TELMARK

Indian Paper Scenario – February 2003

The paper industry has urged the government to bring out necessary legislative amendments in various acts to enable the industrial plantations and thereby help the industry get its raw materials easier. If these necessary changes are not incorporated on an urgent basis, India will have no option but to import large quantities of paper resulting into the outgo of valuable foreign exchange. The Rs. 10,000 crore Indian paper industry's growth is severely hindered primarily because of the scarcity of raw materials including wood, agricultural residues and waste paper. Each of the raw materials contributes around one –third of the total raw material consumption of the paper mills. In order to appraise the government of these and other vital issues, the paper industry has sought the help and clout of the Confederation of Indian Industry (CII), whose 5 member panel is expected to finalise the study paper by the end of this month. This paper will then be presented to both the planning commission and even to the Prime Minister's office. Contrary to popular belief, the Indian industry consumes only around three and a half per cent of the total wood consumption in India, whereas over 90 per cent is being used as fuel wood and around 6.5 per cent is being used by the construction industry, railway sleepers etc. In order to make international quality paper and to meet the growth of the paper demand in the country, the wood requirement is expected to grow from 5.2 million ton in 2000 to 13 million ton by 2020. Therefore, according to IPPTA, the plantation land, which is required for this wood consumption, will be 0.6 million hectares as against 32 million hectares of degraded forest land available and 100 million hectares of wasteland available in the country.

The Rs. 65 million JK Paper Limited hopes to cash in on the trend reversal that is being seen in the competition scarce cut – size branded premium bond paper segment. As against a near stagnation or even decline in sales volumes in the last few years, there are enough signs to indicate that this segment would register volumes growth in the current calendar year. JK Paper hopes to register strong growth in the branded premium bond paper segment in the coming months, riding piggyback on the overall growth of the market and also at the expense of its competitors' market shares. According to industry estimates, the market size for cut-size paper is about 7,500 tons. The company hopes to sell at least 1,200 tons of JK Excel Bond in a period of 12 months. In the past, JK Paper had been unable to achieve "price leadership" in this segment due to its insignificant presence and the towering presence of a market leader.

Indian Agro and Recycled Paper Mills Association (IARPMA) has called for a "level paying field" by imposing appropriate customs duty on paper and newsprint. The industry is passing through a critical phase on account of the heavy impact of increasing input cost and demand recession. In order to enable the industry to be competitive a level playing field should be provided to the domestic industry by imposing appropriate customs duty. While the World Trade Organisation (WTO) has stipulated 40 per cent duty on paper and 25 per cent on newsprint, the government reduced the duty beyond the bond rates of WTO. IARPMA represents the non- wood based paper mills which use renewable agro residues like rice straw, jute and waste paper. The industry has also demanded a separate classification for paper containing not less than 75 per cent of pulp made out of agro residues and waste papers. Duty on waste papers should be exempted completely. In recent times, the input and raw material costs of the industry have steeply gone up. The price of caustic soda has gone up by 40 per cent, diesel by 15 per cent and imported waste paper saw an increase of $60 per 70 ton. Besides this, almost 40 per cent of the cost of production of paper is governed by administered prices on which industry has no control.

ITC LIMITED: This Company has decided to expand capacities in its paper and board division through organic growth. The company has looked at several paper mills which were in the market but none were found to be suitable in terms of product mix or underlying parameters. ITC would have been interested if the units on sale were manufacturing products comparable in some respects to its existing product line of value added paper and paper-boards. In addition, the target companies were required to be up to the notch in terms of environment and pollution norms. The search for a suitable takeover is not the company's focus at this point of time; rather the focus is on further improvements in efficiency and organic growth. If the right mill were to come on to the market, the company would take a call on the matter at that point.

TAMIL NADU NEWSPRINT AND PAPERS LIMITED: This company has posted a lower net profit of Rs. 30.2 million on a reduced sales turnover of Rs. 1060.4 millions for the quarter ended December 31, 2002, against a net profit of Rs. 39.70 million on a sales turnover of Rs. 1434.10 million for the corresponding period last year. The company attributed the drop in turnover and profit to the loss of production in the paper machines for rebuilding purpose, for a total of 44 machine days. The production during the quarter was 29,810 ton s against 44,936 tons during the corresponding period last year. The production has proved in January and full capacity is likely to be achieved from March, according to a TNPL release. For the nine months ended December 31, 2002, TNPL's net profit was Rs. 305.5 million on sales of Rs. 3848.60 million compared to a profit of Rs. 211.8 million on sales of Rs. 4098.3 million for the corresponding period last year.