

Indian Paper Scenario – June 2006

The Imports of pulp and waste paper have registered a 14.04 per cent rise during the last fiscal. The value of the imports stood at \$558.22 million in the fiscal 2005-06 compared with \$489.51 million in the previous fiscal. The imports of paperboard were on the rise as well witnessing a 39.55 per cent increase during the last fiscal to \$982.03 million compared with \$703.7 million in the corresponding period last year, according to Government Data. Analysts attribute the jump in imports to the rising cost of raw materials for writing and printing paper, duplex board and newsprint. While pulp, waste paper and paperboard have registered a significant rise in imports, the increase in newsprint imports has been around 10.08 per cent during the last fiscal. According to Joint Managing Director, Ballarpur Industries Ltd., and President of the Indian Paper Manufacturers Association the primary reason for the import of pulp and other intermediary products is because it is more cost-effective to do so. Analysts point out that the quantum of pulp imports is only going to increase in the future on the back of robust demand for paper in the country which is expected to grow in line with the GDP. While companies such as BILT are resorting to acquisitions abroad to satisfy their raw material requirements, other paper firms such as Orient Paper and Industries Ltd. (OPIL) are relying on local plantations to meet their needs. On the other hand BILT recently said that it was in the process of conducting due diligence of a Malaysia based paper mill Sabah Forest Industries with an intention to acquire it and later build a paper mill on the premises. The per tonne cost of wood or fibre in Malaysia is almost half than that in India and BILT wants to take advantage of these low costs to procure pulp from Malaysia. However, sources point out that there is not sufficient land available to achieve economies of scale. Industry watchers say that the Government, nod for public-private partnerships for plantations in degraded forest lands in the country will go long way in solving the issue. Recently there have been initiatives taken by the State Governments such as Andhra Pradesh Government which is exploring the possibility of public-private partnerships. Further, speculation is rife about the entry of two foreign newsprint companies into India, which are looking to set up a newsprint production unit in the country with the materials sourced domestically. This, analysts observe, could lead to a fall in the quantity of newsprint imported.

The paper industry registered a decent performance in the quarter ended March 2006. The aggregate sales of 31 paper companies posted a 13% rise to Rs. 15360 million. The growth in the top line was led by players like Tamil Nadu Newsprint & Papers (21%) and J K Paper (16%), industry leader Ballarpur Industries registered just a 5% growth in its standalone sales. But the sales of the consolidated entity, including financials of the newly acquired APR Packaging grew by decent 14%. The operating profit margin (OPM) advanced impressively by 330 basis points (bps) to 18.5% resulting in a 37% growth to Rs. 3020 million in the Operating Profit (OP). The growth in OPM was led by TNPL, whose margin zoomed by more than 1,000 bps to 24.3%. Improvement in margin of TNPL was due to raw material problems faced by the company in the March 2005 quarter. The aggregate other income (OI) dropped by 15% to Rs. 530 million, restricting the growth in profit before interest, depreciation and tax (PBIDT) to 26% at Rs. 3540 million. Interest cost eased by 5% to Rs. 20 million. Depreciation was moderately higher by 7% to Rs. 1010 million. The resultant growth in profit before tax (PBT) was 63% to Rs. 1820 million over the March 2005 quarter. The total tax out go zoomed from just Rs. 20 million to Rs. 310 million in the quarter ended March 2006. Higher provision for taxation restricted the growth in net profit to 37% at Rs. 1510 million. Ballarpur

Industries, the leader in printing and writing paper (PWP), declared respectable set of numbers in the quarter ended March 2006. While stand alone sales grew by 5% to Rs. 4726.9 million, net profit increased 19% to Rs. 525.2 million. On a consolidated basis, including the financials of APR Packaging (25 January 2006 onward), net sales were up 11% to Rs. 5121.5 million and profit after tax (PAT) by 26% to Rs. 561.3 million. Considering the consolidated production and sales figures in terms of volumes, production increased by 16% to 1,09,778 tonnes, while sales grew impressively by 15% to 1,09,321 tonnes. TNPL posted a good set of numbers in the quarter ended March 2006. Sales increased by 21% to Rs. 2091.6 million. OP grew impressively by 117% to Rs 508.5 million on higher revenue growth and advancement in OPM from 13.6% to 24.3%. The resultant PAT went up by 45% to Rs. 346 million. The performance was attributable to buoyant paper prices, increased production and 100% capacity utilisation. Power generation and surplus export to the state grid also contributed to the revenue. J K Paper's sales rose 16% to Rs. 1851.8 million in the quarter ended March 2006. OPM was up by a moderate 50 bps to 18.3% resulting in a 19% rise to Rs. 338.5 million in OP. Interest cost fell sharply by 41% to Rs. 92.6 million. However, there was a tax out go of Rs. 40.7 million compared to tax credit of Rs. 55.2 million in the March 2005 quarter. This caused the net profit to grow by just 8% to Rs. 86.5 million. Andhra Pradesh Paper Mills recorded a 13% rise to Rs. 1196.3 million in sales in the quarter ended March 2006. OPM increased by 30 bps to 18.1%, pushing up OP by 16% to Rs. 168.5 million. PAT grew 8% to Rs. 72.3 million in the quarter. West Coast Paper, however, pulled out a disappointing set of numbers in the quarter ended March 2006. Sales grew by just 4% to Rs. 1280.4 million. OPM suffered erosion by 380 bps to 12.7%, leading to a 20% fall to Rs. 162.9 million in OP. Net profit decreased by 14% to Rs. 121.8 million

The World Environment Foundation will honour Orient Paper Mills with the Golden Peacock Environment Management Award for using environment friendly techniques in carrying out industrial activities. A 10-member jury headed by former Chief Justice of India P.N. Bhagwati adjudged Orient Paper as the recipient of this year's award. The award lays emphasis on maintaining ecological balance by minimising adverse environmental impact while carrying out industrial and business activities.

SESHASAYEE PAPER AND BOARD LIMITED: This company has embarked upon a mill development plan (MDP) at an estimated cost of Rs. 3500 million to augment the captive pulping capacity. The project will be implemented in 24 months. The company has proposed to mobilise Rs 2700 million as loan from banks and the remaining Rs. 800 million will be raised from internal accruals. The company has already reached financial closure for the same. With the implementation of MDP, the mill will enhance the environmental compliance and would rank foremost amongst the integrated pulp and paper mills in India. Meanwhile, buoyed by the increased production, better realisation in process, reduced usage of imported pulp and sharp cut in energy cost, the net profit of the company zoomed to Rs. 179.1 million during the fiscal under review as compared to Rs. 65.8 million during fiscal 2005.

TAMIL NADU NEWSPRINT AND PAPERS LIMITED: This paper mill is all set to undertake a Rs. 5560 million major expansion programme which would result in increasing the unit's paper production capacity to 2,45,000 tonnes from 2,80,000 tonnes

annually, besides substantially increasing in-house pulp production and most importantly help the paper major become environmentally benign with the implementation of elemental chlorine-free bleaching sequence in chemical pulping lines, According to the redrawn schedule, the mill development plant (MDP) would be over by July 2007. The in-house pulp production would go up from 510 tonnes a day to 800 tonnes a day, thereby reducing the units dependence on purchased pulp to the bares minimum. The MDP would result in upgrading the bleaching technology of the existing mill operations, improve quality of pulp and subsequently of the paper additional power generation of about 28 MW sans additional cost consumption reduction in water consumption form 45 kl x 25 kl per tonne of pulp and improved over all environmental compliance in liquid effluent air emissions and solid waste.