

Indian Paper Scenario – July 2007

Price increases for kraft market pulp are going through in Europe, but North American moves toward higher prices are not getting the same traction, according to market analysts. For some, the delay in pushing North American pulp prices is not a concern, but for others, it is a yellow flag that may be signalling coming price retrenchment. Finland's index provider FOEX recently reported its US price index for NBSK pulp at \$810 a tonne. The index quote was up \$40 from where it was in January. FOEX also reported its index for European NBSK pulp prices which was up \$5.36 a tonne from last month to \$790.76. The index quote was up \$60.81 from its January point. Pulpanpaper.net reported NBSK as of June in North America at \$800-810 a tonne, steady to \$10 higher than a month ago. In Europe, Pulpanpaper.net's price as of June was \$785-790 a tonne, up \$10-15 from a month ago. Independent market analyst Mr. Brian McClay said the \$10-20 per tonne June hardwood price increases are going through with no problems, especially in Europe and even in China. Stocks are very tight contrary to other reports, he said. Chip supplies of aspen and birch are so tight and because of the \$100 or more price differences with softwood, the hardwood price hikes are having less trouble, in spite of initial resistance by Asian buyers. Buyers in China are trying to buy as little as possible, Mr. McClay said. And, \$10 price increase for Northern Bleached Softwood Kraft pulp in Asia have been re-scinded, and business is being done at the old levels, he said. The fact that the June price increase in North American softwood pulp markets shows little sign of going through by June means the market may not be strong enough to support it, said Mr. Rob Duncan, market analyst at McFarlane Gordon. He even is concerned about price retrenchment through the summer. Mr. Duncan said it is too soon to call this a failed price increase, but the lack of published confirmation that it is going through makes him wonder. Over the last few months, there have been some paper machine closures, and this could be hampering the latest softwood pulp price increase. He wasn't sure if there was enough demand removed from the market, but it could be having an effect.

Paper Manufacturers have decided to hike uncoated paper prices by about 2 per cent with effect from July. The move follows an increase in the cost of pulp and other inputs. Post increase, uncoated paper will sell at about Rs.42000- 43,000 a tonne. This will be the second increase in paper prices in the current financial year. Most companies had hiked prices by Rs.700-800 a tonne in June. Ballarpur Industries the country's largest paper producer has decided to hike uncoated paper prices by Rs.700-800 a tonne. There has been a significant push in the input cost in the last one month. Hardwood pulp prices have gone up from \$600 to \$650 a tonne and so the paper manufacturers have decided to increase uncoated paper prices by Rs.1000.

International Finance Corporation (IFC), the private sector arm of the World Bank Group, has decided to provide a \$40 million (Rs1600 million) long term loan to West Coast Paper Mills (WCPML), Karnataka based integrated printing and writing paper manufacturer. IFC's support will help the company modernise and expand its existing capacity. Part of the loan will fund the installation of new chlorine free fiber line to eliminate a major source of pollutants from pulping operations. The key demand drivers for paper consumption in India are increasing GDP, literacy level, corporate spending and industrial activity. Per capita consumption is estimated at 7 kgs per year, the lowest in the world and far below the global average of 56 kgs. IFC's loan with a longer grace period and maturity than available elsewhere, will improve West Coast's Debt profile aligning its debt service requirements.

Starved of raw material the paper manufacturing industry is pinning hopes on a likely policy on Multi-Stakeholder Partnership (MSP) prepared by the Union Ministry of Environment and Forest. The MSP proposed to facilitate formation of associations with all the stakeholders – sponsors (manufacturers or investors), local communities and the Forest Department. The policy, a draft policy of which is being discussed at higher Echelons before presenting it to the Cabinet will address the major problem being faced by the paper industry in the country. The production and per capita consumption of paper was very low when compared to some major countries. India contributes just 7.5 million tonnes of paper as against a world production of 325 million tonnes. The per capita consumption per year was just 7 kg against the global average of 40 kg. In the case of developed nations such as the US and Canada, the paper capita consumption was as high as 300 kg. The industry is facing a host of problems, a major one being shortage of raw material high cost of energy and capital expenditure. It is estimated that 55 million hectares of wasteland and 15 million of agriculture hallow land is available in the country and if used effectively this could benefit the industry and farmers.

AMRIT BANASPATI COMPANY LIMITED: This company plans to undertake expansion plans at their existing plant at Saila Khurd (Hoshiarpur) and raise the production capacity from the existing 48000 tonnes per annum to 1,00,000 tonnes per annum. The company will also be installing a chemical recovery plant and a 10 MW captive co-generation power plant and other capital expenditure initiative at an outlay of Rs 1600 million. The company has also started preliminary work on a green field paper unit to produce 1,00,000 tonne of speciality paper involving an investment of about Rs.6000 million in Madhya Pradesh or Maharashtra. After setting up the project the company will roll out 2,00,000 tonnes of paper

J K PAPERS LIMITED: This company is in the process of finalising an expansion plan to increase capacity in maplitho and copier papers. The investments would be Rs 5000 – 7000 million to be spread over the next three to four years. The company has started trial production at its 60,000 tonnes multi-layer duplex board project at its Gujarat plant. The machine is under stabilisation and they expect to start commercial production within the next three to four months and they have already received encouraging response from customers. The company is also setting up a 12 MW power plant at its Gujarat plant. It would be a multi fuel plant but basically they are looking at coal as the main fuel though they might use some amount of lignite also.

ORIENT PAPER MILLS LIMITED: This company has posted a 13 per cent increase in net sales at Rs.2920 million for the quarter ended June against Rs. 2580 million for the corresponding quarter of the previous year. Profit before tax jumped to Rs. 677.9 million and the profit after tax rose 73 per cent to Rs. 446 million. The earning per share for the quarter stood at Rs. 29.59 compared with Rs. 16.93 in the previous corresponding quarter.

TAMIL NADU NEWSPRINT AND PAPERS LIMITED: This paper mill has reported a 26 per cent jump in net profit at Rs. 237.3 million on a net sales turnover of Rs. 2140.1 million for the quarter ended June 2007. During the corresponding period in the previous year the company reported a net profit of Rs. 188.1 million on net sales turnover of Rs. 1793.2 million. Total expenditure was Rs.1615.3 million interest and finance charges Rs. 51.2 million and depreciation Rs. 171.3 million. Production during the quarter was 56780 tonnes. The expansion of the pulp production capacity to 800 tonnes a day from the



current 520 tonnes will be completed by October 2007. This will increase the paper output to 2,45,000 tonnes a year from the present 2,30,000 tonnes. The company will also take the mill expansion plan during the year. The planned expansion will add 1,55,000 tonnes to the existing capacity.