

Indian Paper Scenario – February 2005

The paper Industry in the country has been showing a steady growth. An upturn in the manufacturing sector is a key driver of this up trend, driving demand for packaging and industrial grades of paper while due emphasis on literacy is driving demand for printing grades of paper. However, competition in the sector is also very stiff. With a reduction in import duty, competition is expected to get even tougher in the current year. Star Paper Mills has been a niche player in the segment. Incorporated in 1936, the company is one of the oldest in the business. Star Paper has maintained a tradition of out-performing the industry even when the Kolkata based Gauri Prasad Goenka group took control of the company in 1986. However, the company's historically high cost of operation is a matter of concern for the management as the company strives to address the issue. Star has recently undertaken a mega-restructuring plan, which is aimed at making the company more competitive in the business. With its only factory located at Saharanpur in Uttar Pradesh and a capacity of 65000 tonnes per annum, has a good share over the markets in north India. A wide product- mix, ranging from maplitho to MG Poster, MG cover to pulp boards and various grades of kraft paper, Star Paper is aiming at a 8% top line growth in 2004-05. Although Star doesn't feel that public sector paper units are a major threat, it has re negotiated on high cost borrowing from as high as 20% to 10.25% within a short span of time. Star has also optimised the raw material mix leading to a reduction in raw material cost. As per company estimates, high raw material cost of Rs.6076 per tonne of paper in 2002-03 was brought down to Rs.4735 per tonne during the first nine months of the current fiscal. Manpower trimming too was to the tune of 11% during the same period. Star Paper is currently implementing power co-generation project which will include installation of a new turbine, a new multi-fuel boiler, retrofit of old turbines to work at high pressure, increase in pressure rating and capacity increase of recovery boilers. The company expects that collectively this initiative will result in a cost saving of Rs.60 million a year. In the next financial year, they are planning an extensive rebuild of our paper machines. It will increase capacity by 8000 tpa..

The Rs.150000 million domestic paper industries have sought rationalisation of excise duty and its reduction to 8 per cent, so as to remain competitive. Till recently, the industry was taxed at a flat excise duty rate of 16 per cent, regardless of the size of the mill, the raw materials used or any other criterion. However, last year the centre amended the excise duty provision clause for this industry to introduce a 12 per cent slab. As per this notification, paper and paperboard articles made from pulp – where the pulp itself is not derived from bamboo, hard or soft woods, reeds or rags would be levied four percentage points less excise at 12 per cent. However, this concession was conditional as only manufacturing units that had no attached plant for making pulp could avail themselves of it. Taken with the condition on pulp making, this provision made almost all large mills ineligible for the four percentage point excise relief. A few months ago the centre introduced another amendment to the excise provision. Which left only the state owned Hindustan Paper Corporation eligible for paying even lower excise of 8 per cent. This differential in duties paid by different categories of paper manufacturers has hurt the industry's growth prospects. All the large integrated mills are still paying excise duty at the highest 16 per cent rate and this duty structure should be rationalised so that there is a single rate of 8 per cent. Besides excise duty rationalisation, the India Paper Manufacturers Association has also requested the Government for de-reserving the paper sector from the restrictive list meant for the small-scale sector to enable the industry to establish forward and backward linkages. Paper manufacturers contribute about Rs.25000 million to the exchequer in excise and other taxes every year. The

industry is expected to produce 60 lakh tonnes this fiscal against 55 lakh tonnes in 2003-04.

ITC Limited plans to set up a green field 2,00,000 per annum integrated ECF (Elemental Chlorine Free) pulp and paper mill in Madhya Pradesh, with backward fibre linkages through social and farm forestry. The company has a paperboards and speciality papers division at Bhadrachalam in Andhra Pradesh. While the mill is expected to directly employ around 2000 people, some 3,00,000 jobs are likely to be created in directly through the plantations route. The proposed investment on the mill will be around Rs.250000 million over five years. This can be viewed as a major diversification by the company into the mainstream paper business of printing and writing paper. The company has commissioned Jakko Poyry of Finland, a leading paper technology consultant, to conduct a detailed feasibility study of the project. The company has been scouting for suitable locations, both in Maharashtra and Madhya Pradesh. Though no final decision has been taken on the location as yet, it is likely to be in Madhya Pradesh at least 100 hectares of forestland will be required for the project, of which the plantations may occupy nearly 75000 ha. ITC, which has effectively leveraged its need for wood fibre through the social and farm forestry project at Bhadrachalam (clonal plantations) would like to replicate the successful model for the green field paper project.

Orient Paper and industries has recently bagged the Environment Excellence Gold Award 2003-04, the third time in succession. Instituted by Greentech Foundation, an Indo-German NGO, the award not only recognises Orient Paper's dedicated efforts to achieve higher standards of environmental management but also gives a further thrust to the company's drive to protect and enhance the environment, Orient paper said in a statement.

BALLARPUR INDUSTRIES LIMITED: This company is expected to cross the Rs. 30000 million turnover mark over the next two years. The company has charted out a Rs.12000 million expansion and modernisation plan, which will enable it to double the total paper production capacity of 8 lakh tonnes by 2007-08. Its board of directors has already approved the investment.

ITC LIMITED: This company has embarked upon an ambitious expansion plan to double papermaking capacity in the next five years. This could cost the company around Rs. 30000 million going by the present benchmark valuation The company the largest player in the paperboard business, has a manufacturing capacity of 400000 tonnes per annum. ITC is planning to enter the writing and printing paper segment .which is 2.5 times bigger than the paperboard market. It is will consider both acquisitions and a Greenfield facility for this.

SIRPUR PAPER MILLS LIMITED: This paper mill has decided to come out with a rights issue of four ordinary shares for every five ordinary shares held by the shareholders at a price of Rs.90 per share, including a premium of Rs. 80 per share. The record date for the issue has been fixed at March 2004. The terms of payments for the issue are 40 per cent payable at the time of making application and 60 per cent on call, the exact date for which would be fixed later.

TAMIL NADU NEWSPRINT LIMITED: This company is planning to invest Rs. 5650 million in a 15000 tonne paper mill which will be located in Karur district, Tamil Nadu. The mill is expected to be ready by September 2006 Rs. 1500 million of the total investment would come through internal accruals and the rest through loans. The

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production process for paper in the proposed mill would be wood based as against TNPL's tradition of relying on bagasse.