

Indian Paper Scenario – April 2004

The year has started on a somber note for the paper industry, and the mood is glum as they outline what the rest of the year holds. But most of the big mills have concluded 2003-04 on a positive note, better than what they can hope for in the current year. The industry is contemplating hiking prices but it is doubtful if the market will absorb the increase. Smaller mills are posing a threat to the larger ones. The larger mills will have to concentrate on high end products such as branded products as the smaller mills eat into the low-end, particularly, cream wove segment. Coal prices have nearly doubled in the last one-year. Drought has affected sugarcane planting and bagasse, an important raw material, is scarce. Prices are on the increase and mills will have to go for imported pulp, which is also getting dearer. Prices of hardwood pulp range around \$450-\$480 a tonne and that of softwood pulp \$575-\$600. On the export front too margins will be under pressure as the Government has cut back export subsidy from eight percent to four percent and the rupee continues to appreciate. These could well offset any increase in prices. Water availability is a problem in the south, and the situation is getting worse. Tamil Nadu Newsprint and Papers Limited. Shut down operations but the production loss of about 600 tonnes a day has not had any impact on prices in the market. The inventory levels are high. The larger mills appear to have taken a beating on marketing cream wove paper to the notebook converters, a major market that caters to educational Institutions. Notebook converters have upgraded technology, and notebook making has become faster. This has delayed the start of the season to about February instead of December. Added to this, some of the north-based mills, the B-Grade mills as the industry calls them, have upgraded their quality of cream wove paper and have taken away a chunk of the market. This has driven the larger mills such JK Paper and Ballarpur Industries to concentrate on the south. The south-based mills such as Seshasayee Paper and Boards Limited., Tamil Nadu Newsprint and Papers Limited., Andhra Pradesh Paper Mills and West Coast Paper are facing the heat. Newsprint prices went up by about Rs. 1000 in April echoing the international trend. While the election demand could contribute to the increase, there is no long-term reason to sustain the increase. Mills are looking to some growth in the copier paper segment that has demonstrated a sustained growth of about 15 percent, annually. But here again, competition is heating up while the mills could pull along in the first quarter, the second quarter will be dull.

In 1974 the country faced an unprecedented paper demand. Prices spiralled and the situation was tough to be alarming; the sudden thirst for paper was inexplicable though. Paper, as a commodity, thus caught the fancy of speculators early on more than any other product. The soaring prices caught the attention of planners who thought that the price rise was due to paper shortage, they appear not to have thought of speculation. Thus every state ought to increase paper production, especially writing and printing, through mini-mills as this was seen as the only way to making paper available in a short time. More than 150 mills, all with production capacities of 10-40 tonnes per day to make writing and printing paper were set up between 1974 and 1980. Another 100 mills came up in the packaging segment have been closed. Ironically, financial institutions still fund small paper mills despite such adversities. It can be argued that the small mills contributed to easing the supply of paper, whatever be their cost and quality. But this argument is not valid for various reasons. The production figure from 1980-2000 by small paper mills on a 20 year cycle, at an average of one million tonnes per year of writing and printing paper, works out to 20 million tonnes, and packing grade papers, at an average of 1.5 million tonnes per year works out to 30 million tonnes. Even assuming

that the entire quantity is imported at an average price of \$500 a tonne for writing and printing and \$350 a tonne for the package grade paper, the total bill would be \$20.5 billion. The import of waste paper, pulp, chemicals, and so on, by the mini mills costs work out to \$12 billion over 20 years. Export by these mills is practically nil. Since most paper plants were imported from Europe and elsewhere the cost in terms of foreign exchange worked out to more than \$1.5 billion. This still leaves a shortage of \$7 billion over 20 years in foreign exchange. However, it must be noted that, primarily, imported paper has high strength and quality finish. Mini mills 200 gsm kraft paper would be as strong as 100 gsm imported kraft paper. Therefore the tonnage in imports automatically drops down for the same quantity. Second most mini mills were commissioned based on agricultural inputs such as rice/wheat straw, and so on, which is unusual. Quality paper is produced using long fibre pulp, which is abundantly available in Europe and Indonesia. By using agricultural wastes, only inferior grade paper can be produced. Long fibres run smooth on the machine consuming less energy and steam, whereas short fibres consume a lot of electricity, water, steam, and cause frequent breakages in the machine. Moreover, the effluent problem can be serious. The selling price of the paper would have to be raised from the present Rs. 35 per kg to Rs. 70. The customer would have to shell out more for inferior grade paper, under protective imports. The capital, labour, natural resources, water and electricity consumed by these mini mills are very high. If any one gained from the mini-mill policy, it was Europe, whose paper-makers disposed of their junk to India, since the policy-makers were not sure what they were doing.

Everybody is talking about paperless offices but the fact is people today use more paper on printouts than they perhaps would have in a PC free world. Besides, with literacy levels set to improve, demand for writing and printing paper is seen growing at 7-8 per cent in the next three – five years against the expected global growth rate of 2.2 per cent a year, are seen scaling higher before peaking in 2005. The company best positioned to ride this trend is Ballarpur industries, the leader in the fragmented writing & Printing segment with a 13 per cent market share. BILT is not the lowest cost producer, though it is among the most efficient, nor does it boast of global scale operation. Its strength lies in its strong distribution, a network of 112 exclusive dealers. What's more, given the relatively small size of the India paper market and that paper prices here are lower than international prices, there is little to attract global peer majors. However, occasional dumping by large producers, mostly Indonesian does have the ability to disrupt the demand supply balance and the industry has represented to the government to take corrective action. The company is shifting to higher-value segments – 70 per cent of turnover, up from 45 per cent in 2001 – has helped boost operating margins to 20 per cent from 18 per cent about two years ago. Acquisition of Sinar Mar's coated paper unit as given it a near 50 per cent share of the market. It has also emerged the second largest player in copier paper with a 25 per cent share. These segments are seen growing at 11 percent and 17.5 per cent respectively.

HINDUSTAN PAPER CORPORATION LIMITED: This company has reported a 55 per cent increase in its profit before taxation at Rs.511.5 million in the financial year ended March 2004 as compared to Rs.330.5 million in the corresponding period the previous year. The company's turnover also grew by three per cent to Rs.8730 million as against Rs. 8470 million in the same period last year. This company which operates two large integrated pulp and paper mills in Assam – Nagaon Paper Mill (NPM) and Cachher Paper Mill (CPM) and a wholly owned subsidiary Hindustan Newsprint Limited. In Kerala, has also achieved an all-time high production growth of seven per cent to 3,22,570 tonnes

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as against the corresponding period last year. The turnover also grew by 18 percent compared to the previous year, maintaining its numero uno positing in the Indian Newsprint Industry. The company is aiming at Rs.10100 million turnover and 3,30,000 tonnes production by increasing the capacity by 30 percent in the current fiscal ending on March 2005. The company has decided to maintain its existing marketing policy to ensure uniform prices of all of varieties paper it produced throughout the country. The company sells nearly 90 per cent of the produce from the Nagaon Paper Mill and Cachar Paper Mill in Assam outside the region. Production from these two-plant amount to over 2,00,000 tonnes. It will explore export opportunities in Bangladesh due to its proximity to both its plants. It has earmarked 20,000 tonnes or close to 10 per cent o fits produce for exports in the current year. The Cachar and Nagaon plant have an installed capacity of 1,00,000 tonnes each. While the Nagaon unit has recorded a capacity utilisation of 112.6 per cent in the past financial year. Cachar produced 97,000 tones marginally short of full capacity.