

## Indian Paper Scenario – July 2005

In the recent furore surrounding the growing demand for newsprint and price increase in the international market, the Indian newsprint industry is all set to party given few pre-conditions. The recent growth in advertising on the print media last year and clustering of readers to the higher socio economic categories has worked as a catalyst in putting the print media in the limelight. With as many as 1907 dailies and existing players entering new markets, the demand for newsprint in India has always stayed above the domestic supply. The demand for 2004-05 was around 15 million tonne and it is expected to grow up to 16-17 million tonne this fiscal. Most of the industry experts are targeting a growth rate of 6-7% p.a. Till 1991 newsprint manufacturing was restricted to PSUs. Even now, the major suppliers are public sector enterprises. The Rs. 40000 million Indian newsprint industries are dominated by 3-4 major players and around 30 small manufacturers and foreign exporters (contributing to almost Rs. 20000 million). The main players are Hindustan Newsprint, Rama Newsprint, Mysore Paper and Tamil Nadu Newsprint. The rate of domestically produced newsprint ranges between Rs. 25000 – 27000 per metric tonne. The rates vary depending on the paper quality, mill and the logistic cost. An average rate of Rs. 26,500 including tax can be considered. Imports are mostly from Canada (good quality) and Russia (cheaper quality) Canadian newsprint costs around \$620 per metric tonne (pmt) whereas the Russian one cost around \$590 pmt (C&F excluding duty). Though there has been some price hike in the last quarter, the July quarter is yet to see a price increase. A price range of \$650 – 700 is expected in the next 6 months.

The domestic manufacturers are pressing hard for a price hike in the range of Rs. 750 to 1000 per tonne. A marginal increase of Rs. 500 per tonne in the domestic rates for July quarter is to be discussed soon in the INMA (Indian Newsprint Manufacturers Association) meeting. The buyers of newsprint prefer using the imported newsprint because of the better quality and also that there is hardly any difference between the local rate and the landed cost of imported paper due to low import duty. Some of these foreign manufacturers take use of their strong home market rate and do an under cutting on the export rate. According to industry sources, the lower import rate of 5% is also used by some small newsprint buyers to import "Writing & Printing" paper under the label of newsprint and bypass the 16% duty. Newsprint manufacturers till now have not shown any staggering performance in its financials. The reasons being – rising input cost, higher cost of pulp, lack of modernization and very low per capita consumption of paper in India. Pulp accounts for 3-3.5% of total cost and power almost 15-20%. There have been a lot of efforts going in for improvement in the power sector that will benefit the industry in the near future. The per capita paper consumption in India is as low as 4.6 Kgs, whereas, the world average is 54 Kg and in the US it is 332 Kg. So we can identify the huge gap lying open for the paper industry as a whole.

Most of the big players are now using latest technology and following modernization and some are also planning to increase their capacity. Rama Newsprint is planning to double their capacity. Tamil Nadu Newsprint who is mostly into writing and printing paper and newsprint manufacturing has shown a 78.2% increase in its last quarterly net profit. The company said that there has been significant volume increase, which led to 37% rise in its top line. The Indian economy (GDP) growing at a minimum of 6% p.a and the literacy rate also growing at a fast pace, the paper industry is aptly placed to perform well in the long run. Most of the manufacturers are of the opinion that the overall newsprint industry

has been doing well in the last 7-8 quarters and is expected to remain steady in the next few quarters. Industry believes that with the present capacity, the domestic manufacturers contribute up to 80% of the total demand- given that huge imports do not barge into their market.

The paper and pulp industry is banking on the national forest policy, expected to be announced within two months for survival. The proposed policy will permit planting of trees in wastelands and degraded lands by private sector thus giving a breather to the industry, which is starved of raw material. The industry has shown a steady growth but is facing shortage of raw material despite advances in information technology. While it seeks allotment of degraded land for plantation, which is still under consideration, forest cover managed by the government is also declining. It is interesting to note that big business lies in small retail orders with high margin rather than large industrial order with low margins. There are about 1000 paper mills in the country and only 20 companies, which have a capacity of 50000 tonne. The share of large mills is falling close to 35%. The primary issue is the need for a strong raw material base. It is the key for future growth. While 5% of paper produced worldwide is from wood, only 14% of wood felled is consumed by the paper industry. In India, the paper industry consumes only 3% of wood felled. Bagasse is perhaps the only agro raw material based on which large paper mills can be established. However, with the vagaries of the monsoon and the way cogeneration of power from bagasse is catching up, establishing bagasse-based large mills is almost ruled out. Moreover the absence of proper collection system and alternate uses of waste paper also make establishment of large mills based on waste paper really difficult. Comparing the situation with other countries, in India a 300-t/d mill is large in contrary to a 3000 t/d pulp mill in Brazil. Western countries have large industrial plantations to grow fast growing pulping trees. Large –sized mills (50,000 tpa and above) are reasonably modern and operate efficiently.

With the Indian paper and pulp industry placing greater demands on the plantations and forests, there is a growing need for genetically modified (GM) trees to help the Indian paper industry. Hence, the proposed National Forest Policy is expected to give a thrust to GM Trees for boosting the paper industry as well as improving the quality of by products of wood. But since GM trees are grown outside the pale of nature, there is broad consensus among industry experts on the need for sound regulations. According to a new global study of biotechnology in forestry conducted by the Food and Agricultural Organisation (FAO), it warns that a regulatory framework is needed to govern research and application of GM forest trees on a case-by-case basis. The benefits of growing GM trees include increased wood production, improved wood quality and resistance against insects, diseases and herbicides. Besides, production and processing costs of wood or chips could be reduced assisting the paper industry. On the other hand according to an FAO report, the potential risks involved in GM Plantation are transgene instability, plantation failure poor wood quality, development of tolerance to the modified trait by insects or disease organisms and the escape of modified genes into natural eco systems.

**ANDHRA PRADESH PAPER MILLS LIMITED:** This paper mill will be commissioning its new unit, with a production capacity of 10,000 tonnes in April 2006. The Unit is being set up at its existing plant in Rajahmundry. This company is also setting up a new unit at Coastal Papers, which it acquired in 2002. The expansion is estimated to cost Rs. 6350 million. Of this, Rs. 1500 million is being raised through internal accruals. Another Rs. 1150 million is being raised through the issue of fresh equity.

**ITC LIMITED:** This company is planning to set up its Rs. 2,500 million paper plant at Maneri, the tribal district of Mandla in Madhya Pradesh. If the plant were set up in this tribal belt, it would give a facelift to the most backward region in the state. The plant will be equipped with state-of-the-art machinery with a capacity of 2,00,000 metric tonnes of paper. The plant is expected to provide employment to nearly 3000 people. A 50 MW power project is also proposed to be set up to meet the plant's energy needs. The raw material shall be made available from the bamboo forest in the surrounding areas and other plant species found in abundance in the tribal region.

**J K PAPERS LIMITED:** This Rs. 6500 million H S Singhanian Group Company, is on an expansion mode. It has commissioned an offline blade coating plant of 46,000 tonnes per annum (TPA) capacity at its existing facility in Jaykaypur, Orissa. The company plans to set up a Rs. 2350 million, 60,000 tonnes capacity plant for value added paper products at the Central Pulp Mill in Gujarat. The company, which has two facilities – one in Orissa and the other in Gujarat – has embarked on this expansion to produce duplication board papers at the central pulp production plant in Gujarat. The unit produces about 50,000 tonnes per annum.

**SESHASAYEE PAPER AND BOARDS LIMITED:** This company is planning to set up a modern pulp mill and chemical recovery plant at a cost of Rs. 3500 million as a prelude to capacity expansion. The company has identified a pulp mill in the US, which it plans to relocate to its existing facility in Erode. This mill will have a capacity to produce 350 tonnes of bleached pulp a day against its present requirement of 230 tonnes. The project is likely to be commissioned in Mid 2007. The company is well set to keep its costs down and retain the competitive edge in the market. The new pulp mill will do away with imports of costly pulp.

**WEST COAST PAPER LIMITED:** This company has recorded 155 percent increase in net profit at Rs. 97.4 million for the quarter ended June 2005 compared to Rs. 38.10 million for the same period last year. Gross profit has climbed to Rs. 165.3 million from Rs. 110.5 million for the corresponding quarter of 2003-04, recording an increase of 50 per cent. Net sales increased 19 per cent at Rs. 1354.5 million. EPS has touched Rs. 10.9 as against Rs. 4.26 in the previous quarter. The company has attributed the improved performance to factors such as a 6 per cent increase in production of writing and printing paper from 25,749 mt to 27,353 mt, higher sales realisation owing to revised sale prices in March and June 2005 and state government's withdrawal of electricity tax on self generation from February 2004.