

Indian Paper Scenario – January 2009

The domestic writing and printing paper industry may not have felt the impact of the economic slowdown so far. Paper prices have remained firm and demand is still strong. However, industry leaders expect a marginal pressure on demand owing to lower projected GDP growth in the next few quarters. Moreover, some pressure is likely due to cheaper imports from countries like China. The domestic paper production capacity is about 8 million tonnes (excluding newsprint); Bilt, JK Paper, West Coast, TNPL and Emami are the country's leading paper producers. So far, the paper industry has not felt the heat of this slowdown vis-à-vis sectors like steel and cement. Prices have not come down. But I do not think it is going to remain unaffected. International prices have come down from a high of \$1000 a tonne to \$750 a tonne and there is a threat of cheaper imports. At \$1000 the landed cost of imported paper was substantially higher than the domestic prices. Today, the gap has narrowed down. If international prices were to fall further, domestic producers will need to cut prices. According to sources global economic meltdown has led to a moderation in demand in the international market and has thereby impacted prices. Globally, new capacities had been commissioned in the last two years. Now, there is a demand-supply imbalance and mills are not able to sell. Their order book is not as robust as it was earlier this year. Domestic demand for paper was growing at around 8 per cent for last couple of years in line with the GDP. Now, it will fall to 6-7 per cent. However, the per capita consumption in the country is barely 8 kg and as a result of this low base, the long-term growth prospects are good. The government thrust on education too is expected to help the industry.

The Rs.25,000 million domestic paper industry is seeking protection from cheap imports from Indonesia and China. It has urged the government to raise the basic custom duty on paper and paper boards to 15 per cent from the current applicable rate of 10 per cent. In a memorandum to the finance ministry, representative of Indian Paper Manufacturers Association (IPMA) has demanded to levy safeguard duty on paper industry also. In view of the global meltdown, the Asian Paper market has become very vulnerable and major players in Indonesia and China are all set to push large quantities of coated and uncoated wood-free grade paper into the Indian paper market. China has reportedly re-introduced export incentive recently which was withdrawn following protest from other global players. The paper market is rife with news of impending imports of a large quantity of wood-free grades of Paper in 70 GSM for which sundry order-booking at a price of \$680 per tonne and lower is already happening. The first lot of 5000 tonnes is expected any time soon. In the representation, IPMA has asked for disbanding multiplicity and introduce uniformity in DEPB rates as an analogy to Custom Duty rationalisation. IPMA has asked for applicability of a uniform DEPB rate of around 12 per cent to all varieties of paper and paper boards. The DEPB scheme is the only instrument of incentive utilised by the paper exporting units in India. There are quite a few export deterrents that curb export competitiveness of the Indian Paper Industry such as low DEPB rate applicable to paper, paper boards and paper products besides high cost of raw material. The immediate measures are needed to protect domestic paper industry from the cheap imports from Indonesia and China. Representatives from these two big paper manufacturing countries are roaming in India and talking to Indian paper consumers to reduce their inventory pile-up. Because of the global economic slowdown, inventories to the tune of thousands of tonnes equivalent to more than two months of their production capacity are lying with manufacturers in these two countries.

In this time of economic slowdown, the Indian Paper industry is not unduly perturbed about maintaining a healthy 7-8% annual growth rate, as it has been managed to achieve in the past one decade. But imports of finished products like books and periodicals from countries like Indonesia and China may spoil the growth story. As demand from industrialised countries like the US starts drying up due to global economic slow down, big paper manufacturers here started to dump their products in developing economies such as India. The domestic paper industry, estimated to be worth Rs.25000 million (\$5.95 billion), has urged the government to impose anti dumping duty in compliance with WTO norms, so that growth could be maintained during the new few years. The Indian Paper Manufacturers Association (IPMA) has asked the government to enhance the peak rate of basic custom duty from the current level of 10% to 15% on paper-paperboards, as an effective measure to prevent unbridled import and also re-introduce the component of special additional duty. As per the IPMA figure, during 2002-07, while newsprint registered a growth of 13%, writing and printing, containerboard, carton board and others witnessed a growth of 5%, 11%, 9% and 1% respectively. So far, the growth in the paper industry has mirrored the growth in the GDP of the country. According to IPMA, due to the global economic meltdown, the Asian paper market has become very vulnerable and major players in Indonesia and China are all set to push large quantities of coated and uncoated wood-free grades of paper into the Indian paper market. From 7.5 kg per capita consumption during 2007-08, the domestic consumption of paper is expected to go up to 8.3 kg during the current fiscal., while global average per capita consumption of paper is around 45 kg against the consumption to the tune of 300 kg in the US.

ORIENT PAPER AND INDUSTRIES LIMITED: This company is setting up a 50 MW captive power plant which is expected to become operational by March 2009. Besides, work on reduction of carbon emissions is expected to benefit revenues to the tune of Rs. 105 million this fiscal. The company reported a top line of Rs.3525.6 million at the end of Q2FY09, a growth of 16.54% over last year's Q2 number.