

Indian Paper Scenario – February 2004

The Indian Pulp and Paper Technical Association (IPPTA) has ruled out the possibility of any fresh investment in green-field paper projects in the country, till the impending pulpable raw material problem is resolved. Inadequate availability of raw material is not only posing a threat to the existing wood-based paper mills but also affecting the growth of this industry. The reduction of import duty on paper & paperboards from 140 per cent in 1990 to the current level of 20 per cent had already put the industry under tremendous pressure. Though the raw material problem appears serious in magnitude, the problem can be tackled within a few years time, provided the Union Government recasts its forest policy, allowing paper mills to have access to certain percentage of forest land for captive plantation. Similarly, State Governments should help encourage plantation on wasteland. Paper mills, on their part, can take up social forestry schemes on the home-stead lands. The forest based wood was in scarcity and the demand-supply gap of 10 lakh tonnes was anticipated in 2003-04, which was to be met mostly from import of pulp, although this was not a healthy sign for the country. In fact, agro-residue such as rice straw and wheat used by small paper mills, where the black liquor is generated, caused environmental problem and therefore, these mills were often found techno-economically not viable. The third variety of raw material, namely recycled fibre, which was of late in use, could help a lot to domestic paper mills in augmenting production because of the advancement in deinking technology. At present, half of the world's total production of paper and board was from the recycled fibre as against 25 per the country's total production based on this kind of fibre. The demand-supply gap of paper and board was expected to be widened in the next five years. The demand might touch the level of about 10 million tonnes (mt) as against current demand of about 6 mt. The total production at present was somehow matched the current level of demand. But unless new capacities were created, the country might be forced to meet the demand supply gap by importing about 4 mt per annum. The quantum of import would be more in the subsequent years. The emerging scenario was alarming for many inefficient mills, which might not be able to survive competition. More than 100 paper mills were already closed in different parts of the country as they were not cost effective. The paper industry associations has assured the Union Ministry of environment and forest that all mills would achieve international standard of environment by 2008.

The Indian paper industry which has recently come back to the growth mode with an annual growth rate of five percent from a decline in production three years back, is now grappling with the problem of implementing the environment norms as laid down in the Kyoto Protocol of the World Trade Organisation. The industry will have to replace the chlorine-based process of pulp manufacturing with Elementary Chlorine Free Technology (ECFT) to ensure hazards-free environment or invite penalty. Installation of ECFT requires an investment of Rs. 400 to 500 million for each paper unit, and barring a few none of the 550 paper units in the country has the financial capability to invest such a big amount. Although the Union department of environment and forests had allowed five years time under the guidelines of Corporate Responsibility for Environmental Protection to adopt a chlorine-free pulp technology, unless the government provided some financial incentives, the majority of the paper plants would not be able to implement the norms. ITC had already installed ECFT and two other large paper units – Andhra Pradesh Paper Mills Ltd. and Tamil Nadu Paper and Newsprint Ltd. Were on their way to doing it. All the other manufacturers are still struggling to arrange funds. .

Armed with the firm undertone in the International newsprint market, domestic manufacturers are contemplating revising the prices of all varieties of newsprint once again, effective April – June quarter. Incidentally, all the manufacturers revised prices on an average by Rs. 1000 per tonne during the January – March quarter in tandem with the rise in prices in the international market. The landed cost of imported newsprint would have been more if there was anti-dumping duty on the US newsprint as applicable in China. As against the Current newsprint prices in the US market of \$450 (Rs. 20,000) to \$460 per tonne, the offer price for the same newsprint to India is about \$400. The US manufacturers / exporters their surplus inventory, even subsidising export prices. In view of dumping of newsprint by the US, domestic manufacturers are unable to take maximum price advantage of the International market. The demand and supply gap in the country would remain at about 5,00,000 tonnes in spite of higher production. The domestic newsprint industry has an installed capacity of about 1.2 million tonnes per annum.

PAPER PRODUCTS LIMITED: The net sales of this company have increased by 17 percent over the December quarter and by 19 percent over the year ended December 2003. A one-time dividend of Rs.10 per share in addition to regular dividend of Rs. 5/ per share has been declared. The company is embarking on major capex plans for the year 2004. Two strategic plans are slated, viz a plant in Hyderabad and new product development at Silvassa.

BALLARPUR INDUSTRIES LIMITED: This paper mill is planning to expand capacity of BILT Graphic Papers India, formerly known as Sinar Mas Pulp and Peer India. BILT is all set to expand its capacity at its plant near Bhigwan, Pune by another 25,000 tonnes. The plant capacity currently is 150000 tonne coated paper. The investment that would go into this expansion would be more than Rs.200 million. This is expected to be completed within 18 months time. BILT has acquired Sinar Mas in 2001 at a consideration of \$114.5 million. This included a purchase price of \$62.5 million for equity and the assumption of liability of Sinar Mas (India) amount to \$52 million, which was financed through ICICI, Standard Chartered Bank and Rabo Bank. BILT is also looking at further expansion but pointed out that there was nothing concrete as of now. If it takes place, this would mean an addition of a new machine which would be able to produce two lakh tonnes paper per annum and would be basically for uncoated products. The capacity would increase from the present 130000 tonnes to 375000 tonnes.