

Indian Paper Scenario – August 2008

The Indian Newspaper Society (INS) has issued an advisory to all its member publications to reduce their newsprint consumption by 20 per cent. The INS note urges the members to take immediate steps to reduce newsprint consumption by 20 per cent in the shortest possible time. The need for such an advisory has arisen because of the extraordinary hike in newsprint prices. According to INS deputy president, the newsprint cost has jumped by about 50 percent in the last six months. Though newspapers are attempting to cut costs on their own, the advisory puts them in a comfort zone that they are not facing the crisis alone. However, he observed that there was no reason for indigenous newsprint prices to spiral upwards. The advisory is aimed at curbing cartelisation of the domestic newsprint manufacturers as lower demand could improve the prices. Since imported newsprint prices have shot up, the local manufacturers are blackmailing the publishing industry to maximise their profits. The unprecedented price increase in newsprint prices is forcing the industry to take steps to keep costs under control. For a start, newspaper rivals are talking to one another to arrive at a consensus to cut pages. Bennett, Coleman has already taken a 40 per cent rate hike. However, such steep hikes may not be possible for papers who are not leaders in their markets. In such a scenario, newspaper owners have suggested putting a newsprint surcharge both on the cover price as well as on billings to advertisers. The INS is also said to be pushing for a hike in the DAVP rates, that is, prices at which space is sold for government advertising. Currently, DAVP rates are said to be one tenth of the price of commercial rates. The INS is lobbying for a 15 per cent rate increase on government advertising to begin with.

Tamil Nadu Newsprint and Papers is on the verge of achieving financial closure for the Rs. 7800 million mill expansion plan and the mini cement plant. The company plans to borrow Rs. 5500 – 6000 million out of the total capital outlay through a combination of foreign currency loan and rupee loans to keep the cost low. The expansion plans envisages adding a third paper machine with a paper production capacity of 1,55,000 tonnes to take its total production capacity to 4,00,000 tonne a year in printing and writing paper by June 2010. It has placed the orders for the paper machine to be supplied by Voith Paper GmbH & Co., Germany, and for additional equipment for backward integration of its pulp line to Metso Paper Sundsvall AB. TNPL will also set up a 400 tonne a day mini-cement plant using the fly ash and waste lime sludge generated at the factory. TNPL will seek shareholders approval to enhance the overall borrowing powers of the board to Rs. 15000 million in rupee loans and foreign currency loans. According to its annual report, TNPL has paid off the entire World Bank loan of \$45 million in December 2007. The Loan was taken to fund TNPL for expansion between 1993 and 1996 when the company's capacity was doubled to 1,80,000 tonne. To bring down the cost of funds the company had earlier shifted from the multi currency World Bank loan to a US dollar denominated FCNR (B) loan and halved the repayment period to five years. This resulted in a saving of over Rs. 3.995 million as December 2007 when the last payment of the entire loan was made. The pulp line expansion plan that was completed in May last at a cost of Rs. 5650 million was also based on a fixed rate of interest for Rupee loan and Libor – based foreign currency loan to keep the interest and financial charges down. The weighted average cost of loans outstanding as on March 2008, was 7.65 per cent. Even after the impending borrowing, the cost of the total stock of loans will be below 9 per cent, sources told Business Line. The debt equity is .62:1 against 0.84:1 in the previous year. The company plans to kept he debt equity ratio at the peak level below 1:1

ITC's Paperboards and Specialty Papers division is expanding its waste paper collection programme in South India. It has launched the programme in Chennai through a tie-up with leading IT companies and is in talks with local bodies to reach residential areas. Waste paper is the primary raw material for the division, which recycles the paper to produce paperboards to make packaging materials. In the absence of an organised waste paper collection system, the company now meets half its daily requirement of waste paper through imports. ITC has two mills making paperboards – a 1,000 – tonne-a-day mill at Bhadrachalam, Andhra Pradesh, and a 300 – tonne-a-day mill at Coimbatore, Tamil Nadu. It needs an equal quantity of waste paper daily – old newspaper. Mills depending on waste paper for recycling are facing a shortage of raw material, whether imported or domestic, and increasing costs because of growing demand as mills expand. This is driving up the cost of waste paper, which has gone up to around Rs. 10 a kg, nearly double of what it used to cost a year back in the local markets. Imported waste paper is also becoming costlier. At Coimbatore, the company now imports about 150 tonnes of waste paper daily at about \$150-500 a tonne (Rs.6,000 – 20,000 a tonne) from developed countries which have an organised waste collection system and manage to recycle at least 70 per cent of the paper. India produces about 8 million tonnes of paper and paperboards, annually, but only about a fifth of it is recycled. Most of the material is lost in garbage or burnt in the absence of an organised collection system. Lack of source segregation results in waste paper being contaminated and becoming unusable. There is a huge potential to expand raw material availability with proper waste collection. ITC launched the waste paper collection initiative last year in select areas in Hyderabad, Bangalore and Coimbatore and is now expanding it to more areas in South India, including Chennai. In Andhra Pradesh it is talking to the State Government to expand the programme State Wide. In Chennai, it has tied up with 30-40 IT companies including Infosys, IBM, Wipro, which would sell their waste paper to ITC for recycling. ITC also hopes to tie up with residential associations, NGOs and local bodies to expand the waste paper collection programme to large residential areas. The company will distribute waste bins to ensure source segregation and buy the waste paper for Rs. 5 a kg. As a part of the programme it also buys other recyclable waste which it sells to others who recycle the material such as plastic. The company now gets about 75 tonnes of waste paper a month in Hyderabad, 50 tonnes from Bangalore and 20-25 tonnes from Coimbatore. It hopes to expand the programme over the next five years to do away with waste imports.

Orient Paper & Industries (OPIL), a CK Birla group firm, has decided to foray into newer domestic markets for its cement business. A source close to the development said a feasibility study had been submitted and the company would take a final call in the next few weeks. It was further learnt that Orient is weighing its options to set up plants in West Bengal, Orissa, Rajasthan or Karnataka in the current fiscal. At present, OPIL has cement plants in Andhra Pradesh and Maharashtra. The company's cement division manufactures and markets portland pozzolana cement (PPC) under the brand, Birla AI, and ordinary portland cement (OPC) under the brand name or Orient Gold,. Its cement division is among the most profitable in the Indian Cement industry, aided by locational advantage of its various plants and high-quality limestone reserves. It generates 95% of cement revenues from supply –deficient southern and western regions. Due to the strategic location of its plants, it can easily meet its key raw material requirement and save on transportation costs, said an analyst. OPIL has two cement plants located at Devapur, Andhra Pradesh (Principal cement unit with a capacity of 1.7 million tonnes per

annum and Jalgaon, Maharashtra (split grinding unit with a capacity of 1 mtpa) with a total installed capacity of 2.7 mtpa. It completed the first phase of cement capacity expansion from 2.4 mtpa to 2.7 mtpa in August 2007 and plants to ramp up capacity to 3.2 mtpa in FY08 and 5 mtpa by March 2009. The total capex for this expansion is projected at Rs. 3200 million, which is funded through internal accruals, rights issue proceeds and debt. OPIL is also in the midst of setting up a captive power plant of 50 mw with a capex of Rs.1900 million, which is expected to be operational by March 2009. It currently sells 55% of its cement in the western region in highly lucrative Maharashtra and 40% in the southern region mainly Andhra Pradesh.

ORIENT PAPER AND INDUSTRIES LIMITED: This company has reported a marginal rise in its net profit at Rs.461.1 million for the quarter ended June 2008 as against Rs. 44.6 million the corresponding period last year. The company also reported net sales of Rs. 3217.6 million during the quarter, registering a 10 per cent growth as against Rs. 2930.7 million in the corresponding period last year. Net sales of cement increased by 24 per cent, from Rs. 1706.3 million of Rs. 2115.9 million this year. In paper business, the company reported a downfall of 45 per cent in net sales, from Rs. 620.7 million to Rs. 341.7 million. The company's electrical business registered a 118 per cent rise in PBIT at Rs.45.7 million. The net sales stood at Rs. 760.1 million.

SESHASAYEE PAPER AND BOARDS LIMITED: This company is planning to invest Rs. 3000 million to double its printing writing paper (PWP) production capacity to 225000 tonnes from the current 115000 tonnes. The expansion programme will be funded through debt and internal accruals and the company is planning to buy a second hand PWP machine from Europe Canada or the US. The cost of the second hand machine would be around Rs. 500 – 600 million compared to Rs.3000 – 3500 million for the new machine. Currently the manufacturing unit has five machines at its manufacturing plant at Pallipalayam in Erode. Of the Rs3500 million term loans from bank would be Rs.2500 million and internal accruals would be Rs.1000 million.

SPECIALITY PAPERS LIMITED: This company has shown improved results for the quarter ended June 2008. The total income of the company shot up to Rs. 285.4 million forte same quarter last year. Profit after tax went up to Rs. 5.32 million, which has Rs. 4.65 million. The net profit for the quarter went up Rs. 4.29 million which was Rs. 4.12 million. The reserves of the company rose to Rs. 1148.40 million against the paid up equity share capital of Rs. 38.41 million. During the quarter the company has allotted bonus shares in the rate 1:1. For the year ended March 2008, the total income of the company went up tot Rs. 541.6 million, which was Rs.489.2 million the previous year. Profit before depreciation and tax was Rs.41.8 million, where as net profit was Rs. 14.8 million.

SREE SAKTHI PAPER MILLS LIMITED: This paper mill has posted a PBDT of Rs. 25.13 million for the quarter ended June 2008, registering more than 100 per cent growth. The gross turnover of the company for the quarter also increased to Rs. 350 million from Rs. 215 million for the relevant quarter for the previous year. The net profit after tax for the first quarter stood at Rs.11.89 million registering a three fold increase. The board also recommended a dividend of 15 per cent for share holders considering the good performance for the last audited financial year.