

## Indian Paper Scenario – August 2003

The Indian paper industry can bank on steady growth in demand in the coming years despite pressure on prices from imports on writing and printing paper and newsprint. It is expected that the credit quality of domestic paper companies to remain stable over the short to medium term barring any sizeable merger or acquisition activity. The paper industry can boast of an improved price outlook for most product categories. It also expected steady demand growth of around 5-6 per cent per annum. At the same time, capacity addition in the sector was likely to be limited owing to a cut back in capital spending. This was partly on account of environmental considerations. These factors would support a gradual improvement in the financial profile of companies. Limited capacity additions in recent years coupled with stable demand – growth of around 5-6 per cent per annum has narrowed down the demand supply mismatch in the domestic paper industry. Excess capacity had become a problem for the sector some years ago. With production no longer in excess, paper prices witnessed a firm trend particularly of paper types known as cream wove and map litho. The prices of industrial grades of paper like duplex board and Kraft have also been firm since April 2002. The situation was however different in the case of writing and printing paper (WPP) segments including variants like coated paper. This category was exposed to the international market and users were dependent on imports. Nearly a third of domestic demand was met from imports, partly on account of limited domestic capacity. Prices were under pressure in this category right through 2002-03 owing to falling prices in global markets. The newsprint segment was also closely linked to international markets and price trends. The government had also reduced the tariff on imports. This segment of the paper industry has witnessed depressed domestic prices for over two years now owing to low international prices. Sluggish North American demand was to blame for this. The domestic medium and large sized companies were likely to expand through the cost effective brown field route where capacity additions could be done at around Rs. 25,000 – 50,000 per ton. In contrast, cost of expansion through the green-field route would be around Rs. 75,000 – 1,00,000 per ton.

Close on the heels of Murugappa's controlled Coromandel Fertilizers acquiring the Andhra Pradesh Government's holding in Godavari Fertilisers recently through the divestment process, Aravali Securities and Finance is now preparing to acquire the Government's holding in Sirpur Paper Mills Limited. Aravali Securities, which is the co-promoter of Sirpur Paper with the Andhra Pradesh Government, proposes to acquire the latter's holding of 6.34 per cent in the paper manufacturer and thereby further consolidate its holding. The Andhra Pradesh Government has recently announced its proposal to divest its holding of 5,29,131 equity shares in Sirpur Paper Mills, equivalent to 6.34 per cent in total capital of the company. Aravali Securities informed the stock exchanges that it intends to purchase these shares and was currently in the process of submitting bid for the same. According to Aravali Securities, the mode of proposed acquisition would be inter-se-transfer and the company would submit its bid for the Government's holding in Sirpur Paper in the first week of September 2003. As per the schedule announced by the State Government, the intimation of acceptance of bid would be announced thereafter. As on June 30, 2003, of the existing paid-up equity base of Rs. 83.40 million of Sirpur Paper Mills, the promoters hold on stake of 36.33 per cent, while the persons acting in concert hold a stake of 6.92 per cent. Among the promoters, Aravali Securities holds 2.5 million equity shares, amounting to 29.97 per cent stake, while the State Government holds 5,29,000 equity shares, representing 6.34 per cent holding. Of the holding of persons acting in concert, Central India Industries

Limited holds 3.37 per cent and National Engineering Industries limited has 3.55 per cent stake. While the institutional investors currently have a stake of 21.42 per cent in Sirpur Paper, private corporate bodies hold 19.78 per cent; public 15.21 per cent and others hold the balance of 0.34 per cent. According to Aravali Securities, its shareholding in Sirpur Paper after the proposed acquisition would stand increased to 30,29,131 equity shares representing a stake of 36.32 per cent.

West Coast Papers Mills has entered into a share purchase agreement with ICICI Bank Limited and ICICI Trusteeship Services Ltd. to purchase 33.85 per cent of the total paid up equity of Rama Newsprint and Papers Limited (RNPL) at Rs. 5 per share of the face value of Rs. 10. The deal is subject to restructuring of the debt by the debt-restructuring forum. The West Coast scrip at the BSE opened at Rs. 185.10 and closed at Rs. 198, which was also the intra-day high, registering an increase of 6.97 per cent. Rama Newsprint too reported a 2.26 per cent increase to close at Rs. 8.60 after touching an intra-day high of Rs. 9.25. The board has also entered into a shareholder agreement with the existing promoters of RNPL along with their associates, family members and friends in respect of 23.70 per cent of total paid up equity of RNPL, held by them. As a result of this agreement, the promoters and their associates will execute irrevocable power of attorney in favour of the company, authorizing it to exercise all voting rights in respect of shares held by them. The power of attorney will not include, the decision relating to further issue of equity shares or any securities convertible into equity shares. The company will, however, have the first right of refusal in case of the promoter and their associates group wanting to sell the said shares.

ITC Limited has become the country's first environment friendly 100 per cent elemental chlorine free (ECF) paper product. The company has invested Rs. 2270 million in its pulp mill modernisation and up gradation project at Bhadrachalam to convert to ECF technology. According to a company release ITC limited has become the country's first paper manufacturer to implement the Elemental Chlorine Free (ECF) technology for manufacture of high quality paperboards and speciality paper. Henceforth, all the paper made by ITC will be ECF, in line with international environmental norms. Such elemental chlorine – free paperboards also conform to food grade norm of US FDA for packaging edibles and medicines.

**TAMIL NADU NEWSPRINT AND PAPER LIMITED:** This paper mill is all set to kick off a two year Rs. 7500 million capacity expansion by January next year. Its capacity will increase from 2,30,000 tons to 3,30,000 tons by April 2006. The expansion will be funded from internal accruals to the extent of Rs. 3000 million, and the balance will be met through borrowings. The company is planning to expand capacities of both coated and uncoated printing and writing (P&W) paper. The production mix of newsprint and P&W paper had changed from 18:82 in 2001-02 to 12:88 in 2002-03. In the last three months, TNPL has reduced water consumption per tons of paper produced from 93 kilolitres to 71 KL. The average water consumption in the industry according to TNPL sources is 125 KL per tons of paper produced. The company during 2002-03 produced 147,382 tons of printing and writing paper and 20,496 tons of newsprint.