

Indian Paper Scenario – February 2009

Imbalance between demand and supply will likely keep prices of imported newsprint volatile in 2009, making it another difficult year for a publishing industry already struggling through an economic downturn. The price of newsprint, which accounts for 50-55% of the total cost of producing a newspaper, declined by \$310-360 a tonne in January from the unusually high \$960 it touched in the quarter ended December 08. But newsprint producers say the decline is only a temporary breather and the current price level of \$600-650 a tonne can't be sustained. The second half of the year will see newsprint prices heading north again as production cutbacks start, they warn. The current price level is not sustainable. India consumed about 1.8 million tonnes of newsprint in 2007, according to the latest data available, and at least 50% of this was imported. Global newsprint prices were extremely volatile last year. March and June quarter newsprint contracts in 2008 were signed at \$660 and \$760 a tonne in the three months ended September. The price climbed to \$960 a tonne in the last quarter, within striking distance of the historic high of \$1000 per metric tonne hit in the last quarter of 1995. The industry is struggling with overcapacity, diminishing demand from markets such as the US, where demand has declined to 8.5mt a year from 13mt a decade ago, choppy currency markets and volatile raw material and oil prices. Montreal, Canada – based AbitibiBowater Inc., the world's largest producer of newsprint, recently announced a 1mt cut in production as it struggled to re-pay debt. Likewise, Norske Skog had said in November that it would cut the global capacity of different grades of paper by 450,000 tonnes. Another leading producer, Montreal- based Kruger Inc., had said in January that it will cut newsprint production by 25,000 tonnes in the first half of 2009. One of the largest pulp and paper makers of North America, British Columbia, Canada- based Catalyst Paper Corp., had said it will cut production at three of its mills, and this will include 55,000 tonnes of newsprint in the first quarter. India publishers are already struggling with slowing advertising revenue in the middle of an economic downturn and any increase in newsprint prices would hit them hard. India's economy is forecast to slow to a growth rate of 7% this fiscal year, from a four-year average of 8.9%.

The Union Government is exploring the possibility of allowing paper mills to develop wastelands to cultivate pulpwood and approve the technology up-gradation fund to modernise paper mills. The Indian paper industry is handicapped by raw material constraints because paper manufactures are not allowed to hold large tracts of land to raise plantations for pulpwood. Also on the verge of implementation is the Rs 4440 million technology up-gradation fund for over 310 units. This scheme would be launched during the current plan and continue into the next. Mills that are environment friendly bring down dependence on natural resources, are energy efficient and focus on product quality would be able to avail of this fund. Augmenting wood pulp availability through organised and sustainable plantations is key for paper industry development. India is a pioneer in using agro-residue like bagasse, the fibrous material from sugarcane crushed in sugar mills, for paper making with nearly a third of the paper

production depending on this raw- material. The balance is equally divided between waste paper and wood pulp. India needs to put in place a policy to encourage organised collection of waste paper for recycling. Agro fibre will underpin development of the paper industry. Wood plantation will also have to be encouraged to improve paper quality.

Domestic paper companies have been facing pressure on margins owing to cheap imports from countries such as China, Indonesia and Malaysia, even as prices in the international market have dropped to \$750 a tonne from a high of \$1,000 a tonne a year ago. In case international prices go down further, companies here may also have to reduce prices. What is adding to their woes is that these companies have, by and large, been producing more than the domestic demand. Net profits for most of the paper companies during the September-December quarter declined, as a price war was on with cheaper imports. J K Paper posted about 55 per cent drop in profit after tax to Rs.35.7 million from Rs. 79.3 million during the corresponding quarter last year. Ballarpur Industries (BILT) posted a 33 per cent fall at Rs. 501 million against Rs. 731 million for the quarter. The net profit of Tamil Nadu Newsprint and Paper (TNPL) also dropped by 25 percent to Rs 212.5 million compared with Rs. 284.8 million during the same period last year. In view of the global meltdown, the Asian paper market has become vulnerable, especially as major players in Indonesia and China are set to push large quantities of coated and uncoated wood-free grades of paper in to the Indian paper market. China has reportedly re-introduced export incentives recently, which was withdrawn on protests from other global players. Keeping in view the growing pressure on margins and adverse impact of companies expansion plans, the paper industry has asked the government to levy a safeguard duty on import of paper and paper boards to 15 per cent to help protect the domestic industry.

BALLARPUR INDUSTRIES LIMITED: This company has posted a decline in its net profit for the second quarter of the fiscal owing to a slowing demand and lower selling price of its paper compared to the same period a year ago. The company said that the drop in the selling price of the paper lowered its profits by Rs. 287 million in the quarter. The dip in demand of rayon grade pulp impacted the company's revenues by Rs. 848 million. According to the company, the cost of production moved up and the sale prices were increased in the first half of the current year. However, prices were revised downward in the third quarter and output cost also dropped.

JK PAPER LIMITED: This paper mill has posted a dip in its net profit at Rs. 3.5.7 million for the quarter ended December 31, 2008 as against Rs 79.3 million n the corresponding period last year. The gross sales stood at Rs 313.0.7 million, registering a 23 percent rise. The increase in sales is due t o rise in sales volume from the new packaging board business and better profitability on coated paper. The production for the quarter was 62,734 tonnes, higher by 19 percent and sales stood at 60,963 tonnes, higher by 12 percent compared to corresponding quarter

last year. Gross sales for the nine months period (April –December 2008) was up 35 percent at Rs.9591.4 million.

WEST COAST PAPER MILLS LIMITED: This company has proposed to issue shares to its promoters, S.K Bangur group, on preferential basis and cancelled the warrants earlier issued at almost double the prices. Promoters have not exercised their option to convert 3.265 million warrants, which carry a premium of Rs. 83 a warrant, into equity shares. The board of the company decided to cancel the warrants and forfeit the subscription money of Rs 27.7 million.