

Indian Paper Scenario – January 2005

The paper and paper board industry, comprising paper, paperboard and newsprint, has an installed capacity of around 7.3 million tonnes per annum and worked at 76% capacity utilisation in 2004. The Indian Paper Manufacturers Association (IPMA) estimates that the paper industry will grow at 5.5% per annum in the next three years. The industry witnessed a 6% growth in production of printing and writing paper (PWP) as well as newsprint to 5.6 million tpa in 2004 as against 5.3 million tpa in the corresponding previous year. Paper exports, which are currently 15-20% of the total production, will soon rise to 40% of the revenue. The domestic demand for paper is expected to rise due to increased demand from the corporate sector. The demand for PWP is estimated to jump 5.3%, while the demand for industrial paper is likely to improve at the rate of 6.5% p.a. The impressive growth rate of 5-6% p.a. in the next few years is the main reason for the huge capacity expansion planned by most domestic paper manufacturers. Another significant reason is to achieve economies of scale. The modernisation and capacity expansion plans of seven major paper manufacturers – Ballarpur Industries (Bilt), Andhra Pradesh Paper Mills, Tamil Nadu Newsprint & Paper (TNPL), JK Paper, Rama Newsprint and Papers (RNPL), West Coast Paper Mills and Sirpur Paper Mills – will create new capacities of 65500 tonnes per annum and take their total installed capacity up from the current 136300 tpa to 188500. The expansion plans are currently at different stages of completion.

India's leading paper manufacturer and the market leader in printing and writing paper segment Bilt is increasing its production capacity to 500000 tpa by 2006, 30% higher than its existing capacity of 386000. The additional capacity will increase Bilt's proportion of high-end paper, which currently contributes roughly 70% of the total production, and tackle cost pressures. Public sector papermaker TNPL is adding 50000 tpa to its current installed capacity of 23000 tpa to meet its growing export demand. It will also float a joint venture to set up a new facility to manufacture value added stationery products; hard cover and short cover books to supply in the domestic export market. With a view to cater to the growing demand for newsprint paper from south-east Asia and South Asia, Hindustan Paper Corporation (HPC) India's second largest paper manufacturer plans to increase the total production capacity of its existing mills at Naogaon and Cachar in Assam, from 200000 tpa to 300000 by 2005 at an investment of Rs. 8000 million to Rs. 10000 million. Kerala-based Hindustan Newsprint, the wholly-owned subsidiary of HPC, has lined up a Rs.6000 million capacity expansion plan to increase its newsprint making capacity from 1,00,000 tpa to 2,00,000 tpa. The company, which so far produced only newsprint, will now start manufacturing both newsprint as well as writing and printing paper with an annual capacity of 60000 tpa. Rajamundry-based Andhra Pradesh Paper Mills existing production capacity of 300 tonnes per day of paper will increase to 5500 million. Its Mill Development Plan will phase out the earlier system of producing quality and newsprint and straw and will produce only the fine quality paper. The plan will further ensure reduction in water usage of 150 cubic metres of water per tonne production of pulp to 100 cubic metres. Kolkata-based S K Bangur group has drawn plans to expand the capacities of group companies West Coast Paper Mills and RNPL by 1,00,000 tpa each at an estimated cost of Rs. 6000 million. Group company west coast paper mills has already completed the expansion at its wood-based paper mill at Dandeli in Karnataka, which produces 120000 tpa of writing and printing paper and 60000 tpa of duplex board, at an investment of Rs. 2300million. The production capacity of the plant will be increased to 2,00,000 tpa by 2006, using waste paper as a raw material instead of wood pulp.

RNPL's Rs.3000 million expansion plan will result in doubling its production capacity to 25000 tpa of newsprint, writing and printing paper by 2006. After acquiring Bilt's paperboard division in South India, FMCG Major ITC, with a production capacity of 20000 tpa is considering a green field project to foray into the general paper market. ITC's paperboard arm has a major presence in the packaging board category. The Rs. 7240 million J K Paper is adding 46000 tpa to its existing capacity as part of its Rs.600 million expansion plan. The company, which currently out-sources higher-end coated paper products from a European company and markets them locally under its own brand, will now begin producing 46000 tpa of coated paper at its Orissa plant by way of its coated paper project. The expansion plan also includes getting into other new categories of paper products. Century Textiles and Industries, a B K Birla group flagship company, is increasing the capacity of its paper pulp production by 200 tpd. Second-rung paper manufacturers, too, are not lagging behind. Sirpur Paper Mills is creating new capacities of 50000 tpa at its existing capacity of 83550 tpa at an estimated cost of Rs.5500 million by June 2006. Yash Papers, a manufacturer of non-conventional raw material with its unit in Uttar Pradesh, produces specialty paper such as wrapping paper. It plans to increase its production of 16000 tpa to 39000 tpa by December 2006 at an outlay of Rs.850 million. This will increase its daily production capacity to 120 tpd from 50 tpd. Paper manufacturers are tapping different sources to fund these expansion plans. The Andhra Pradesh Paper Mill has taken an Rs 6500 million loan from the International Finance Corporation, Washington and ICICI Bank. Yash Papers has raised a term loan of Rs. 560 million and will tap the balance Rs. 50 million from internal resources or explore offshore investors. The company plans to rope in a strategic partner for the remaining Rs. 140 million. Bilt mega expansion will be part financed by a mix of internal accruals and the market. Sirpur Paper Mills will acquire debt of Rs.1650 million issue Rs.700 million preferential shares and fund the balance Rs.500million from internal accruals.

J K Paper Mill, Central Pulp Mill Unit was adjudged the paper mill of the year by the Indian paper manufacturing association. The unit was selected on the basis of its cutting-edge technology, resource efficiency. Hindustan Paper Corporation has decided to upgrade two of its unit viz – Nagaon Paper Mill and Cachar paper Mill. Disclosing this, the Minister of State for Heavy Industries and Public Enterprises, Santosh Mohan Dev said that the two mills would be given Rs.5000 million each for modernisation. According to proposals, the two paper mill would be released Rs.1000 million annually for the next five year for upgradation. The Nagaon Paper Mill has emerged as one of the HPC's better managed paper companies During the past six ears it earned net profits in a row and the last tow financial years showed a rising profit. . The Cachar paper mill also happen to be the only major industrial undertaking in south Assam and the adjoining states of Mizoram, Meghalaya and Tripura despite lack of infrastructure facilities, the mill employing 1240 persons has sustained a record of steady improvement. During 2003-04 the mill recorded its highest annual production figure at 97376 tonnes

BALLARPUR INDUSTRIES LIMITED: This Company has announced 30.15 per cent net profit growth for the six months ended December 2004 at Rs. 834.1 million on a flat total revenue of Rs.11080 million. For the second quarter ended December 2004, the net profit grew 31.72 per cent to Rs. 433.1 million on marginal fall in total revenue of Rs. 5625.6 million. The company is also on course to bring down its debt equity ration to the targeted 0.8 by the end of this fiscal through debt restructuring.

ITC LIMITED: This Company reported a profit after tax of Rs. 4490 million for the quarter to December 2004, an increase of 18% on the figure for the previous year. Net turnover increased by nearly 11% to Rs.17950 million during the same period. Pre-tax profit grew by nearly 13% to Rs. 6390 million. The earnings per share for the latest quarter was Rs.18.10.

SESHASAYEE PAPER AND BOARDS LIMITED: This Company has reported a net profit of Rs. 990000 on income from operations of Rs.1029.3 million for the quarter ended December 2004. During the corresponding period in the previous year, the company reported a net profit of Rs.44.4 million on an income of Rs.975.3 million. The company has attributed a host of reasons for the drop in profits. They are the steep increase in raw material prices including forest raw material and bagasse from sugar mills, increase in the cost of imported pulp coal and lignite, and loss of production of 1700 tonne during October – December 2004, due to heavy rains, reduction in value of DEPB Licenses from 8 per cent of the f.o.b. value to 4 per cent of f.o.b. value and increased employee cost on account of long-term wage settlement, which covers a five year period from April 1 2004. During the quarter, the company exported 4857 tonnes (516 tonnes) of paper and paperboards. IT hopes to complete a 20 MW captive power project by February. For the nine month ended December 2004. It reported a net profit of Rs. 29.1 million on an income from operation of Rs. 3105.4 million

SIRPUR PAPER MILLS LIMITED: This paper mill has decided to go for a massive expansion-cum-mill development at its existing 800 acres site at Sirpur-Kagaznagar in Adilabad district of Andhra Pradesh with an estimated investment of Rs. 2940 million. The programme, which is expected to commence in March 2005, will be funded by a consortium of banks led by IDBI to the tune of Rs. 1650 million. The remaining will be met through a rights issue and from internal accruals. The debt has been arranged through IL&FS Ltd. This company with manufacturing facilities in Sirpur Kagaznagar, currently has an installed capacity of 83.550 tonne per annum, producing a variety of papers. The company is now embarking on an expansion-cum-mill development plan with a view to consolidate and expand operations into higher value segments, to further broaden its product portfolio and to meet desired environmental norms. The estimated project cost is Rs. 2940 million of which Rs. 1650 million is in the form of debt while the remaining would be in the form of equity and internal accruals. This company has also announced a rights issue in the ratio of four shares for every five shares held in the price band of Rs. 75 to Rs. 90 per share. The proceeds of the rights issue would be collected in instalments – 40 per cent on application and balance on calls.

STAR PAPER MILLS LIMITED: This paper mill has embarked on a Rs. 800 million project, which incorporates capacity expansion, captive power project and de-bottling of manufacturing operations. This Duncan Goenka group entity has been on a cost rationalisation drive in the past and is looking at future opportunities in niche segments of paper. As part of the project, the company is installing a new captive power unit with capacity of 16 MW, which will replace the current DG set. This is expected to be complete by June 05. In addition, it is also debottling its operations which will increase paper production capacity by 10-15% and will see an overhaul of the bleaching plant at its factory at Saharanpur in UP. These initiatives are expected to be complete by the second half of calendar 05. The Rs.800 million-investment project has been split into 1:1 ratio of debt to internal accruals.



TAMIL NADU NEWSPRINT LIMITED: This paper mill has reported a 79 per cent net profit to Rs. 34.9 million for the quarter ending December 2004 from Rs. 164.6 million for the same period the previous year. The company's turnover increased by 13.26 per cent to Rs.1806.4 million for the quarter ending December 2004. This company's profits were affected by increase in cost of coal and other inputs and bagasse shortage owing to the drought in Tamil Nadu in the previous two sugar seasons, and consequent usage of more purchase pulp. The bagasse supply position has improved since December 2004