

## Indian Paper Scenario – March 2008

Newsprint prices in the country have spun out of control by moving up sharply by 24% in a matter of just over three months to touch a high of \$760 per tonne – an increase of \$145 since December 2007. And the bad news is that the newsprint makers see no sign of abatement in these Indian spot rates for the rest of 2008 as demand for standard 45 gsm – being used by most publishers continues to rise on the back of consolidation across global newsprint industry and increased momentum in price of raw materials. Data sourced from Resource Information Systems Inc (RISI) – an independent US-based newsprint industry analytics body – and Indian newsprint experts shows the trend clearly: US East Coast prices, which are the ex-mill rates ready for shipment, have risen from \$608 to \$710 per tonne, an increase of \$102 in just three months. While this is expected to gallop to \$770 by Q3 of 2008, Indian spot rates - the benchmark prices for Indian newsprint trade-are expected to follow with a probably hike of another \$90 to touch \$850 levels for the same period. The price hike comes on the heels of a period of stability in 2007 marked by US East Coast prices hovering around \$615-630 per tonne. India, which relies to a great extent on imported newsprint majorly coming from North America, has for some time purchased imported newsprint at very competitive rates. This was possible mainly due to two factors: first was as a result of vast capacities created by international newsprint manufacturers who sold at economical rates to India due to demand from markets like UK and parts of Europe declining. The second was the strong push by Chinese newsprint companies two years ago as an attempt at making inroads in the Indian Market. The trend reversed as big North American Newsprint manufacturers went for consolidation through buyouts, cutting excess capacities and changing product mix. RISI data shows that beginning 2008 the global demand for newsprint was 383 million tonnes while supply was 40.5 million tonnes – a surplus of 2.2 million tonnes. However, by end 2007 mills were putting final touches to their closures as a result of which by early 2008, capacities of two million tonnes were cut, thus taking the prices up. China was another big factor. Old News Print (ONP), which was one of the main raw material for recycled Chinese newsprint has seen a \$130 increase to \$270 per tonne in just 5-6 months. Add to that the rising crude prices, which have breached the \$100-mark, wood pulp which has gone up from \$575 to \$750 per tonne and rising freight rates all of which have made newsprint a whole lot expensive than before. Domestic newsprint makers, too are feeling the brunt of increased raw material inputs. The newsprint industry in India operates on very thin margins and uses the same raw materials that other international producers use. So, there isn't much differential in pricing. As global newsprint industry was not booming and domestic publishers preferred buying mainly imported newsprint, no new capacity increase is on the anvil. However, inferior quality of domestic newsprint is also to be blamed as publishers with large all-colour presses were not comfortable with domestic newsprint. As a result while quality improved the prices too went up proportionately. Some publishers, however, feel there is more to the story than meets the eye. Globally, 85% of newsprint trade is in the hands of 4-5 big manufacturers who now control the trade. That India cannot insulate itself from global trade is evident from the newsprint consumption data. India, which imports bulk of its newsprint from North America, saw its total usage go up from 1.89 million tonnes in 2004 to 2.645 million tonnes in 2007, a CAGR of 11.9%. Of this, domestic purchases went up from 6,40,000 tonnes to 9,70,000 tonnes (CAGR of 14.9%) while imports grew from 1.25 million tonnes to 1.675 million tonnes, a CAGR of 10.3%. And the bad news is that domestic demand continues to grow at a fast rate and will touch 3.5-5.4 million tonnes in 2009 while the upcoming Beijing Olympics and scarcity in ONP originating from American Market increases due to further drops in circulation.

A rising number of Indian steel and paper makers are scouting for raw material assets abroad in order to improve profit margins which have been hit by runaway input costs. For instance, JK Paper, a Hari Shankar Singhania Group company is looking for pulp plantation in Vietnam, Indonesia and Malaysia to shield itself from rising pulp prices. In the last one year, international pulp prices have zoomed over 40 per cent. Pulp accounts for half the production cost of paper. However companies have not been able to pass on the entire cost increase to buyers. The company may have learnt from the experience of Gautam Thapar-controlled Ballarpur Industries (Bilt), the country's largest paper company, which, in 2006, acquired Malaysia-based Sabah Forest Industries (SFI) for \$261 million along with JP Morgan. Sabah is an integrated pulp and paper mill, with access to a plantation spread over 289,000 hectares.

Paper manufacturers have not changed the prices of their products despite the excise duty on paper being cut by 4 per cent in the Budget this year. The companies said they were faced with a huge cost push from the raw material side and were not in a position to cut prices. Considering a price range of Rs. 30,000-40,000 a tonne for various categories of paper companies have got an average relief of Rs.1500-1600 a tonnes following the excise cut. Finance minister announced a cut in the excise duty on writing, painting and packing paper from 12 to 8 per cent. At a post-budget meeting with an industry association appealed to the industry to lower the paper prices. Paper prices have been increasing continuously owing to rising prices of pulp and other raw materials. Uncoated paper prices, for example, have increased by almost 10 per cent since February 2007 and are now selling at Rs.40,000 a tonne.

**MALU PAPER LIMITED:** This company is in expansion mode and has announced a mega project for producing superior newsprint. The new project, to come up in Saoner tehsil of Nagpur district, will enable the company to provide good quality newsprint at a cheaper rate with spot delivery. The company had recently signed a MoU with Maharashtra Government for a Mega-project aimed at manufacturing premium quality newsprint. The project involves setting up two paper manufacturing units at company's existing site at Saoner along with two captive power plants having 6 MW and 15 MW capacities. The project will have an estimated cost of Rs.2900 million and will be spread over 125 acres.

**SPECIALITY PAPERS LIMITED:** The stock of this mill was locked at the upper circuit of 5 per cent at Rs. 57.10 after the company announced that it would discuss the issue of bonus shares and decide on the ratio for the issuance. The company will also consider calling off the preferential issue due to the prevailing market conditions. The stock is down 15.34 per cent in the last one month. The total volumes traded surpassed 84,000 shares compared to the two-month average traded volumes of over 22,000 shares with delivery volumes of 89 per cent

**VESUVIO PAPERS PRIVATE LIMITED:** This company is setting up a 100 tonne a day speciality paper manufacturing facility in Tirunelveli with an investment of over Rs.700 million. It will produce specialised papers such as lamination papers for use in construction industry, yellow interleaving papers and copier papers. The facility is coming up near Tirunelveli in Tamil Nadu and is expected to start production early in 2009. Machinery has been sourced and construction work is on. The product range that the mill plans to manufacture is now primarily imported. This is a high value niche for which the mill will be using imported pulp.