

Indian Paper Scenario – April 2005

The paper and pulp industry has an important role to play in the Indian economy. The overall paper consumption in India is about 5 million tons. The increasing demand for paper puts pressure on supply of papermaking fibres, including efficient recovery of recycled paper use of non-wood raw materials and the need to develop and expand sustainable use of wood. At the same time competition in global pulp and paper market is intensifying. Indian Pulp and Paper Industry consists of around 500 paper mills, mainly small and medium-sized companies with production capacities ranging from less than 1,000 tpa to over 100,000 tpa. There is a growing need for modernisation and introduction of energy efficient and clean technologies for enhancing competitiveness and productivity. The global industry is configured for volume driven operations with distinct pulp manufacturers (which is essentially commodity trade) and paper makers (differentiated brand driven industry). Europe and Canada dominate the pulping industry while North America (specifically the US), Western Europe and parts of Asia dominate paper manufacturing. The global paper consumption in Financial Year 2000 was approximately 325 million tonnes. Writing and Printing segment accounted for 32 per cent of the global paper consumption while packaging, tissue and sanitary and newsprint accounted for 50 per cent, 6 per cent and 12 per cent respectively. In contrast to global industry, Indian paper industry, much like Asia, has developed as an integrated paper manufacturing industry, i.e. most mills have pulp and paper manufacturing capacities. But similar to the global trends most of the players operate either in the paper and paperboards industry or newsprint industry. Despite being the 15th largest paper manufacturer in the world, India is highly under penetrated from the consumption perspective, which makes it a large and latent at the same time. A major portion of the consumption is attributable to the Western and Southern regions of the country, which account for nearly 65 per cent of the country's total paper consumption. The overall low per capita consumption in India has been on account of the low literacy levels in the country. However, with rising literacy levels and sustained economic growth, domestic demand for paper is expected to rise.

Price of printing and writing paper are set to increase by about Rs.500 a tonne from May 2005. The large mills are contemplating this increase against the backdrop of increase in raw material prices. However, the increase does not represent higher profits for the paper companies that are facing spiralling costs of raw materials including pulp agro waste and recycled paper. Prices range around Rs.36,000 – 40,000 for printing and writing paper and Rs. 22,000 – 25,000 for newsprint. The hike this year is different from that effected during 2002-03 when the repeated increase in prices meant better realisation. The mills were then coming out of an extended slump and the two or three hikes effected that year offered an opportunity to recoup their losses. Margin were higher and the benefits also came from a tight reign on expenditure and lowering costs of productions.. Effectively, the increase this year will only mean that the industry will do away with the discounts. Demand will, however, be sustained as it is linked directly to growth in GDP. There is no cause for complaint on this front. The export situation is relatively brighter. Prices have increased by about \$50 in the last two or three months. The increasing value of rupee has benefited the buyers overseas. Export volumes are growing and the trend is expected to hold. Exports also help to deflate inventories in the domestic market and buoy up prices. The demand in the US is increasing, this is an election year across the globe-citizens in 70 countries will elect their leaders and all this spurring the demand for paper abroad. Newsprint prices had also increased after an extended stagnation. Prices had increased by about Rs.1000 a tonne.

Riding a strong demand, the country's leading paper producers have lined up investments of over Rs. 5,4000 million to set up fresh capacity of almost 700,000 tonnes per annum. The largest investment of Rs.25000 million has been announced by ITC Limited. The company has said it will add 125,000 tonnes to its existing production capacity though it has not specified if it will be a brownfield expansion or a Greenfield venture. Ballarpur Industries, the country's largest paper company, plans to double its capacity to 850,000 tonnes over the next 3-4 years. Andhra Pradesh Paper Mills is expanding its capacity to 193700 tonnes by 2007-08 from 153700 tonnes at a cost of Rs.6850 million. Tamil Nadu newsprint and Papers too, is investing Rs. 5650 million to increase its capacity to 245, 000 tones. Sirpur Paper Mills has embarked on an Rs.2940 million expansion plan that will raise the capacity of its plant in Andhra Pradesh from 83000 tonnes to 133000 tonnes. J K Paper has lined up investment of Rs. 2350 million in its paper and boards business. The investments per tonne vary across companies as some of these are Greenfield ventures, while the rest are brownfield plans. In either case, the industry wants to capture the impending paper boom in the country. The demand for paper in India is growing at 6-7 per cent per annum, led by the government's enhanced spending on education. This places India among the fastest growing markets in the world. Developed nations do not expect to grow beyond 2 – 2.5 per cent in the same time – frame.

HINDUSTAN PAPER CORPORATION LIMITED: This company has ended the Financial Year 2003-04 with breakthrough performance surpassing all previous records in production and sales of both writing and printing paper and newsprint. They have achieved a record sales of 2,03,684 tonnes of writing and printing paper and 1,13,527 tonnes of newsprint, registering 3% increase over the sales during Financial Year 2002-03. The group has achieved a sales turnover of Rs. 8700 million

SIRPUR PAPER MILLS LIMITED: This paper mill has embarked upon a Rs. 2940 million expansion and modernisation programme. It is reported that after the expansion the company's installed capacity would increase by about 66 per cent to touch 1, 28,000 tonnes per annum. The expansion and modernisation, which will be wrapped up by September 2006, would result in improved product mix and higher operational efficiency, according to source. The modernisation programme includes a new paper machine to produce higher quantities of superior grade paper and a new chemical recovery boiler and evaporator