

Indian Paper Scenario – July 2003

The director general of anti-dumping has launched an investigation into the alleged dumping of medium weight and high weight art paper and art card described as coated paper, including paper and paperboard of 80 gm (grams per square metre) and above. The action puts a question mark on the annual import of 50,000 tons of art paper, valued at Rs. 3000 million. The investigation targets the entire spectrum of exporters ranging from Indonesia to the 15 existing members of the European Union and the 13 candidate members. Only Japan and Canada, relatively minor players in the game, are not in the hit list. The petition was moved by the Ballarpur group represented by its companies in Gurgaon, Yamunanagar and Coimbatore. The group is the sole producer of art paper in India and is the leader in the printing paper and paperboard segment. The Ballarpur group has claimed as many as six injury marks in support of the impact of dumping on sales profile margins and capacity utilisation. The complainant has side-stepped the light weight 70 gm and below variety used by the glossy magazines and newspaper supplements because it knows that the government will not be able to stand up to the pressure of the newspaper industry. The move affects the import of Rs. 1250 million worth of art paper and art card used by the publishing industry. Shipments in transit will be speeded up to seek immediate clearance. Orders for delivery from September onwards may be cancelled. The packaging, display and advertising industry will also suffer after the likely imposition of the measure. Ballarpur Industries, the sole producer, will raise prices to take advantage of the monopoly position once import competition is out of the way. Another serious implication of the measure is the sizeable distortion in the market. Before the expected imposition of the anti-dumping duty, there are two slabs of 5% and 50.8% duty for lightweight art paper for magazines and newspapers and medium and heavy art paper. With the anti-dumping duty, the total incidence will cross 100% on the medium and heavy paper but lightweight paper will continue at five per cent. There will be a huge pressure to mis-declare imports leading to pressure on administration and judiciary.

In view of emerging global competition, domestic paper industry has urged the Centre to set apart a corpus to modernise paper mills on the lines of technology up gradation fund for the textile sector. With 80 per cent of about 500 paper mills badly in need of modernisation to cope with latest technology, the sector needs at least Rs. 20,000 million, according to Indian Pulp and Paper Technical Association (IPPTA). Though the association discussed the matter with the concerned ministry several times, there was no proper response. Being the capital intensive industry, the mills require a minimum of Rs. 1,00,000 to produce one ton of paper worth Rs. 35,000 for which five tons of wood has to be used. Out of the 300 million ton world production, annual paper and board production in India accounts for 5.8 million tons with an installed capacity of less than 20,000 tons in 400 mills and 500 tons in the remaining mills. With per capita consumption of paper in India standing at five kgs compared to 40 kgs in China, 15 kgs for Asia and 25 kgs in the US, there is tremendous potential for the industry in the domestic market.

The promoters of Andhra Pradesh Paper Mills Limited, the LN Bangur family, is expected to pick up the State government's 25% stake in the company which is being put on the block. Sources inform that a preliminary meeting has already been held between the parties on the buyout. This puts to rest speculations about any hostile bid by one of the big players in the industry who have been on the look out for an acquisition for a mid or large –sized company. Promoters' holding in the company stands at 71.72%

of which the Bangurs hold 46.36% and the rest is with the State Government. Andhra Paper, a Rs. 4000 million company, was being looked upon as a susceptible case by the punters when the state government announced that it will offload its holding in the company. The stock price had shot up close to 30 % in the last week on speculative buying in anticipation of an open offer which will not be applicable in this case as it would amount to inter-se-transfer between the promoters. The State government has already offered to sell its stake to the Bangurs, as per initial agreement signed between them for the first right of refusal. It is learnt that the exact percentage of stake transfer was also discussed and the Bangurs have agreed to buy out the entire stake. Rumour mills was awash with speculations about either JK paper or Ballarpur, both of whom have already indicated their intentions to look at inorganic growth, making a hostile bid for APPML. The issue of offloading by the state government came to light in the wake of a positive response to state government's equity divestment in Godavari's Fertilizers and Chemicals, which was approved. Few months back the decision by the state government to exit from private corporate bodies where it held minority stake was made public. At that time it was indicated that the process of equity offloading would depend on the performance of the scrip in the stock market.

ABHISHEK INDUSTRIES LIMITED: This Company has reported an increase in net sales to Rs. 1133.54 million as compared to Rs. 953.29 million in the corresponding quarter of the last year registering 19% growth. The Company has achieved profit before tax of Rs. 238.45 million and profit after tax of Rs. 154.76 million during half year ended June 30, 2003. The company has reported an increase in its net profits (after tax) to Rs. 77.97 million in the second quarter ended June 30, 2003 as against Rs. 77.84 million in the corresponding quarter of the last year. During the quarter under review, the provision for taxation includes provision for deferred taxation of Rs. 432.50 million. The interest cost has also been reduced by 40% to Rs. 43.37 million.

JK PAPER MILLS LIMITED: This Company had closed its financial year ended June 30, 2003, with an output of 1,72,000 tons against 1,65,000 tons last year. The plant capacity utilisation increased further to 114.6 per cent on account of better operating efficiencies. Sale of paper and pulp was also higher at 1,79,000 tons as compared to 1,73,000 of previous year.

RAMA NEWSPRINT AND PAPERS LIMITED: This paper mill has posted disappointing results for the year ended March 2003. Its operational costs rose eight per cent to Rs. 1850 million despite four per cent drop in sales at Rs. 1870 million. This has resulted into an 85 per cent dip in operating profit at Rs. 43 million. Added to high operational cost, interest burden of Rs. 283 million and Rs. 300 million depreciation, the company went into a loss of Rs. 540 million up from Rs. 240 million loss during the previous year. The share of raw material cost to total cost has increased from 40 per cent to 46 per cent.

SESHASAYEE PAPER AND BOARDS LIMITED: This Company has reported a net profit of Rs. 46.80 million on an income from operations of Rs. 955.80 million for the quarter ended June 30, 2003. During the corresponding period in the previous year the company reported a net profit of Rs. 15.60 million on an income from operations of Rs. 853.10 million. Interest outgo has dropped to Rs. 39.80 million (Rs. 50.60 million). For the year ended March 31, 2003, the company reported a net profit of Rs. 168.80 million on an income from operations of Rs. 3910 million. During the quarter, the company's



production was 28,830 tons compared to 28,294 tons in the corresponding period of the previous year. Exports were at 4865 tons, accounting for 17% of production.

TAMIL NADU NEWSPRINT AND PAPERS LIMITED: This paper mill has reported a net profit of Rs. 1460 million on a net sales turnover of Rs. 1303.90 million for the quarter ended June 30, 2003. During the corresponding quarter in the previous year, the company reported a net profit of Rs. 122.40 million on a net sales turnover of Rs. 1404.60 million. Interest and finance charges have dropped to Rs. 44.80 million. The company has attributed the drop in sales turnover to loss of production during the quarter to the shutting down of the paper machine I for a total of 25 machine days due to water shortage. However, net profit has increased by 19 per cent due to higher realisation from printing and writing paper. The company reported a net profit of Rs. 520.40 million on a net sales turnover of Rs. 5398.7 million for the year ended March 31, 2003.