 million, respectively. According to a West Coast Paper Mills Limited press note, the working results of the company for the first quarter of the current fiscal was satisfactory with gross profit improving to Rs. 131.3 million from Rs. 125.5 million. Net profit was also marginally higher at Rs. 72.5 million (Rs. 71.2 million). The company's Rs. 2150-million expansion programme was progressing as per schedule. An expenditure of about Rs. 1440 million has already been incurred on this programme. The expansion programme has been financed to the extent of Rs. 540 million by internal accruals.