

Indian Paper Scenario – April 2006

The US Commerce department has slapped preliminary anti-dumping duties of up to 110.43% on lined paper school notebooks imported from India. Domestic exporters plan to challenge the duty under the banner of Capexil, the export promotion council for chemicals and allied products. The US has also set preliminary anti-dumping duties of up to 258.21% on similar exports from China. The department said the measures were in response to a case filed in September 2005 by school paper suppliers in Ohio, Tennessee and Georgia. The commerce department said its preliminary investigations found that the Indian and Chinese paper notebooks were being sold in the US market at less than fair value, with margins ranging from 22.53% to 110.43% for India and 52.10% to 258.21% in the case of China. Navneet Publications, one of India's top exporters, is very sceptical and finds the move orchestrated. The US does not want any exports from China, India and Indonesia at all. Navneet exports Rs. 300 million worth of books every year. Exporters said the US commerce department has been repeatedly seeking data from them. Despite this, sources said, the commerce department was not satisfied and has slapped the preliminary duties. Indian notebooks exports to the US is valued at around Rs. 1000 million and this figure has grown at a CAGR of about 15% over the last three years. Notebook export is a seasonal business and players do good business in the April – July period, because importers start stocking up before US schools reopen in August. Exports from India comprise mere 7% of the US market. More than 70% is domestically manufactured. In fact, local manufacturers sell at lesser rates than exporters. For instance, a local manufacturer will fetch a price of 10 cents for a spiral notebook against an India exporter's 30 cents. Yet the commerce department is acting tough due to the effects of WTO regulations. According to an industry source the matter has been festering for the last six months. The US has also been sourcing paper at very cheap rates from manufacturing units in neighbouring areas like Brazil etc. Another exporter, Ajay Notebook Manufacturing, which mainly exports to South and East Africa, is unimpressed by the US measures. Exporters are now looking to expand their presence in alternate markets such as Europe Africa and the Gulf. As per WTO norms, India Notebook exporters can challenge the preliminary anti-dumping duties on several grounds. Apart from establishing that export prices were not lower than manufacturing costs in India, they could also challenge that such exports had actually hurt over 70% of US manufactures of similar products.

Paper companies are increasing their thrust on branding for a strong footing and help de-risk from the cyclical affect of the commodity's prices. Ballarpur Industries is increasing its product offerings under the Matrix brand and has launched Youth Series and Tenon-Ten, as ITC is increasing its spread with brand name Classmate, J K Pape is working on extending the reach of its copier brand. Notebooks, an estimated Rs. 50000 million segment growing at 10 per cane per annum, has seen a strong influx from the organised sector, which comprise mere 10 per cent today. The category has sizeable gaps especially with respect to quality, and this is being filled by the organised sector at various price points. While ITC and Navneet Publications are at the affordable price point starting Rs. 5, but is focusing firmly on premium pricing. Navneet, in its tenth year of operation, is gearing up to fight the major players, Bilt and ITC working on expansion in its distribution network, Navneet plans to increase sales by about 30 per cent in the current fiscal. At present, it has presence in about 50,000 retail shops and over 500 distributors. ITC is busy leveraging on the group's distribution channel and raw material support from its paper-manufacturing unit ITC Bhadrachalam. ITC targets to sell 100

million notebooks in current financial year compared with 40 million units last year. Leveraging its status as number one paper company, Bilt too is busy expanding its retail base from current 20,000 to 25,000 outlets this year and is targeting retail sales of Rs. 1000 million. The company will enter files and folder's segment in next month and followed by pencils, tapes and adhesives in the next six months thereby completely its stationary expanse.

The split in the Thapar family seems to be heading for an amicable settlement, Group holding company Karam Chand Thapar & Bros (KCT) is set to transfer its stakes in the group companies to the Thapar brothers over the next few months. Greaves Cotton is controlled by the BM Thapar group and led by Karan Thapar. In the case of Bilt for instance, the equity holding would be transferred to Bilt Paper Holding (BPHL). Last year, BPHL had increased its stake in Bilt to 36.3% through the creeping acquisition route. When the KCT equity transfer takes place, BPHL's holding would cross 40%. This apart, over the past quarter, the share holding structure of Crompton Greaves was consolidated under a single entity. Solaris Holdings Part of BM Thapar Group Crompton Greaves is controlled by BM's heir Gautam Thapar through Solaris Holdings. Moreover, the shareholding of Greaves Cotton has also changed over the past few weeks; Solaris Holdings equity therein was transferred to other holding entities. Last week, Karan Thapar, the other son of BM Thapar acquired, acquired voting rights to the tune of 10.48% in the equity of Greaves Cotton. The process of unbundling the holdings of KCT was kicked off two years ago and would be implemented now, as per the original plan for restructuring, the first phase involved a clear division of companies among the brothers. The second leg involved detangling the cross-holdings and reorganisation of the boards in the respective companies. According to the original family asset and management division, Bilt and APR went to L M Thapar. JCT, JCT Electronics and Greaves was to come under MM Thapar, Bilt Chemicals, Bharat Starch and Crompton Greaves was vested with BM Thapar, and KCT Coal Sales, Water Base and India City properties was to go to T M Thapar. The other small companies including holding entities were also divided among the brothers. However, though an amendment to the original restructuring plan, Greaves, now rechristened Greaves Cotton, was transferred to BM Thapar, rather than becoming an MM Thapar group company. While the BM Thapar and L M Thapar group companies are under the management of Gautam and Karan Thapar, JCT is controlled by Samir Thapar, JCT Electronics by Arjun Thapar and the IM Thapar group falls under Vikaram Thapar. Pursuant to the family agreement to split market regulation Sebi had exempted the acquisition and the realignment of voting rights in the group companies from the applicability of the provisions of Chapter III of its take over code.

Even as its existing paper mills in Assam are operating under pressure for inadequate availability of raw material (bamboo) from local sources, Hindustan Paper Corporation (HPC) is committed to implementing and technical upgradation plans in these two mills to be completed latest by 2011-12. HPC is also committed to investing in two more projects. One will be a Greenfield project in Uttarpradesh with an annual production capacity of 3,00,000 tonnes of writing and printing paper. This project is estimated to cost Rs. 37000 million. The other project is the revival of Nagaland Paper & Pulp Company Ltd's (NPPC) mill at Tuli in Nagaland. NPPC's annual capacity will be doubled to 66,000 tonnes from 33,000 tonnes. Highlighting the performance for the year 2005-06 and future plans, HPC, said that the capacity of its Kerala based wholly owned

Hindustan Newsprint Ltd., (HNL) would be raised to 2,70,000 tonnes of newsprint from 1,00,000 tonnes entailing an investment of about Rs. 7000 million. The HPC as a group company has posted a profit before tax (PBT) for Rs. 1050 million during the fiscal 2005-06 on a record sales turnover of about Rs. 10200 million, while it aims at a sales turnover of Rs. 11770 million and a PBT of Rs. 1500 million in 2006-07, based on a production mandate of 333,000 tonnes, which consists of 218,000 tonnes of printing and writing paper and 115,000 tonnes of newsprint. However, it has exceeded the combined installed capacity of 3,00,000 tonnes for the fourth time in succession in 2005-06, recording a combined production of 3,20,118 tonnes. HPC has plans to achieve a production target of 8,00,000 tonnes and a sales turn over of about Rs. 3,0000 million by 2010-11.

BALLARPUR INDUSTRIES LIMITED: This company's profit rose 27 per cent to Rs. 560.6 million for the third quarter ended March 2006 compared with Rs. 442.1 million recorded in the corresponding quarter last year. Profit before tax rose 32 per cent to Rs. 707.8 million compared with last year's Rs. 536.8 million. Consolidated sales for the quarter rose 14 per cent to Rs. 5676.8 million from Rs. 4991.6 million in last year. For the nine-month period ended March 2006, the company's net profit rose, 16 per cent to Rs. 1476.9 million over last years Rs. 1276.4 million. Consolidated sales rose 5 per cent to Rs. 15525.7 million form Rs. 14721.0 million.

RAMA NEWSPRINT AND PAPERS LIMITED: This company has come out with improved results for the quarter ended March 31, 2006 as its net sales increased 33 per cent to about Rs. 870 million from about Rs. 660 million in the corresponding quarter of the previous year. Profit before tax for the quarter under review is Rs. 7140 million against Rs. 223.4 million in the previous corresponding quarter, which includes a one time extra-ordinary income of Rs. 252.2 million due to restructuring of debts.

SHREE BHAWANI PAPER MILLS LIMITED: This paper mill is planning to raise its production capacity by 23,000 tonne per annum (tpa) to 44,000 tpa and to set up a 3 mw Greenfield co-generation plant with an investment of Rs. 690 million by the end of this financial year. The delivery of plant and machinery, for which orders have already been placed in Germany, Italy and France, would start by August-September. The civil construction would be completed by then and plant and machinery would be installed immediately after the delivery. The company plans to invest Rs. 200 million on paper machines. The state pollution control board has declared the company as a zero emission unit, but the company said it would be investing about Rs. 50 million on pollution control out of the total Rs. 220 million allotted for pulp mill and the pollution control. To part-finance the expansion plans, the company has come out with a rights issue of 12.3 million equity shares of Rs. 10 each for cash at a premium of Rs. 2.50 each.

WEST COAST PAPER MILLS LIMITED: This company has retained the benefit of reduction in excise duty on paper and paper products from 16 per cent to 12 per cent ad valorem to compensate a portion of the cost escalation in raw material and fuel. During the fiscal under review, the company earned a net profit of Rs. 427.3 million on a sales turnover of about Rs. 5250 millon, when its total production touched around 1,76,000 tonnes of writing and printing paper and duplex board. Of the total production, duplex

board would be about 67,000 tonnes. Last year it produced about 1,73,000 tonnes including duplex board of the same quantity.