

Indian Paper Scenario – May 2004

The rise in the international paper prices boosted the stock market sentiment towards paper company scrips. Most of the paper companies gained due to the rise in the international paper prices by \$25-40 per tonne. In addition, increased demand for paper due to the elections has made them attractive. Among the stocks that gained was India's largest paper company, Ballarpur Industries which was up 5.04 per cent at Rs. 75. Other stocks to rise were Tamil Nadu Newsprint, Rama Newsprint, Orient Paper, Seshasayee Paper and Star Paper. Buying was also seen in companies like Pudumjee Pulp and West Coast Paper. Global Newsprint manufacturers agreed on a \$25-40 rise per metric tonne for second – quarter prices. The new price level for newsprint offered in Asia will range from \$475 to \$580 per metric tonne. Apart from higher production costs, a growing newsprint demand also boosted prices. Most newsprint manufacturers are already fully booked for the second quarter. Another factor for the rise is the booming economies in Asia. Paper prices are likely to remain firm in the next few quarters. Other than booming economies, election in various parts of the world would keep the demand for paper firm.

Consolidation appears to have worked well for Seshasayee Paper Mills over the past couple of years. The company is riding high on pick up in the paper industry. It doubled its production capacity for paper and paperboards to 1,20,000 tonne per annum two years back. Then it brought down interest cost as cash flows improved thanks to higher volumes and rising paper prices. Buoyed by the rise in bottom line, the company is looking for consolidating the gains by setting up a co-generation power project of 20 MW. The company has a reasonable presence in some overseas markets with exports contributing Rs. 600 million in annual turnover. Since the global outlook of paper industry is once again beginning to look up, paper manufacturers and exporters in India could expect further gains in the current year. Its stock quotes around Rs.95 and currently discounts its projected earning per share of Rs.16 for Financial Year 2004 by nearly six times. However, the stock price has shot up sharply in recent weeks and therefore, investors need to be careful about a reaction. The stock price has moved up from Rs. 60 to nearly Rs 95 now, posting a 50% rise. During Financial Year 2004, the company clocked net sales of Rs. 270 .68 up 8.55% against the comparative period of Financial Year 2003 capacity was almost fully utilised. The modest growth was due to the fact that there were no price increases in the domestic market in the paper/paperboard segment. However, the price outlook has started changing with demand from Europe growing and US also providing some leg up to demand. Thus paper and pulp prices have started inching up and the trend in domestic market is following the same pattern. Thus realisation for paper makers in 4th Quarter has-been better than earlier quarters. Due to lower interest outgo of Rs.106.4 million, down 45.66% from comparative period of Financial Year 2003, the company managed to record a gross profit of Rs. 320 million, up by 24.66% from the previous financial year. A further reduction in interest costs is expected in the current year since the company has been constantly re-negotiating its borrowing rate with the institutions from whom it borrowed fund for its earlier expansion. Seshasayee Paper has managed to record a net profit of Rs. 139.4 million for the first three quarter up 41.37% from the net profit for the comparative period in Financial year 2003. The company has been able to grow in recent times on the back of improved efficiency economies of scale and a cut in interest costs. It now depends on product prices to boost growth. Also the completion of its power project by end of Financial year 2005 should benefit it further in the next fiscal. However, as earlier pointed out, the stock has seen a sharp run up in the past few weeks and the price could see a correction on

profit booking from short term traders. For long-term investors, opportunity could arise after correction, taking into account the prevailing industry and market trends.

BALLARPUR INDUSTRIES LIMITED: This company is planning to set up a new 200,000 tonnes per annum paper manufacturing facility at its Bhigwan unit near Pune at a cost of nearly Rs. 5000 million. The company has been adding capacity through modernisation at its different units. During the last couple of years it has added 25000 TPA capacities at Bhigwan after acquiring the former Sinar Mas Pulp and Paper Limited unit in August 2002. The unit was renamed BILT Graphic Papers Limited and was subsequently merged with BILT in 2003. Last Year a new 40,000 TPA machine was set up at the company's Sewa facility in Orissa and an additional 10000 TPA of pulping capacity was added at Kamalapuram, Andhra Pradesh. The Company now has an installed capacity of over 4,00,000 TPA. The additional capacity has helped BILT increase production in the first three quarters of the current fiscal compared to 2,20,000 tonnes in the same quarter last year.

ABHISHEK INDUSTRIES LIMITED: This Company having received the prestigious award of Supplier of the year 2003 from the largest corporation in the world. Wal-mart, USA, the future of this company looks very promising from 2005 when quota will be completely phased out. A comparison of valuation of the scrip vis-à-vis the future prospects indicates that the script is quoting at a very low price. The company has three main products In current Year ending, reported a net profit of Rs. 358.6 million on sales income of Rs. 4638.1 million as against the net profit of Rs. 190.5 million on sales income of Rs.3064.1 million in the year 2002.

TAMIL NADU NEWSPRINT AND PAPERS LIMITED: The net profit of the company has dropped to Rs. 81.8 million on net sales of Rs. 1640.8 million against a net profit of Rs. 214.9 million on sales of Rs. 1550.1 million recorded in the same period the previous year. The company's board has declared a dividend of Rs.2.75 a share of Rs.10. The drop in net profit to the increase in cost of inputs, including coal, power and water charges. Provision for depreciation pertaining to prior period items has been made. The company has reported a net profit of Rs.528.5 million on net sales of Rs.5835.9 million against the previous year's net profit of Rs. 520.4 million on net sale of Rs. 5398.7 million. The company has been able to shore up its performance despite the loss of about 11,000 tonnes of production due to water shortage. The market for printing and writing paper is holding firm and newsprint prices are set to increase. The printing and writing paper prices are appreciating in the international market and Indian manufacturers have been able to hike cost of export products. However, the domestic market is not reflecting the trend and prices are not yet, bullish. This Company exported 30,098 tonnes of printing and writing paper and is confident of increasing exports to 36,000 tonnes in the current year.