

Indian Paper Scenario – March 2006

With the increase in capacity, domestic paper production is estimated to see a 6 per cent rise in the current financial year to 6,36,000 tonne, compared with 6,00,000 tonne last year. Following an increase in domestic demand and rising international competition, exports are unlikely to see a rise from last year's 1,75,000 tonne. Companies prefer to focus on the domestic market, as the international market share can be very dicey. Thus, local demand is always preferred to that of export. Paper prices have risen in 4-5 tranches this year and experts feel the trend will continue in the next financial year as well. In the last 12 months the industry has seen an average price rise of about Rs. 2000 – Rs. 2500 per tonne. Comparatively, industry experts feel that while coated paper prices are stable at current levels with little scope for movement, prices of uncoated paper may see a rise for another 2-3 years. While shortage of pulp is keeping supply restricted, demand for paper is also on the rise. Annually, the total paper demand is growing at about 7 per cent and capacity increase is about 4- 5 per cent said Group Finance Director with Ballarpur Industries. Domestic demand has a huge potential with per capita consumption being one of the lowest in the world at 4.5 kg compared with China's 28.3 kg. The Asia average stands at 26.9 kg and the global average at 52.6 kg. Writing and printing paper contribution about 49 per cent of the total paper consumption, industrial paper about 36 per cent and newsprint the remaining 15 per cent, according to ICRA Data. IPMA Members form about 38 per cent of the total paper sector excluding newsprint.

As per the licensing conditions stipulated for 2004-09, those holding RNI registration certificates are allowed to import newsprint without licence, provided it is for their own use. The importer has to submit documents authenticated by the RNI to customs to get the goods cleared. He also has to submit an annual audited statement to the RNI reflecting the total quantity and value of newsprint consumed and the quantity imported by him in the preceding licensing year. It is reliably learnt that many medium and large newspaper and magazine publishing houses lent their certificates to various importers who used them to save customs duty for a fee. The DRI source said duty evasion of more than Rs, 300 million has been detected and imported goods worth Rs. 180 million have been seized so far. The scandal was unearthed on December 2005, when DRI sleuths, acting on a tip off, searched 18 container awaiting customs clearance at Tughlakabad inland container depot and found large quantities of craft paper, light weight coated paper, art paper and release paper concealed behind a few rolls of newsprint. They seized goods worth Rs .25 million. The DRI's Delhi Zonal unit found that the importers were evading customs duty by misdeclaring and undervaluing the goods. It identified six major importers of paper and paperboard and searched their offices and godowns. Eight more containers, which arrived a few days later, were also seized. The investigation widened to cover more than 100 parties. The DRI source said the total duty evaded could be as high as Rs. 2000 million. The agency found that the RNI certificate holders neither needed nor used the imported goods. They were simply paid a commission of Rs. 1 per kilogram. Apart from being misdeclared, the goods were also undervalued. The importers declared a value of US \$ 210 to \$ 290 per ton of newsprint when the actual price has fluctuated between \$540 and \$700. In certain cases, coated paper weighing more than 70 gram per square metre were sought to be declared as lightweight coated paper weighing less than 70 gsm to claim duty concession. This concession, too, is available only if the goods are procured by actual users. Prominent importers arrested so far are Prakash Gaz, Utpal Gupta, Surinder Garg Harish Goel,

Satendra Goel, Suresh Mittal, Laxmi Mittal, and Praveen Goel. Three of them are in judicial custody, the rest have been released on bail

The Aditya Birla Group recently announced an investment of \$350 million in Lao People's Democratic Republic (Laos) for setting up of a project to raise pulp wood species plantations and a pulp plant for its viscose staple fibre business. Grasim Industries Limited, Thai Rayon Public Co Limited and Pt Indo Bharat Rayon of Indonesia, companies within the Aditya Birla Group, will invest in this project as equity holders. The Group said it has secured 50,000 hectares of land from the Government of Laos on lease for a 75-year period. Eucalyptus plantations which would be raised on the land would provide the feed for the pulp plant. The project is to be implemented in two phases, first the plantation phase and second the setting up of the dissolving pulp plant, given that eucalyptus plantations normally have growth cycle of 7 years. The commissioning of the pulp plant would coincide with the harvest of the first plantation – the seventh year. The pulp produced in Laos would be exported to the group's rayon fibre manufacturing units in India, Thailand and Indonesia as well as newer locations. This integrated plantation and pulp plant project with a 2,00,000 tonnes per annum capacity is a forward step planned ahead of time to ensure that our future expansion needs are met.

Emami Paper Mills Limited, has planned to acquire two paper mills in Maharashtra and earmarked an investment of about Rs. 5000 million for the purpose. The company, which has recently undertaken a Greenfield project at Balasore in Orissa, was holding talks with two existing units in Maharashtra to fuel inorganic growth. The company has earmarked an investment of Rs, 5000 million for acquiring those units. Aiming to be the largest private player in the newsprint industry, the company has started setting up a new unit at Balasore adjacent to its plant there. Emami paper belonging to the diversified Emami Group currently had a total production capacity of 56,000 TPA at its two existing mills at Balasore and Dakshineswar (West Bengal). Meanwhile, the Group, which clocked a turnover of Rs. 5500 million in 2004-05, was expected to witness a strong growth to about Rs. 8000 million during the current fiscal. The newsprint segment would fetch revenue of about Rs. 1750 million as compared to Rs. 1500 million garnered in the last financial year. The turnover of the healthcare sector was expected to be about Rs. 800 million while the real estate and other segments would also register impressive growth.

The Indian Newsprint Manufacturer's Association (INMA) has ratified the price revision proposals by its member –units for the April-June quarter of 2006. It is believed to have advised its members to increase standard newsprint prices on an average by Rs. 2000 a tonne. Prices, however, may vary from mill to mill, in accordance with the quality. Confirming the development the INMA sources have claimed that the prices of domestic newsprint would remain at lower levels even after the revision vis-à-vis the imported varieties. They have justified their claims by saying that the cartel of large international manufacturers have also proposed to increase prices on an average by \$50 a tonne for the April-June quarter. The sources have pointed out that there has been a tight inventory position in the international market. Moreover, no major investments were made world over in the newsprint-manufacturing sector. This has led to a demand-supply mismatch. Incidentally, the demand for newsprint is growing in Asian countries

because of the economic boom. This factor is likely to keep the future global and domestic newsprint markets buoyant till substantial new capacities are added to the system.

ANDHRA PRADESH PAPER MILLS LIMITED: This paper mill has taken up Rs. 6350 million project for expansion modernisation and up gradation of its pulp and paper making facilities, is set to complete the phase I of project involving over Rs. 5000 million by June this year. In a bid to compensate the delay of around three months in executing the phase I of project it is planning to expedite the second phase to complete it by January next year as against the earlier envisaged schedule of March 2007. On completion of second phase expansion the company's installed capacity of paper would go up to 1,94,000 tonnes per annum from the existing 1,60,000 tpa.

J K PAPER MILLS LIMITED: This company is planning to increase its production capacity to 5,00,000 tpa by investing Rs. 7000 million over a period of 3 to 5 years to achieve a turnover of Rs. 10000 million. To part fund the company's modernisation plans including packaging board project being set up at its existing site in Gujarat. The company signed a MoU with International Financial Corporation, Washington to allot equity shares of Rs. 500 million at a price of Rs. 65 per shares. IFC would also provide Rs. 700 million 10 year term loan to the company. The promoter group is also injecting Rs. 500 million for the purpose and another Rs. 500 million would come through internal accrual while the rest would be met through other instruments, which may be debt or convertible bonds. These funds would be used for the company's growth and modernisation plant totalling Rs. 3350 million.

WHITEFIELD PAPER MILLS LIMITED: This Hyderabad based paper mill is in the process of setting up a 2,00,000 tonne capacity speciality paper Greenfield mill near Kovvur in Andhra Pradesh with an investment of Rs. 12000 million. The company management and the State Government signed a memorandum of understanding (MoU) in the presence of the Chief Minister, who assured all help for the paper plant.