

Indian Paper Scenario – August 2007

Faced with a continuous shortfall in raw materials, the domestic paper industry is seeking access to degraded forest land on lease to produce pulpable woods. The land should be made available within the radius of 150-200 km to mills to achieve cost competitiveness. The cost of wood, which accounts for 32% to the total cost of production, is about \$50 per tonne as opposed to \$30 per tonne in the international markets. According to Federation of Paper Traders Associations of India officials, the competitiveness of paper industry has taken a hit over the years as the technology used by the industry is obsolete and the quality of fibre is low. Even if the players decide to bring in the latest technology, they are unable as it is not cost-effective. This takes a toll on the competitiveness of the industry. The other issue hurting the industry is non-availability of quality raw material. The fibre extracted from Subabul is not of superior quality. In fact, paper made with fibre from Subabul cannot be recycled more than three times. To overcome the issues of raw material availability the association had made a representation recently to the government, seeking allotment of 2% of degraded forest land to cultivate pulpable wood. The land can be given on lease so that the industry closer to the mills can manage the uncertainties. But unfortunately, the government has turned a deaf ear. They want the industry to support the tribals, by giving necessary seedlings, assist in growing the saplings, and then get into a buyback arrangement at the time of cultivation. Though this will elevate the lives of the tribals, it will not be cost-effective for the industry. What the industry requires is quality raw material and updated technology and still be cost competitive, the association said

The Federation of All India Paper Traders Association (FPTA) has asked the paper manufacturing mills to ensure price stability for a given period of time. It also asked them to give prior notice before effecting new prices. Despite the traders pleas the mills were resorting to frequent price hikes, President of the association said. Frequent increases in prices were resulting in unnecessary disputes with the buyers. This in turn was causing loss to the traders. The association asked the Union Government to introduce GST (Goods and Service Tax) in 2008 and not wait till 2010. He also expressed the concern that India could end up net importer of finished paper if it failed to compete with the low-cost producers such as China and Indonesia.

Cashing in on the tax benefits offered by the Government, Ghaziabad-based Magnum Paper Ventures Ltd has decided to foray into the hospitality sector. Magnum which makes recycled paper will embark on a Rs. 1500 million diversification exercise, which will be funded through an initial public offering and bank loans. The company is setting up a four star business hotel with 212 rooms in Sahibabad district of Ghaziabad just 15 km away from New Delhi. Magnum would raise about Rs.500 million through a public issue of 17.6 million equity shares of Rs.10 each. The issue price would be decided through 1% back building process. The company has tied up with banks for the remaining Rs.1000 million. It would also spend Rs.5000 million to upgrade its paper unit, which includes replacement of plant and machinery with regard to manufacturing duplex board, writing and printing paper and its allied machineries. The firm aims to tap pilgrims visiting the Akshardham temple on the outskirts of the Ghaziabad and will also set its sight on visitors during the upcoming common wealth games in Delhi. Work on the project has already begun and the new hotel is expected to be in operating in January 2009. The cost of the project is R. 1026.3 million. The company may use the balance land of 52,000 meters to build more hotels or IT parks.

Farmers in six districts of Andhra Pradesh and Orissa would be able to receive money in the form of carbon credit through the LULUCF (land use land use change in forestry) programme of the United Nations. Claiming to be the first project of its kind in the country, domestic paper manufacturer J K Paper has tied up with the UN to sell carbon credits of farmers. The valuation is estimated in terms of carbon dioxide absorption by the plants over a period of five to seven years. The farmers would under take plantation of eucalyptus trees in their lands in Raygad, Kalahandi and Koraput districts of Orrisa. In Andhra Pradesh, farmers will set up cajurina plantations in their unused and shallow lands in the districts of Srikakulam, Vijayanagaram and Vishakapatnam. According to J K Paper, in the first phase 2800 farmers would be involved in the project and plantation would be carried out over a total area of 3500 hectares spread over the districts the plan that has been cleared by the UN is to plant 2500 seedlings per hectare. They started initial work at 2003 and it involved huge paper work and several spot visit by the UN officials. Finally farmers have started planting the trees this year. These plants will grow in five to seven years after which the company itself will buy them back from the farmers since wood is the main raw material for our paper industry. The estimated cost of these trees at present valuation is around Rs.350 million which the farmers will receive from our company. On the other side the estimated value of the carbon dioxide that would be absorbed by the plants during these years would fetch them another Rs.40 million the average land size of the farmers participating in this project is approximately 1.2 hectare which would fetch them around Rs.14200 in terms of carbon credit. The farmers would be paid by the World Bank from its Bio Carbon Fund, specially set to deal with carbon trading. The coordination would be done by a local non-government organisation, Verdamacs, which would provide the training, while the cost would be borne by the company. Funds would be distributed to the farmers through an escrow account jointly operated by the company and the NGO.

The domestic paper industry is beginning to show signs of the impact of the robust rupee. Paper exports have started declining while cheaper imports have led to a correction in coated paper prices domestically. Prices of coated paper in the domestic market have come down by about 8 per cent in the last two months; predominantly because of the rupee's appreciation. The rupee factor has made imports cheaper thereby leading to a correction in domestic prices. The market size of coated paper in India is about 3,00,000 tonnes. Of this about 80,000 tonnes is met through imports while two leading paper companies – Bilt and J K Paper produce the rest. World wide softening in coated paper together with the rupee appreciation has a reflection on its domestic prices.

RUCHIRA PAPERS LIMITED: This leading kraft paper manufacturing company has posted impressive results in the 1st quarter ended June 2007 with an increase in the turnover by 14% and PAT by 98% as compared to the results of the corresponding period last year. The company achieved a turnover of Rs. 747.7 million for the year ended March 2007. The turnover recorded in the quarter ended June 2007 was Rs. 210 million as against Rs. 180 million and EBIDA rose by 66% as compared to the same period last year. It is setting up a new manufacturing plant with 33000 TPA capacities for manufacture of writing and printing paper including a chemical recovery plant and a 6 MW captive power co-generation plant. After expansion, the total capacity would increase to 85800 TPA from 52600 TPA at present. The plant is likely to commence operations from the next quarter which will result in higher turnover and profits for the company.



SPECIALITY PAPERS LIMITED: This company has decided to invest over Rs. 3200 million in acquiring three companies to strengthen its presence in the speciality paper business. The company will shell out Rs. 2650 million to acquire Reliable Paper (India), and Rs.500 million and Rs.100 million for Prime Industries and Opel Paper Mill respectively. The present production capacity of this company is 27 tonne a day and the annual turnover is Rs 450 million. After these acquisitions, the production capacity of the company is expected to increase to 100 tonnes a day for an annual turnover of Rs. 3500 million.