

## Indian Paper Scenario – August 2005

Paper Manufacturers are to increase prices further in October on increasing demand in the printing and writing segment. Apart from exploiting the increase in demand, manufacturers are also taking into account the increase in cost of inputs particularly fuel. The increase could be Rs. 750 –1000 a tonne of printing and writing paper. The prices are now ruling at Rs. 43,000-44,000 a tonne. The proposed increase is attributed to the overall growth and buoyancy in the international markets and particularly to the growth in the printing and publishing segment, according to manufacturers. Paper mills are concerned about further increases in cost of fuel and coal. The price of coal could be affected due to restructuring of supplies. While 70 per cent of the coal could be available at pithead prices, the balance will have to be purchased at open market prices. Therefore, the mills are using the buoyant market to protect their bottom lines against anticipated increase in input costs. In 2004-05, there was no significant increase in paper cost. They are making up for the increase in the current year. Mills increased prices in April / May and in July. The market has absorbed the prices without a glitch. The order situation is comfortable with the mills and the inventories are not high. The market is bound to absorb the increase in October, which could be the last opportunity to affect the increase. The manufacturers expect a full following in the year-end. A major growth in demand is from the copier paper segment, which is growing at 18-20 per cent, against 6 percent in the case of other categories of printing and writing paper. Also, following the notebook season driven by the academic year beginning in June, there has been demand from the corporate segment for annual reports, balance sheet and notebooks. Printers are also starting on the manufacture of diaries and calendars for the coming year. All these have contributed to the demand. The printing and publishing segment has in a large way contributed to the demand for paper. Large publishers have shifted their printing operations to India from Hong Kong and Singapore. Africa and the US also give orders for textbook printing; quality of printing and costs are attracting overseas markets to India. Indian Paper is feeding the demand for printing for exports.

The battle in the India paper industry now seems to be shifting towards the high value added and rapidly growing coated paper segment. With annual growth of 15% and huge untapped market potential, the coated paper segment has now become the latest arena of fights for larger market share between the two major paper players – J K Paper and Ballarpur Industries. A relatively new player in the segment, J K Paper has claimed 10% market share in just three month since it began commercial production of coated paper. The fact, however, has been contested by market leader BILT which is into the segment since 2000. Ballarpur Industries sources revealed that the company continues to enjoy 40% market share in low grade air knife coated paper segment and about 50% market share in high end blade coated segment. Though other players have also entered the market for coated paper, BILT expects only to grow its market share and take up revenue contributing from this segment to 50% of company's total paper revenue soon. While not going into issue of cutting into BILT'S market share, high levels of imports in the segment and growth would provide enough room to the company to grow its business. The total market of coated paper in India is to the tune of 2,75,000 tonne per annum. Air knife market is of 70,000 tonne and remaining is of the high-grade blade coated paper. The potential in the segment is enormous as use of coated paper in writing and printing segments is of the order of 10% in India while the global standard is 40%.

For a number of companies, especially those in power intensive sectors; wind power provides an ideal alternative to costly grid power or expensive captive power based on liquid fuel. Wind power provides a hedge against rising power costs, For some firms, it is an attractive investment option and for others, it is as much a step to contain fuel costs. For instance, Tamil Nadu Newsprint and Papers Limited promoted by the Tamil Nadu Government, has 21.75 MW of installed wind turbine capacity in south Tamil Nadu and plans to add another 5 MW during the year. The company generated over 3,48,000 units in 2004-05 and earned a profit of Rs. 19.4 million selling all the electricity to the grid. In contrast, Madras Cements Limited., invested in wind power as a hedge against rising cost of grid power. The Ramco Group Company was a pioneer investor in a non-conventional energy source, and has wind farms at Nuppandal in south Tamil Nadu, Cement is an energy intensive industry and power costs account for nearly 30 per cent of variable cost. Madras Cements has an installed capacity of 34.4 MW of wind power of which 33.2 MW is in Tamil Nadu and the rest in Karnataka. The power generated from its wind farms meets 60 per cent of the requirements of its RR Nagar plant in Tamil nadu. The wind power division generated 4,45,000 units in 2004-05 and earned Rs. 161.4million.

Cleaner production technology will be the focus of the maiden international trade fair and technical conference on pulp and paper industry to open at Coimbatore on 1<sup>st</sup> September 2005. The four day trade / conference 'Indian Paper 2005' will be the platform for the pulp and paper industry to update on production processes adopted by it covering aspects such as energy saving reduction in emission and effluent loads and improving quality of pulp. The fair will also showcase the paper machinery and the machinery used for conversion products such as tissues, corrugated cartons / paper boards. Eminent speakers connected with the paper industry are scheduled to make presentation on critical areas of production such as raw material, eco-friendly production process and usage of bio-technology, besides the cogeneration and energy management at the technical conference to be held for two days. The India Paper 2005 show should command considerable interest of the domestic pulp and paper industry which has an un-envious task of increasing the country's paper production from the present six million tonnes to 8 million tonnes by 2010, despite the bottlenecks it faced in the form of tight raw material scenario and the compulsions to adopt the cleaner production norms obligated under the Kyoto protocol. Over 60 companies engaged in paper machinery / allied machinery/ spares and chemicals would figure in the fair. The trade fair to be held at the Codissia Trade Fair complex, will be inaugurated by the Tamil Nadu Minister for **Backward Classes**.

**ITC LIMITED:** This company has plans to invest Rs. 25000 million during the next two to three years in putting up a green field elemental chlorine free paper plant which would increase its annual paper and paperboard manufacturing capacity to 5,50,000 tonnes.

**J K PAPER LIMITED:** This Company has lined up a slew of expansion plans. It has decided to set up a 60,000 tonne plant for value added paper products at its Central Pulp Mill in Gujarat at a cost of Rs. 2350 million The project will be commissioned in 18 months. The Rs 7300 million company has two integrated pulp and paper plants. J K Paper mill at Rayagada in Orissa with an annual output of over 1,10,000 tonnes and Central pulp mill at Songadh in Gujarat with a capacity of 30,000 tonnes.

**SIRPUR PAPER MILLS LIMITED:** This paper mill has placed an order worth about Rs. 700 million for a new fibreline from a Finland-based firm with an eye to entering the high

growth copier paper market. With the arrival of the new fibre line from Finland and post-capacity expansion, their production capacity would increase by 66 per cent to 1,33,000 tonnes per annum. With the expansion project expected to be completed by the end of next year, the company would start getting its benefit by 2007-08 fiscal.

**SREE SAKTHI PAPER MILLS LIMITED:** This company is planning to expand its capacity by 20,000 tonne per annum for the existing 40,000 tonne. The capacity expansion is expected to cost Rs. 250 million. The 12 year old company having a turnover of Rs. 500 million, currently produces various grades of Kraft paper, duplex boards and special coloured and file boards. For financing the expansion, the company is considering several options including the IPO Route. It is aiming for a turnover of Rs. 660 million in the current year. The company has gone for backward integration and has set up waste paper collection and processing centres in Tamil Nadu and Karnataka besides Kerala, making it the largest waste paper supplier in the country.

**TAMIL NADU NEWSPRINT AND PAPERS LIMITED:** This paper mill is planning to step up production of branded copier paper next year in line with its plans to focus on high value segment. This company has been focussing on this line, a high growth segment in paper and has hiked its production from 19311 tonnes in 2003-04 to 28141 tonnes in 2004-05 and in the current year it has set itself a target of 40,000 tonnes. Once the new cut pack line is set up in March 2006 production will increase significantly in 2006-07. It now has a 150 tonne per day cut pack line. The increased focus on copier paper in the high value segment is also aimed at moving away from the low end cream wove segment where there is heavy competition and margins are low. This high value paper segment is growing at about 15 percent.