

Indian Paper Scenario – August 2004

The paper and paperboard industry is witnessing a decent growth in demand for both printing and writing paper (PWP) and newspaper. Taking advantage of the improved demand and increase in international prices, many players have raised the domestic PWP prices by around Rs. 1000 per tonne in April 2004 and are contemplating a further increase of around Rs.500 – Rs.600 per tonne from September 2004. Globally, paper prices move in tandem with the prices of pulp, and important input. The northern bleached softwood Kraft (NBSK) pulp prices rose by 12.9% to US\$ 553 per tonne in calendar year (CY) 2003. The NBSK pulp prices have been progressively rising from January 2004 and were hovering around US\$ 680 per tonne in July 2004. But there are mixed signals on the price rise in the international market: only hardwood pulp prices softened by US\$10 TO 15 per tonne in August 2004. However, in August 2004, some weakness in spot pulp prices are expected to average around US\$655 per tonne in 2004, which represents in a whopping 18.4% increase over the previous year. In a span of two years, the NBSK pulp prices are set to increase by 34% from US\$ 490 per tonne in 2002 to US\$ 655 per tonne in 2004. However, such an impressive rise in global pulp prices did not bring a windfall to domestic paper producers, as the increase in the landed costs of pulp and paper in India was limited. This happened due to the successive reduction in import duty on paper from 30% in February 2003 to 25% in the Union Budget 2003-04 and further down to 20% in January 2004. Also, a special additional duty of 4% was levied, which was with drawn early January 2004. This meant that the effective protection was 35.2% in February 2003, which was brought down to 30% in the Union Budget 2003-04 and further down to 20% in January 2004. To further aggravate the situation, the rupee appreciated by around 2% in Financial Year 2003 and further by 5% in Financial Year 2004, over the corresponding previous year periods. The cumulative adverse impact of the steep fall in effective import duties and appreciation of the rupee against dollar restricted the improvement in domestic paper prices.

The spurt in pulp, imported coal and other input prices had impacted the margin of the paper industry in the quarters ended March 2004 and June 2004. As a result, the operating profit margin of 32 paper companies tumbled by 140 basis points to 14.3% in the quarter ended March 2004. The trend continued, with the aggregate of 24 paper companies showing a drastic 200 basis point fall in the margin to 13.8% in the quarter ended June 2004. Further in June 2004, domestic coal prices were hiked by around 16.7% by Coal India and its subsidiaries. On the positive side, the import duty on non-cooking coal was progressively reduced from 25% (30% including effect of 4% special additional duty) in March 2003 to 15% in January 2004 and further to a mere 10% in February 2004. Nevertheless, considering the fact that global coal prices have virtually doubled over the past one-year and domestic prices have increased since mid-June 2004, the paper production costs will effectively increase by Rs. 1000 to 2000 per tonne. The incidence will vary for different players, depending on the share of imported coal in total coal consumption.

A new class has emerged among large domestic paper mills, taking advantage of their access to modern production technology. This class of mills, primarily virgin fibre-based, have started showing their strength by revising the price of their products even during the current “lean season” in the domestic paper market. Incidentally, these mills, not many in numbers, have the capability of producing high quality writing & printing and map litho papers and duplex board. Ballarpur Industries Limited of the L M Thapar group being a leader of this class of mills revised prices a fortnight ago. It was followed by

Seshasayee Paper Mills and Sirpur Paper Mills, while Andhra Paper Mills and The West Coast Paper Mills revised prices. J K Paper Mills and a few others large mills are contemplating doing so within a few day Prices of all varieties of high quality cream wove and map litho papers were revised by the mills in the range of Rs. 600 to Rs.1000 per tonne. However, certain virgin fibre based large paper mills, with substantial production capacities, however refrained from revising prices during the current season. They feel that the revision of prices may not be accepted by the market because they do not have the facility to produce different varieties of high quality paper. Local paper trade sources said that the mills, with capacity to produce high quality paper, enjoy strong buying support from within the country and abroad. These mills have already exhausted their inventories while their order book position is good. Hence the decision to effect the price revision even during the lean season. The sources said that, on the contrary, medium and small paper mills, mostly based on waste paper and recycled raw material, were in a defensive position. Most of them produce popular varieties of writing & printing paper through conventional production technology. Since the number of such producers was high, they had to compete among themselves to sell their paper.

BALLARPUR INDUSTRIES LIMITED: This Company is planning to add 35,000 tonnes of paper capacity this year and double it by 2008-09. The company's paper making capacity at present is 388,000 tonnes. It also declared results for 2003-04. It posted a 36 percent increase in net profit at Rs. 1340 million on 6 percent higher revenues at Rs. 22442 million for the 12 months ending June. The company has declared Rs. 460 million as dividend. For the fourth quarter ending June 2004, it declared 21 percent higher net profit at Rs.373 million on Rs. 5852 million sales.

J K PAPER MILLS LIMITED: This paper mill has embarked upon a major debt restructuring exercise. The paper maker, which has a secured loan exposure of Rs. 4520 million, is likely to refinance a high –interest long-term loans of Rs. 1800 million. They had acquired a significant part of the debt when J K Corp's assets worth Rs. 7500 million were transferred to the company in the year 2000-01.

PAPER PRODUCTS LIMITED: This company has announced its unaudited financial results for the second quarter and the first half-year ended June 2004. The company achieved sales of Rs.2000 million during the half year representing growth of 8.2 percent, over sales of Rs. 1850 million in the corresponding first half of 2003. The profit before tax is 198.9 million as compared to Rs. 159.7 million in H1 last year. The basic and diluted earning per share for the half year is Rs. 11.08 as compared to Rs. 8.72 in the corresponding period last year.

TAMIL NADU NEWSPRINT AND PAPERS LIMITED: This Company is in the process of modernising and expanding its production facility. This will increase its capacity by about 15, 000 tonnes a year from the present 2,30,000 tonnes. Dovetailed with this project, it is launching a farm forestry programme to augment captive availability of pulpwood for raw material. Initially, the company will tie up with farmers to cover about 2,500 hectares and expand acreages annually over the next five years. Of the total investment planned, the company will bring in Rs. 15000 million with the balance to be raised through both domestic and foreign currency borrowings. The expansion will be completed in two years.