Indian Paper Scenario – March 2004

The paper industry is less-talked about. However the share price of Ballarpur Industries Limited, a name synonymous with the industry, has shot over 75.8 percent over the past one to the current level of Rs. 70. The rally in BILT shares is built on sound fundamentals and the company is set to see better times. The reasons are three-fold, Firstly, the domestic paper industry is likely to see accelerated growth in the coming years with healthy growth in the overall economy. BILT, being a leading player with 18 percent market share in writing and printing paper, should also grow faster. Secondly, given the fragmented nature of the industry, consolidation should happen sooner than later and this will strengthen Bilt position in the industry. Thirdly, domestic paper prices, which are largely driven by international prices, are likely to rise, driven by buoyant international demand. The Paper industry is slated for higher growth in the coming years since it is highly linked to the economy. With the GDP expected to grow 6 – 7 percent, the industry is expected to initiate similar growth numbers. Moreover the current level of per capita paper consumption is very low at 4.5 kg compared to the world average of 53 kg. BILT being a leading player, will be able to cash in on the buoyant domestic demand for paper going forward. The Indian paper industry is broadly classified into writing and printing paper, industrial paper and newsprint. In the writing and printing segment where Bilt is the leading player with almost 8 percent market share, the bulk of production is concentrated in the hands of a few large players. However other segments are dominated by a large number of small players. The fragmented nature of the industry is a result of past government policies which encouraged the setting up of many small units with as low capacity as 1 tonne per day. However industry dynamic are not in favour of small players because paper manufacturing is a highly capital and energy intensive industry. The manufacturing process demands considerable material handling skills as very large quantities of raw materials are used as input. Paper manufacturing is also a highly polluting process and requires substantial investments in pollution control equipment. Typically a paper plant costs about Rs. 50,000 to Rs. 1,20,000 per tonne of capacity to achieve significant economies of scale the plant size should be at least 3000 tonnes per annum, implying nearly Rs. 1800 million of investment. With a minimum gestation period of two years. This means that only large players will be able to capitalise the growth potential. The industry is slated for consolidation act now, with consolidation close to the heels, large players like BILT stand to benefit immensely. Currently India has a capacity of around 5 million tonnes and capacity utilisation is around 80 percent. The domestic paper prices are linked to international process. Hence, paper prices in India are very much dependent on the international demand supply situation of paper and therefore the fortunes of the India paper industry are largely externally driven. Internationally paper prices are showing an ascending trend. Currently they stand at $300 – 450 per tonne an increase by $20-30 per tonne from the last quarters. However, if there is one that is hampering the profitability of paper producers it is the rising cost of key raw materials. Raw material costs have been under pressure due to rising international pulp prices as BGPL now merged with BILT – imports around 70 percent of its raw material. Raw materials remain one of the concerns, but Bilt has started cutting down other costs to balance the rise. Cut in import duties from 25 to 20 percent in the Union Budge will also help paper producers curtail excess raw material costs. Raw materials constitute 40 to 60 percent of the total cost of paper production. The major raw materials used for production of paper are wood, bamboo, waste paper, bagasse, caustic soda, Chlorine and power/ steam. The persistent shortage of fibrous raw material in the country has let to continued dependence on imports. In the long term, with proper government policies, the use of semi arid land for commercial plantation ill help in bridging the gap in the supply of fibrous raw material.

The Ashok Paper Mill, which used to produce finest quality paper available in the country at one point of time, was handed over to the North East Paper and Industries in August 2003 on lease, is yet to start commercial production and under the circumstance, it would be difficult for the mill to run profitably without assistance. After taking over of the mill, the North East Paper and Industries Ltd., renovated it and trial production started on January last year. According to records available, the company invested an amount of about Rs. 63.1 million for the renovation of the mill and during the trial run, it was found that the paper mill is in running condition. But the condition of the pulp mill is not yet known as the trial run was conducted with pulp purchased from outside. Under the circumstances, it would be difficult to run mill properly without excise duty exemption as most of the materials required for the running need to be brought form outside.

ANDHRA PRADESH PAPER MILLS LIMITED.: This paper mill , the fourth-largest paper company in the country, is roping in International Finance Corporation (IFC) for a $40 capital infusion. The money will come in a mix of fresh equity and long-term debt, the proportion of which is yet to be finalised. The Investment is part of the $ 129.1 million expansion being undertaken by the paper company to spruce up its facility and enhancing paper capacities. The Kolkata based L N Bangur Group, promoters of Andhra Paper, has recently acquired the state government's 25% equity stake in a Rs. 390 million all – cash deal. Rs. 5500 million expansion plan will entail close to Rs. 550 million in fresh equity infusion, Rs. 180 crore through internal accruals and the rest will be accounted by debt.

ITC LIMITED: This company has completed the process of acquiring the paperboard manufacturing facility of BILT industrial Packaging Co. Ltd. (BIPCO) near Coimbatore in Tamil Nadu. The facility renamed Unit Kovai, will operate as part of the paperboards and speciality papers division of ITC which has a unit at Bhadrachalam in Andhra Pradesh. Industry consumers like hosiery manufacturers or producers of matches, fireworks and agarbatti require printed and finished paperboards but the nature of the products allows use of recycled and waste papers without environmental or health hazards. ITC will operate four paperboards machines making it one of the largest manufacturers in its class. The unit is the only that produces the elemental chlorine free (ECF) pulp and paper in the country. The Kovai unit will allow ITC to improve its customer service with reduced lead times and a wider product range. The unit will mostly use recycled and wastepaper to produce fresh paperboards, making it one of the most environment friendly plants. The acquisition also enables ITC to take a major step forward towards achieving its vision of being a leading manufacturer of quality paperboards in the Afro-Asian region. The total manufacturing capacity of the paperboards and speciality papers division will rise to 360,000 tonne per annum by the end of 2004. with the commissioning of another paperboard machine at the Bhadrachalam unit. ITC will then manufacture a wider variety of paperboards, for both the packaging and graphic segments.