

## Indian Paper Scenario – May 2006

The domestic paper industry has been in the limelight due to its strong linkages with India's GDP growth and a firm trend in paper prices. Demand for paper is expected to be around 6% to 7% over the next couple of years, more or less in tandem with the GDP growth. Different factors shall drive the demand for different sections of the industry. For example, the government's increased thrust on education and growth of the media and IT industry is expected to aid the growth of writing and printing paper. A rise in industrial activity and demand for better packaging across sectors will propel the growth for industrial paper, increasing number of players and the anticipated boom in the newspaper circulations is expected to boost demand for newsprint. With the rising demand for paper, most of the large paper companies such as BILT and Tamilnadu Newsprint (TNPL) are operating at nearly 100% capacity. These companies along with players such as Andhra Pradesh Paper Mills and J K Paper are augmenting capacities in order to cater to this demand. The capacity additions have already started taking place and are thus expected to contribute to volume growth going forward. Of late paper companies have been shifting their focus to certain categories of the writing and paper segment (coated copier), which have a relatively better margin profile as compared to newsprint. To cite examples, BILT's strong presence in the value added coated paper segment and the higher end of the uncoated paper segment, has resulted in the company earning operating margins of about 25%. These margins are the best not only in the Indian Paper Industry but are also superior in comparison to its global peers. Over the years, Indian paper companies have faced raw material shortages,. This is because in India, the government does not allow paper companies to have private plantations. Not many Greenfield projects have come up in the past in the paper industry on account of the high cost involved . To give a perspective, the cost of the setting up a Greenfield paper unit with its captive power plant is pegged at Rs. 0.1 million per tonne. The last two major Greenfield projects that came up in India were TNPL's bagasse-based 90,000 tonne per annum mill in 1984, followed by Sinar Mas' 115,000 tonne per annum coated paper plant in 1996. As a result, most of the capacities being added at present are brown field expansions With the government having reduced the customs duty on both writing and printing as per and newsprint, the sector faces an increasing risk of competition from imports, For example, while the customs duty for writing and printing paper has been reduced from 10% in FY90 to 15% in FY05, the duty on newsprint is as low as 5%. Paper companies have been historically accorded lower valuations on account of high input and capital costs, strict environmental regulations and difficulty in procuring raw material. Considering the highly fragmented nature of the industry, it is believed that it is the larger paper companies that will retain competitive advantage over their relatively smaller peers.

The Indian Newspaper Society (INS) has urged Prime Minister Manmohan Singh to back the newspaper industry's request for rationalisation of customs duties on newsprint and printing machinery and its pleas for exemption of newsprint from VAT. The Prime Minister, on his part, has assured the INS of his support in resolving major issues before the industry. A delegation of 25 members of the INS executive committee, which met Singh at his residence recently, apprised him of the economic challenges the newspaper industry has been facing. INS president spoke of the financial stress that the industry was undergoing on account of rising newsprint prices. He said that current newsprint prices had touched unprecedented levels, and could rise further. As a result, the economics of producing a newspaper had been greatly strained. Noting that the press

plays a major role in the development of the country, the prime Minister said its economic viability was important to its freedom and vitality. He said his government appreciated the constructive role of the press in the dissemination of policies and the functioning of democracy. Singh said he would be happy to meet print media industry leaders once a year so that the industry would be able to share its concern with the Government and major policy issues could receive the desired attention.

Hundreds of workers of Mukerian Oswal Paper Mill have been deprived of their hard earned money in an alleged employee provident fund (EPF) scam. A case has been registered against the owner of the mill for embezzling the funds of the workers. In the complaint it has been alleged that Rs. 28.59 lakh was deducted from the salary of employees from August 2000 to 2004. However, the amount was not deposited in the EPF accounts of the workers. However, the role of the EPF authorities in the scam also raises suspicions. It was only after four years that the EPF authorities have got a case registered against the mill owners. According to sources the alleged embezzlement of provident fund could not have been possible without the connivance of certain officials who were supposed to regularly inspect the mill accounts to ensure the deposition of funds. The sources here allege that the authorities of the mill not only embezzled the amount they had to contribute to the EPF accounts of the workers but also the amount deducted from the salaries of workers. The mill has stopped production. Nearly 1000 workers are now left in the lurch. The management of the mill had retrenched nearly 250 workers, but even the trenched workers have not been paid their dues by the management. Remaining workers have also not been paid their salary since March this year. The president of the worker's union of the Mukerian Paper Mill, alleged that mill owners were trying to sell the land of the project in violation of the rules. He claimed that there was no reason to close down production in the mill. The area had ample raw material and paper of the mill had enough demand in the market.

**KHANNA PAPER MILLS LIMITED:** This paper mill is in the process of investing Rs. 2700 million to put up a writing and printing paper unit in Amritsar with a capacity of 250 tpd per day. It will invest Rs. 2700 million for the new plant, which would increase KPM's capacity from 2,31,000 tpa to 3,13,000 per year. The plant would be operational by January 2008. The company is hopeful of achieving a turnover of about Rs. 97280 million in 2008-09 when the new plant will be fully operational and capacity expanded. The turnover of the company was Rs. 4255.20 million in the last fiscal and Rs. 2977 million in 2004-05. KPM exports its products to Sri Lanka, Bangladesh, Dubai, Iran, Saudi Arabia, Kuwait Egypt, South Africa and other African and South American countries. Exports contribute 15 per cent of the total production.

**TAMIL NADU NEWSPRINT AND PAPERS LIMITED:** This paper mill has more than doubled its net profit for 2005-06. For the fourth quarter ended March 2006, the company has reported a profit after tax of Rs. 346.0 million on net sales of Rs. 1091.6 million. During the same quarter the previous year, the company reported a net profit of Rs. 238.3 million on a net sales turn-over of Rs. 1728.1 million. For the year ended March 2006, the company has reported a net profit of Rs. 805.5 million on net sales of Rs. 7756.7 million. During the corresponding period of the previous year, the company reported a net profit of Rs. 389.5 million on net sales turnover of Rs. 6410.5 million.