TELMARK

Indian Paper Scenario – January 2008

The impact of the appreciating rupee on exports has been well documented. An increase of about 14% in the rupee to the dollar so far has meant that exports have been marred quite a bit, especially, in sectors such as handicrafts, textiles, marine products and leather. To what extent this has happened can be gauged from the words of Union commerce secretary, who was quoted recently saying that handicraft exports had dropped by 66% textiles by 22% marine products by 20% and leather by 9%. Though exports for the month of October this year grew by 35% on the back of strong shipments of petroleum products, gems and jewellery and engineering goods, touching $13.3 billion in comparison to $9.8 billion a year ago the general consensus is that the country may not achieve its over all export target of $160 billion at the end of the current fiscal And this is just part of the story. Though the picture appears rosy on the imports front, with a cheaper dollar implying cheaper imports, the fact remains that this makes senses in the case of import of raw materials, semi-finished goods or products that do not have competition in the domestic market place. But for those that do have competition in the domestic marketplace, the scenario changes a bit. Cheaper imports make it an attractive proposition in comparison to the local product pushing domestic manufacturers to fall in line with their foreign counterparts. The result margins are under pressure for the domestic manufacturer. Take the case of coated paper manufacturers in India. The going hasn't been easy for them since the rupee's upward climb over the last one year. That is because the segment is characterised by imports of up to 25-30%. Cheaper imports mean that the local product is far expensive than the foreign variety. Making it less attractive than the latter. At a time, when demand for coated paper, which is nothing but glossy paper used in product and company literature, magazines, etc,is growing at about 12% per annum in the country, it makes sense for local players to retain their market share, even fighting hard for some more. Which is exactly what most of them are doing by bringing down price to remain competitive. Currently the market, which is about 3,20,000 tonnes per annum in terms of volume, has two major players – Ballarpur Industries and J K Paper, which together produce about 1,70,000 tonne of coated paper per annum. Fringe players such as West Coast Paper mills produce about 10,000 – 15,000 tonnes of coated paper per annum. Then there are very small regional players, who take the total domestic production to about 2, 00,000 to 2,20,000 tonne. The balance requirement is met by imports. Naturally, with imports being a major source for the finished product in the country. Its role in market dynamic here is huge. Which is why when the price of imported coated paper (at ex-factory level) came down from Rs. 38,000 p 39,000 per tonne In April this year to about Rs, 35000 – 36,000 per tonne. Local players were forced to react within two rounds of price revision These revision, incidentally, were affected over the last few months, with the net reduction in price being about Rs. 3000 per tonne.

Dovetailing with the Union government's proposal on education for all – Sarva Shiksha Abhyan – the Indian Paper Manufacturers Association (IPMA), the apex body of large integrated paper manufacturers, has requested for a Rs. 20000 million 'paper fund'. To be set up on the lines of the existing technology upgradation fund (TUF), the proposed fund is expected to help smaller and medium-sized paper mills to work on energy conservation, quality upgradation, and production improvement. The Rs 220000 million industry, which is expected to see an 8% growth this year, has urged the Union government to rationalise excise duty from 12% to 8% on all varieties of paper and paperboard, as mills are looking at upgrading 25% of their existing capacities. Despite the paper industry's critical importance for the educational sector and significant forward linkages to other manufacturing industries, paper and paper products face direct and indirect taxation of about 20%. This includes the current excise of 12% VAT octroi. There are also different rate of 8% and 16% prevailing for some categories. The rationalisation to a uniform rate of 8% in excise duty is imminent. IPMA has sought retention of customs duty at 10% along with the introduction of SAD to maintain parity in global production costs. IPMA , the paper industry is operating with farm forestry and agri-residues creating jobs in the farm sector. A serious issue faced by the industry is unavailability of quality raw material at a competitive cost. The association has requested the government to consider the adoption of the multi-stake holder partnership model, as proposed by the ministry of environment and forests (MoF) for forestation of degraded land. At least 2% degraded forestland must be accessible to the paper mills to produce pulpable wood to achieve cost competitiveness in terms of wood and freight.

The latest pulp inventory and shipments report from the pulp and paper products council showed strong year-over-year shipments of pulp, indicating continued strong product demand, market analysts said. Even last year's higher prices failed to deter their price increases. Finland's index provider, FOEX, said Northern Bleached Softwood Kraft pulp in Europe rose $136.33 last year, and in the US, it rose $93.28. Still, the PPPC report for December showed total shipments as 3.615 million tonnes (mt), up from 3.459 million in December 2006 and up from 3.358 million in November. For the year, the PPPC said total shipments amounted to 40.392 mt, 3.4 per cent more than the 39.061 million in 2006. The PPC report also showed what traders had reported for most of the year, that hard wood shipments were up more than softwood for the year, hardwood pulp shipments were up 7.1 per cent to 17.523 mt from 16.358 million the previous year. At the same time, shipments of softwood pulp were up only 0.9 per cent for the year to 21.19 mt from 21.007 million in 206, the PPPC said. North American supplies of softwood pulp remain threatened by chip problems.

Paper manufacturers have demanded rationalisation of customs and excise duties on paper and paperboard. Secretary-General, Indian Paper Manufacturers Association, (IPMA), the apex body of the large integrated paper manufacturers, said that the paper and paper products faced direct and indirect taxation of approximately 20 per cent. This includes the excise at 12 per cent, VAT and Octroi. Also, there are different rates of 8 and 16 per cent prevailing for some categories. The rationalisation to a uniform rate of eight per cent in excise duty will add back Rs. 2920 million over a short span to the exchequer once the size and scale of the industry touch a new high on the back of enabling growth policies. The IPMA has sought retention of customs duty at 10 per cent along with re-introduction of SAD (A special additional duty) to maintain parity with global production cost. Any further reduction will discourage investment in the sector which is required to support the government thrust on the education sector and President, IPMA. The association has submitted a memorandum in this regard to the union Finance Minister. The IPMA pointed out that serious handicap was the unavailability of quality raw material at competitive cost. The association also requested the government to consider adoption of the multi-stakeholder partnership model proposed y the Ministry of Environment and forest for forestation of degraded land.

BALLARPUR INDUSRIES LIMITED: This paper mill has posted a 7.32 per cent rise in its net profit at Rs.667 million for the second quarter ended December 2007 as against Rs.621 million the corresponding period last year. The total revenues stood at Rs. 6171.3 million as against Rs.6024.7 million in the same quarter of the previous fiscal, up 2.43 per cent. The company which follows the July-June financial calendar, is upbeat that the growth in the sector will continue at eight per cent annually. For the half year ended December 200, profit after tax stood at Rs. 1357.2 million (Rs.1204.1 million), up 12.71 per cent. Total revenue for the half year period was at Rs.12285.2 million.

RAMA PULP AND PAPERS LIMITED: The company, engaged in manufacturing of speciality grades of paper, reported at 16.43% rise in net income at Rs.116.9 million for the quarter ended December 2007 compared to Rs.100.4 million the corresponding quarter of the last year.Net profit for the quarter grew 4.52% to Rs.16.2 million as against Rs.15.5 million the same period last fiscal. The earnings per share (EPS) increased to Rs.2.10 from Rs.2.01 The net sales for the nine months ended December 2007 grew 17.17% to Rs.339.9 million Net profit for the same period increased to Rs. 455.5 million representing an increase of 109.906% over the same period of the last year, direct said we are headed for exciting times on account of rising demand from industrial users.