

## Indian Paper Scenario – August 2006

The three paper mills of Hindustan Paper Corporation Ltd (HPC), Cachar Paper Mill (CPM), Nagaon Paper Mill (NPM) in Assam and Hindustan Newsprint Ltd. (HNL) in Kerala, produced 3,20,118 tonne of paper and newsprint in financial year 2005-06 as against 309,514 tonne in the previous fiscal. Encouraged by this progress, HPC has embarked on a Rs. 6600 million modernisation and technical up gradation plant (MTUP) for CPM and NPM including 30 per cent capacity expansion at NPM. In parallel, a Rs. 7200 million expansion-cum-diversification project (EDP) was being executed at HNL to add an 180,000 tpa fine paper line, making it a 3,00,000 tpa capacity mill. These projects were under way and due for completion by 2009. HPC was also looking to set up a Greenfield 3,00,000 tpa mill in northern India. The HPC mills had at present combined installed capacity of 3,00,000 tonne per year (tpa). In FY 2005-06, production of printing and writing paper (PWP) was 207,068 tonne, with 1,00,631 tonne coming from CPM and 106437 tonne from NPM against 91012 tonne produced by CPM and 1,06,300 tonne by NPM against 91012 tonne produced by CPM and 1,06,300 tonne by NPM in the previous financial year. Production of newsprint rose in FY2005-06 to 113050 tonne at HNL against 1,12,202 tonne last fiscal. HPC sales rose to 3,24,259 tonne in FY2005-06 comprising 2,11,209 tonne of PWP and 1,13,040 tonne newsprint, while sales rose to Rs. 10450 million in FY2005-06 against Rs. 8550 million in the previous fiscal. In FY2005-06, HPC completed implementation of its enterprise resource planning (ERP) solution, codenamed Uttaran, based on Oracle. It established a tissue culture laboratory for large-scale production of high –yielding bamboo species suitable for the north-eastern region. HPC initiated clean development mechanism projects for availing carbon emission reduction opportunities under the UN Framework convention for Climate Control (UNFCCC) and also increased thrust on local area entrepreneurship development and outsourcing of non-core activities in Assam

Despite continuing lean season, newsprint prices surged 20 per cent in the first four months of the current financial year to Rs. 26500 per tonne from Rs. 23,400 per tonne for 45 GSM (gram per square metre). The price of 48 GSM newsprint also shot up to Rs. 27,500 per tonne in the period from Rs. 23,000 in April. This price hike by market leaders such as Tamil Nadu Newsprint, Ballarpur Industries and Andhra Pradesh Paper Mills has been followed by players such as Shree Bhawani Paper Mills by raising prices by 10 per cent. The current prices rise has been attributed mainly to the surging raw material prices including wood, bagasse and imported waste paper. Some manufacturers like Andhra Pradesh Paper Mills have been followed by players such as Shree Bhawani Paper Mills by raising prices by 10 per cent. The current price rise has been attributed mainly to the surging raw material prices including wood, bagasse and imported waste paper. Some manufacturers as Andhra Pradesh Paper Mills have been facing a severe raw material shortage thus opting for short-cycle trees plantation. The newsprint industry is passing through a lean season and would see a real price boost after Dussehra once the seasonal demand starts pouring.

Bringing newsprint under the value-added tax system has created a piquant situation, 38 majority of large newsprint units and consumers, particularly those registered by the Registrar of Newspaper Industry (RNI), are finding it difficult to neutralise the financial impact of VAT. Newsprint remains fully exempted from Central Excise under Chapter

48.01 on sale to an RNI registered newspaper establishment. It was felt by the Indian Newsprint Manufacturer Association (INMA) that any commodity, which is exempted under Cenvat should automatically qualify for exemption under State VAT, INMA has observed that a 4 per cent VAT was imposed on newsprint instead of full exemption. Highlighting the issue, the INMA president told that he had proposed to the Indian Newspaper Society (INS) a joint move on this issue before the Union Ministry of Finance. He felt that the joint move would be effective because VAT on newsprint was affecting both manufacturers and consumers. The INMA President felt that newsprint deserved to be put in the “declared merit goods” category similar to that of steel, under the Central Sales Tax Act, taking into account its cutting –edge role in disseminating news. In fact newspaper sales do not attract sales tax in view of it being excluded from the definition of “goods” under Section 2(d) of Central Sales Tax Act, 1956. But, when the whole effort in the revised VAT system was brought to tax, with set offs, it is sad that the main ingredient for producing newspaper (i.e newsprint) was being taxed. This needs a re-look, he pointed out. He said that INMA would not have objected to the 4 per cent VAT provided its member – units had the opportunity of availing themselves of the import tax credit against purchasing various inputs from different locations. Large manufacturers are located in states where various critical inputs required for manufacturing newsprint are not locally available therefore, these mills could not avail themselves of tax credit for neutralising the incidence of 4 per cent State VAT on newsprint . Similarly, publishers also could not pass on the VAT burden to the readers because there was no sales tax on newspapers. In the given scenario, INMA feels the best solution would be to treat newsprint as declared merit goods under the provision of CST Act.

Hokuetsu Paper Mills has accused rival Oji Paper of Bullying and trying to stifle competition in the latest twist to Japan’s first blue-chip takeover battle. In a report to the Fair Trade Commission, Hokuetsu alleged Oji repeatedly warned it not to build a fourth production line at its Niigata mill. People close to the situation said Oji had insinuated it would start a price war if Hokuetsu went ahead with the new line. Hokuetsu eventually launched the project in May regardless. The move is the latest episode in an increasingly bitter public battle between the two paper makers. It is the first example in Japan’s gentlemanly corporate environment of a hostile bid by an established group for an industry rival. Hokuetsu has vowed to fight Oji’s unsolicited \$1.4 billion offer and has rallied the support of 50 per cent of its share holder base. The alleged “Verbal threats” took place over three years said people familiar with the situation. The fourth line at Nigara will become fully operational in 2008 and will require a capital investment of Y 55 billion (\$472 million). In another report to the FTC Hokuetsu said if it was bought by Oji, the two companies combined market share of white

Tamil Nadu Newsprint is focussing on exploiting the growth in branded copier paper and notebooks as it sees better value and margins here compared to the bulk segment. The company has been consistently increasing its range in the copier segment and its production capacity in this branded segment range is set to double in the current year. TNPL has emerged among the market leaders in the copier segment with a 20 per cent market share. The company has announced that by December it would set up a new cut-pack line that would take its production of copier papers to 350 tonnes a day from the present 150 tonnes. In the current year, the company is targeting sales of about 42,000 tonnes over 20 per cent of its current production capacity of 2,45,000 tonnes. In

this segment five years ago, TNPL started copier paper production with an annual output of 6000 tonnes. In 2005-06, its sales of copier paper, what it calls the cut size, was 35,977 tonnes and in the previous year 28141 tonnes. The company is investing over Rs. 2000 million in the new cut-pack line. Notebook production has also seen significant growth. In 2005-06 the company sold 275 tonnes of note books and in the current year. It is targeting nearly four times this output. It exceeded 275 tonnes in the first quarter of 2006-07

**ANDHRA PRADESH PAER MILLS IMITED:** This paper mill is exploring options of setting up anew paper plant as well as building a pulp mill in the near future. The ongoing expansion has cost it about Rs. 6250 million, it is looking at a range of Rs. 2500-3000 million as investment for the paper-making unit. Pulp is a key raw material for making paper. The new paper unit would be to use the excess pulp they would be making from September. The ongoing expansion would take its pulp capacity to 2,00,000 tonnes from 1,50,000 tonnes.

**BALLARPUR INDUSTRIES LIMITED:** This company has recorded net profit of Rs. 670 million for the quarter ended June 2006 up 68 per cent compared with Rs. 400 million for the same quarter last year. The total Income (Net of excise) increased to Rs. 5290 million (Rs. 4560 million) in the quarter. Its sales of writing and printing paper increased to 1,12,000 tonne against 97,500 tonne in the same quarter last year. The quarterly results reflect the performance of the company after the merger of APR Packaging Ltd. Further, Rs. 120 million was added due to the sale of the power and real estate division of the company. Its net annual profit increased by 26.13 per cent to Rs. 2120 million compared with Rs. 1680 million last year. Total income (net of excise) increased from Rs. 18000 million for the year ended June 2005 to Rs. 18800 million for the year ended June2006.

**HINDUSTAN PAEPR COROPORATION LIMITED:** This Company after incurring losses for years has succeeded in bringing out the company into black and paid maiden dividend of Rs. 152.0 million to the government for the financial year 2005-06. HPC is now seeking to establish a Greenfield 3,00,000 tpa mill in north India besides overseeing Rs. 5500 million scheme for revival of non-operational mill under the Nagaland Pulp & Paper Company Ltd., Tuli , Nagaland, by doubling the installed capacity to 66,000 tpa.

**RAMA NEWSPRINT AND PAPERS LIMITED:** This Company has come out with substantially improved results for the quarter ended June 2006 with net sales increasing by 33 per cent to about Rs. 890 million from Rs, 670 million in the corresponding year ago period. The company has earned a net profit of Rs. 1022 million during the quarter under review against a net loss of Rs. 31.2 million in the previous year's corresponding period. Better result for the quarter is attributed to lower power and fuel cost by Rs. 39.9 million lower chemicals cost by Rs. 15.7 million and better sales realisation by Rs. 81.6 million.