

Indian Paper Scenario – January 2006

The Year 2005 has seen intermittent price rises in the paper industry. In an attempt to keep up with rising input costs, the paper majors have had to announce price revisions as many as three times to keep the business running. And the year 2006 will be marked with further price rises, with Ballarpur Industries already ready to raise price of uncoated paper by 2.5 to 3 percent. There has been a growth rate of 5 to 6 per cent in the paper segment and this is likely to be maintained in 2006. However, a major cause of concern to the industry is lack of raw material. President of Indian Paper Manufacturers Association observed that the inflationary pressures on raw material, including oil and chemicals, have been the main reason behind rising prices. The industry has been lobbying with the Government regarding a fund for the paper industry on lines similar to the textile upgradation fund – TUFS. It has repeatedly pointed out that obsolete and old machinery is limiting the production capacity of companies. The sector has also asked for reforms on the excise duty side, especially for excise duty of 8 per cent to be made applicable uniformly for all varieties of paper, including newsprint. Shortage of the much-needed raw material (pulp) has left companies looking for plantations abroad. Ballarpur Industries Ltd., has been scouting for plantations in Vietnam and Indonesia. Most companies have expanded the scale of farm forestry and are growing local plantations in the land available, as the laws do not permit private plantation by the industrial sector. Modernisation and expansion of existing capacities are also being carried out to cater to the copier and coated paper segments, which have been registering almost 15 per cent growth as opposed to the paper industry as a whole. The trend amongst paper majors, BILT and JK Paper has been to expand brown field units rather than set up Greenfield plants. The demand supply gap too is proving to be a challenge with limitations on raw material availability, demand is around 6 to 6.5 per cent, while supply is only 3 to 4 per cent. Much action has been forecasted on the newsprint segment in the coming year. It has been pointed out that two newsprint companies are eyeing India to set up their plants. A Finnish company that has plans to set up a 5 million tonne capacity plant along the ports has already got the ball rolling as it has engaged the Central Pulp and Paper Research Institute to study the logistics. The plant is expected to use recycled paper for production.

Paper companies are facing a bit too many issues at the same time, which is also being clearly reflected in their stock prices. The stocks of most of the paper companies have moved southwards in the last six months when the equity bourses haven't been on a roll. Analysts say that the paper manufacturers have to comply with the new pollution norms by the end of the next year, which, in turn, is leading to an increase in the capital expenditures. Paper companies are bound to comply with the new pollution norms by 2007. To meet the norms, companies have to incur a lot of capital expenditures, which will not really lead to any return. At the same time, the input costs have been rising there by affecting the margins of most of the paper companies. The price of paper was last hiked in October in the range of Rs. 750 to Rs. 1000 per tonne. Earlier, the prices were revised in the months of April and June. The price hikes are, to a certain extent, compensating for the rise in the input costs. In the last six months, the stock price of Yash Papers has dipped by nearly 55%. The stock closed at Rs. 10.88 much lower than Rs. 23.80 the closing price on June 2005. Sarda Papers Ltd., and Pitambar Coated Papers Ltd also witnessed their stock prices dip by 45% and 47% in the last six months.

The recent manipulation of newsprint prices coupled with rising raw materials costs have pushed up paper prices by about 30 percent in the last one month. Paper prices depending upon their grades, are now quoting between Rs. 18000 and Rs. 35000 a tonne. Prices of raw materials, including wood, baggase and waste paper imported from overseas, have been surging since the last one month. Raw materials prices vary depending upon the proximity, availability and need of paper mills from the selling point. Today, the Rs. 1,70,000 million Indian paper industry, contributing about Rs. 25,000 million to the ex-chequer, is facing huge problems. Despite employment generation potential, the industry is heading towards extinction steadily. Unplanted wood is cut and sold through government tenders and, hence, there is no question of cutting live trees for their use in paper manufacturing. Secondly, there is no proper waste paper recycling system in India, hence, waste paper is imported from abroad and recycled in the domestic market, said an industry source. The 600000 tonne paper industry is the only route through which the government can address the socio-political agenda and ease obstacles in their literary mission such as "Sarv Siksha Abhiyaan" by providing enough papers to read and write at cheaper price to students. Surprisingly, the government has big plans on papers but finally nothing comes in practice said the Secretary General, Indian Paper Manufacturers Association. The paper industry requires only 1.2 million hectares for green plantation of the 65 million hectares of degraded land available in the country. But instead of allotting fertile land, the government has, on all occasions, allotted barren lands in Kutch and Rajasthan. The per capita paper consumption in the country is about 6 kg, which is estimated to go up to 10 kg in near future if the government is facilitating paper producers with required plantation area. The Government is seen lenient toward newsprint industry by lowering taxes but the paper industry continues to attract up to 40 per cent of taxes in various forms. According to the National Manufacturing Competitiveness Committee, fuel wood demand in the country estimated at around 280 million metric tonne cumulative by 2020 against the current demand of 80 MMT. Pulp wood paper industry would be requiring about 13.2 MMT cumulative by 2020 against, the current requirement of 5.2 MMT, thereby making a shortfall of 93 MMT Cumulative.

The domestic newsprint market is likely to stay bullish throughout 2006 in anticipation of strong buying support from the newsprint consuming sector. Considering that there will be a 10 per cent growth in demand, the country may face a further demand – supply gap of about 150000 tonnes during the year. It is anticipated that the demand will touch the level of about 1650000 tonnes during the year's consumption of about 1500000 tonnes. Encouraged by the buoyant market situation, a section of domestic manufacturers producing quality newsprint has revised prices on an average by Rs. 1500 a tonne of standard newsprint with effect from January 2006. Small and medium mills with limited production capacity of quality products may also get an opportunity to enhance their sales realisation. They may revise prices moderately in sympathy with the revision by quality newsprint producers. An executive committee member of the Indian Newsprint Manufacturers Association said that the domestic production may not go beyond 7,00,000 tonnes in 2006 since no major fresh investments are being made in the country to expand capacities. Of the total projected capacity, the production of quality newsprint might be about 450000 tonnes, largely from the state-owned Hindustan Newsprint Ltd., and Rama Newsprint and Paper Ltd., Mysore Paper Mills Ltd and Emammi Paper Mills Ltd. The INMA source said that the average ex-mill price of standard quality newsprint would now be about Rs. 27500 a tonne compared to the landed cost of the same variety of imported newsprint of about Rs. 32000. He also indicated that newsprint prices in the

international market might surge further following higher off take by the print media in China and other Asian Countries whose economies appear buoyant.

BALLARPUR INDUSTRIES LIMITED: This company has kicked off its expansion-cum-modernisation plans for which it had set aside around Rs. 12000 million. A part of the investment would go towards doubling the capacity of paper production at its Bhigwan unit in Maharashtra that manufacturers coated paper. The unit currently produces 1,15,000 TPA and is poised to produce 3,00,000 TPA, post expansion. According to the company, the coated paper segment would grow at a fast rate helped by an improving GDP and rising literacy levels. Shift to white copier paper furthermore, the company recently completed the Rs. 650 million modernisation of machines at APR packaging Limited., its Ashti Unit. The unit, which was previously producing extensible sack kraft paper, has now moved to producing white copier paper. The expansion would enable the plant to manufacture bleached writing and printing paper up to 60,000 tonnes per annum.

MALLU PAPER MILLS LIMITED: This Newsprint manufacturer is planning to set up a Rs. 700 million facility in Nagpur. The plant, with a capacity of 50,000 tonne a year, would increase the company's output by two-and-a-half times and account for around 6 per cent of the country's newsprint production. The company is set to come out with a Rs. 200 million initial public offer by end of next month to part-fund the facility. The issue managed by Kolkata-based Microsec capital will offer around 6667000 shares of Rs. 10 each at a premium of Rs. 20.

SREE SAKTHI PAPER MILLS LIMITED: This Kerala based manufacturer of Kraft paper, duplex boards and special coloured boards, is planning to expand the capacity of one of its plants to 70,000 tonne from the present 40,000 tonne and also proposes to set up a 2 MW power co-generation plant. The expansion would involve setting up an additional line solely for kraft paper manufacture. The total investment for the expansion and the captive power plant would be around Rs. 190 million. The company which started production in 1993 with a capacity of 5,000 tonne, posted a profit after tax of Rs. 10.1 million during the last fiscal. During the first half of this fiscal, it reported a PAT of Rs. 11 million. With the expansion, the company hopes to achieve a profit of over Rs. 1000 million by 2007-08.