

## Indian Paper Scenario – June 2004

Paper prices are rising and inching closer to historic highs. Ballarpur Industries, the largest paper manufacturer in the country, raised prices between 1% and 3% across uncoated and premium coated paper in the first week of this month. Some players including Andhra Pradesh Paper Mills and West Coast had affected price hikes last month to a similar extent in the uncoated segment. What assumes significance is that price movement of the coated variety – where Bilt, with its high market share usually determines the domestic prices was dictated by other players. After the hike, the price of the top-end uncoated maplitho variety is in the region of Rs. 42, 000/tonne, which is close to the historic high of Rs. 45,000/tonne recorded in the mid –90s. Industry insiders said it was a freaky price movement and this time around it is not expected to touch the 45,000/tonne mark. The domestic price ceiling is at the Rs. 43-44,000/tonne level and if the current buoyancy in demand and international price continues, then the industry might go through another price hike later this year to reach a kissing distance of that level.

For the Rs 21000 million paper major BILT, backward integration at its Orissa plant was not a natural choice, but rather a strategic necessity. Today, the company says that this is not only a model for this manufacturing facility but is also becoming a trendsetter for the entire group. When the company acquired its unit in Jeypore, Orissa in 1991 under a BIFR award, there were doubts on how soon it would be able to turn around the operations. Last financial year in 2003-04, the unit made a modest profit before interest and taxes of Rs. 400 million. The Sewa Unit, with an initial installed capacity of 25,000 TPA, now produces 75,000 TPA. In its bid to turn around the unit, BILT put in Rs.2500 million initially in the unit, which included Rs.1300 million of liability which it took at the time of acquisition. However, sourcing raw materials became a hurdle with the company. It had to transport wood, the basic raw material from distances 400-500 km away. It was in 1994 that the company decided to get into growing of wood through pulp wood like eucalyptus and acacia to feed the unit. Today, the Sewa unit is self-sufficient and the company is looking forward to using its farm forestry initiatives to meet the requirements of its other units. However, reaching this level was not easy. Predominantly a tribal area, companies are not allowed to buy the entire produce. . It was initially difficult to convince the farmers, but the company raised demonstration plantation for them to see and believe. These plants were raised on 1674 hectares covering 550 farmers to shown that what the farmers considered wasteland can be used to raise trees for commercial purposes. Till then, these lands were used by tribal to grow their subsistence level crops most of which also fail due to insufficient rains The company's demonstration forestry proved that eucalyptus can withstand a couple of dry seasons and the gestation period for the fist gestation period for the fist plantation was eight years and subsequent ones 3-4 years. Slowly being convinced, more and more farmers got into arrangement with BILT and sowed seeds of these pulp wood plants. Farmers who planted eucalyptus in 1995-96 have already harvested their crop. To further integrate backward, the company also, got into the activity of raising of seedlings. A root trainer nursery with a cloning and incubator facility (with an investment of Rs.6,00,000) was started with a seedling production capacity of 2 million seedlings. For this, BILT supplied seedlings to farmers at nominal rates with a buyback assurance on maturity. The company also helped farmers bank loans at subsidised rate. Till date 18.20 million seedlings have been planted by farmers. With all this BILT could save one rupee per km per tonne on its freight cost. Besides, since seedlings are grown at its own nursery the quality of trees can be controlled and apart from all these the time taken for woods to be taken to the plant is

almost instantaneous. The result is the entire exercise has proved to be an sustainable business model for BILT's Sewa unit and logistics totally. The unit also has its captive power plant and even uses its by product, fly ash to make bricks to raise walls and buildings. In 2002 BILT installed another state of the art online paper machine at Sewa which is monitored through sophisticated computer software for consistency. Since more than 70 percent of total workers comprise locals labour absenteeism is under control. The total installed capacity of both the machines is 75,000 TPA spread over a mill area of over 300 acre. The unit makes copier image copier glossy and other kinds of value added paper. However, its USP lies in high quality paper called Easy print. They are over booked for three month in Easy Print and the unit is also total quality management compliant and has an ERP (Enterprise Resource programme) in place.

Employees at the Head Office of the Hindustan Paper Corporation are happy with the in-principle decision of the new United Progressive Alliance (UPA) at the centre not to sell the Government's equity holding in profit making public sector undertakings. Hindustan Newsprint, will not be divested since both companies have been making profits. The outgoing National Democratic Alliance government had decided to sell 74 per cent of the Government's total share in HPC and HNL and subsequently received expression of interest (Eols) from private investors. The Eols had been under scrutiny and it was decided by the Disinvestments Committee, exclusively constituted for HPC and HNL. that the financial bids would be asked from selected parties after the election. Things have changed for HPC and HNL with the new UPA Government in-the-making clarifying that it was not going to disinvest the Government's shares in profit-making PSUs. It may be noted that HPC during the 2003-04 fiscal under review earned a profit of about Rs. 420 million on a turn over of about Rs. 6320 million, while HNL posted a net profit of about Rs.90 million on a turnover of about Rs.2530 million. Profitability in both companies is expected to improve in the current fiscal because of buoyant market condition for writing and printing paper as well for newsprint. HPC with its two mills in Assam at Cachar and Naogaon each with a production capacity of 1, 00,000 tonnes per annum expects to augment total production of writing and printing paper at least by 15,000 tones to 2, 15,000 tonnes in 2004-05, while HNL has targeted to produce more, at least by 3000 to 1,15,000 tonnes, of newsprint in the current fiscal. Judged by the mood of the new Government, the management of HPC is understood to have started examining fresh investments proposals for its mills in Assam and also at HNL in Kerala. However, the investment plans are in addition to the company's recently approved Rs.25000 million brown-field expansion through up gradation of production technology at its existing facilities in Assam mills.

**ANDHRA PRADESH PAER MILLS LIMITED:** This company has embarked upon a mill development plant involving an outlay of Rs. 5540 million to be implemented in two phases. While the first phase is scheduled to be completed by 2006, the second phase will be completed by March 2007. The Mill Development Plan envisages increase in the company's installed capacity from 1,53,5000 tonnes per annum to 1,97,700 tpa and modernisation of its two mills located at Rajahmundry and Kadium in Andhra Pradesh. In 2003-04, the company's turnover and net profit stood at Rs.4500 million and Rs. 233.6 million respectively.

**SESHASAYEE PAPER & BOARDS LIMITED:** This paper mill has reported a net profit of Rs. 57.2 million on gross sale of Rs. 1143.5 million for the fourth quarter ended March 2004. During the corresponding period in the previous year, the company reported a net profit of Rs. 70.2 million on gross sale of Rs.1127.2 million. The board has

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recommended a dividend of Rs. 1.80 a share (18 percent) for 2003-04. For the financial year ended March 2004, the company had reported a net profit of Rs. 196.6 million on gross sale of Rs.4180 million against a net profit of Rs.168.8 million on gross sales of Rs. 3912.4 million last year. Production during the two-month period was 19,756 tonne against 20,018 tonnes during April-May 2003