

Indian Paper Scenario – January 2007

In spite, of Rs. 80000 million plus investment announced by the domestic paper industry in expanding production capacity by about 14,00,000 tonne over the next 4-5 years, the country is likely to face a paper shortage by 2010, and the demand could well outstrip production. Currently, the total domestic consumption demand of paper is about 72,00,000 tonne, while the production is only 66,00,000 tonne. According to industry estimates, the domestic paper consumption is set to touch 100,00,000 tonne by 2010. As things stand, there could be a sizeable paper shortage in coming years and our dependence on imports could increase. The domestic installed capacity is 80,00,000 tonne out of which 72,00,000 tonne is operational. Even though the paper consumption is expected to touch 100,00,000 tonne by 2010, more capabilities are supposed to be added and the difference between production and demand would only be marginal. Apart from the rising demand, the increasing paper price is also luring players to add capacities. In 2006 alone, the companies have hiked paper price by about Rs. 2000 per tonne. With the country's gross domestic product (GDP) growing at about 8 per cent, paper industry is also seeing a similar growth. The population growth will also be a driving factor. Due to increasing government spending on education, the future demand is expected to be strong. The 2006-07, union budget outlay for education stood at Rs.207.45 million, up about 37 per cent from the previous year's Rs.150.44 million. The per capita paper consumption in the country is only 7 kg and every one kg increase in consumption will add 1 million tonne in the total demand. There is an apprehension that the demand for paper would decline with the growing use of internet. However, the use of internet has complemented the growth of industry. People are moving up the education ladder, new newspapers are being launched with the existing ones are launching more editions, thereby the consumption of newsprint are increasing. The industrial paper would see growth in demand owing to the expanding manufacturing activity. The emerging phenomenon of printing process outsourcing whereas lot of printing and publishing activity is being outsourced to India will be a major growth driver in the coming years.

While the domestic paper industry is seeing a rising demand for paper, which will only go up in the coming years, it is facing pressure from rising input costs, especially pulp. International pulp prices have jumped by about 7 per cent last year from \$560 a tonne to \$600 now driving companies to hike paper prices by an average of Rs. 2000 a tonne. The growing paper consumption in Asia is likely to increase pulp prices in the region for the sixth straight year in 2007, said Asia Pacific Resources. Prices of hardwood pulp used in producing as much as 80 per cent of the world's writing paper in Asia are likely to average \$575 a tonne next year from this year's \$560. The paper manufacturer in the country use three kinds of raw materials for production – forest produce (wood and bamboo), agro-based (bagasse, straw, etc) and recycled (waste) paper, Wood is the scarcest of these. Since 1970, the share of wood as a raw material has declined from 84 per cent to 36 per cent. On the other hand the share of agro and waste paper has increased from 9 and 7 per cent to 29 and 35 per cent, respectively. Companies such as Bilt, West Coast and J K Paper are undertaking demonstration of better management practices through the use of high-yielding clonal plants across large tracts of land to ensure better yields as a part of their farm forestry operation. The National Forest Policy, 1988, stipulates the paper industry to work with the farming community for sourcing industrial wood through farm forestry. In the coming years, we may see a spurt in farm forestry programmes by the paper producing companies. The industry has already moved from a five-year plantation cycle to a three year cycle. Effort is on to bring a one-

year cycle once it is achieved and farmer's wont' hesitate to turn to plantation. It would fetch them revenues on an annual basis like any other crop. Bilt has ventured outside the country and bought Sabah Forests in Malaysia to ensure that the shortage of pulp together with its rising price does not have a constraining affect on the company's big expansion plants. In South East Asian countries such as Malaysia and Thailand, government allows private companies to grow plantation for pulp manufacturing. However, the government policy in India does not allow forestry plantation for the corporate sector. So, companies are forced to depend on market sources for their wood requirements.

Workers of the Mukerian Paper Mill organised a protest and burned an effigy of the Minister for Labour and Local Governments. The mill workers were protesting against the non-payment of wages for the past one year. The mill has stopped producing papers. About 1000 mill workers are now in a lurch. Its management had retrenched about 250 workers. However even these workers have not been paid any dues by the management. The other workers have also not been paid salary since March. The agitating workers alleged the management had deliberately stopped the production in the mill. The mill worker's Union President alleged that the owners were trying to sell the land in violation of the rules .The trenched workers had not even been paid their PF dues. Workers approached the EPF authorities for their dues. However, they were told that nothing had been deposited in their account. The workers were apprehending that even their EPF share had been swindled by the management. The workers alleged that there was no problem with the mill. The area has ample raw material and paper was in demand in market. Representations have been made to the government and the Labour department against the injustice being done with the workers However till date no action has been taken. A case has also been registered against the mill authorities by the local police for alleged embezzlement of the workers' PF.

The S K Bangur group is likely to invest close to Rs. 1000 million as equity in its paper outfit Rama Newsprint & Papers (RNPL). V D Bajaj executive director, said the company was planning to invest Rs.6300 million for capacity expansion at its Gujarat plant. The board of RNPL approved the expansion plan which will take the capacity to 3,32,000 tonne per annum from the current 1,32,000 tonne. The SK Bangur group holds close to 37 per cent stake in the company. Bajaj said that the two –fold increase in the capacity would make RNPL one of the leading players in the newsprint industry. He claims that after carrying out the de-bottlenecking programme last year, RNPL had achieved 104 per cent capacity utilisation. The company has achieved production of 34, 286 tonne for the third quarter of the current financial year as against 29,932 tonne capacity utilisation in the corresponding quarter last financial year. According to the executive director, majority of the funds for the expansion project would be mobilised through borrowings. They are planning to borrow close to Rs 5000 million form financial institutions. The talks are already on. The rest will be a combination of internal. The group currently holds close to 37 per cent in the company accruals and equity. Bajaj pointed out that following the new expansion.

J K PAPER LIMITED: This mill had achieved an increase of 28 per cent in its net profit for the second quarter ending December 2006 to Rs. 121.8 million from Rs.94.8 million in the same period last year. The company's Q2 net sales also went up by 29 per to Rs. 2035.8 million form Rs.1578.2 million in the corresponding quarter previous year according to the company release. The half-year net profit increased by 24.55 per cent

for the period ending December 2006 to Rs. 218.6 million from Rs.175.5 million in the corresponding period last year.

ORIENT PAPER MILLS LIMITED: This paper mills reported an increase of 543.48 per cent in its net profit for the third quarter ending December 2006 to Rs 365.5 million from Rs. 56.8 million in the corresponding period last year. The company also recorded a growth of over 30 per cent in its turnover for the third quarter to Rs. 2699.8 from Rs. 2063.8 million in the corresponding period last year

RAMA NEWSPRINT AND PAPERS LIMITED: This company has approved an Rs. 6300 million expansion programme whereby the company's annual production capacity will increase from about 1,32,000 tonnes to about 3,32,000 tonnes of newsprint and writing and printing paper. The profit before interest, depreciation and taxation (PBIDT) during the quarter under review jumped by 121 per cent to Rs. 257.8 million against Rs. 116.4 million in the previous years corresponding quarter. Profit before deferred tax liability for the quarter under view is about Rs. 100 million as against a loss of Rs. 31.8 million in the previous years corresponding quarter. Earning per share for the quarter under review is Rs. 1.72 per share

TAMIL NADU NEWSPRINT AND PAPERS LIMITED: This company has reported a net profit of Rs.223 million for the third quarter of the current year, as against Rs. 146.5 million in the corresponding quarter of last year, a rise of 52 per cent. The company's turnover increased to Rs.2144.5 million for the quarter, 8 percent more than Rs.1987.4 million previously. The higher increase in net profit related to rise in turn over has come from three sources-other income, control over expenditure, and lower interest costs.