

Indian Paper Scenario – April 2009

In the 6 months, Indian paper manufactures have not only had to contend with cheaper imports from China, Indonesia and Thailand but also had to suffer erosion in margins due to fall in paper prices to \$750 per tonne from an all-time high of \$1,000 per tonne. With the western countries in the throes of a debilitating recession, Indian firms have witnessed a sharp decline in demand. Take for instance largest paper manufacturer, JK Paper, a part of the \$2.4 billion JK Organisation. Exports accounted for almost 10 percent of the company's revenues. But, now it has fallen to only 5 per cent. Exports have shrunk tremendously. For Indian paper manufacturers, exports account for a small percentage. The domestic producers of uncoated paper and copy paper may have a cause for cheer. The Director General (Safeguard) has recommended imposition of provisional safeguard duty of 20 per cent advalorem on all imports of uncoated paper and copy paper into India. The Indian Paper Manufacturer's Association (IPMA) had filed a petition seeking the imposition of safeguard duty on imports of uncoated paper and copy paper made primarily from virgin chemical pulp. The application was supported by more than 80 per cent of domestic producers of uncoated paper and copy paper made from virgin pulp in India. In its preliminary findings, the Director General (safeguard) has concluded that increased imports of uncoated paper and copy paper have caused threat of serious injury to domestic producers of uncoated paper and copy paper. Import prices have shown a steep decline in past six months from weighted average CIF value of \$817 a tonne in September 2008 to \$680 a tonne in February 2009. It was also noted that imports of uncoated paper and copy paper have increased in absolute terms as well as in relative terms. There has been a sharp and sudden increase in imports in January –March 2009, during which the monthly average import has doubled to \$1,877 tonnes from monthly average of 923.08 tonne of 2006-07. Meanwhile, the Director General (Safeguard) has also recommended 20 percent provisional safeguard duty on imports of coated paper and paperboards into India. ITC Ltd – paperboards and speciality papers division, Ballarpur Industries and JK Paper Ltd. had filed the application on behalf of the domestic producers of coated paper and paperboard made primarily from virgin chemical pulp. Indian Paper Manufacturers Association had support the petition.

With the Indian paper exports drying up, JK Paper, the flagship company of \$1.2 billion JK Organisation, is looking to concentrate more on the domestic market by developing its internal channels. In an interview with Financial Chronicle, Harsh Pati Singhania, MD, JK Paper, said owing to the high growth potential of the Indian Paper market, the company would consider enhancing capacity in the domestic market. Typically, our exports contribute 10 per cent to our revenues but have come down to only 5 per cent. He said. The company is one of the market leaders in the production of photocopy sheets, coated paper and packaging boards. They expect demand for photocopy sheets to shoot up. The growth in demand for photocopy papers has been around 20 per cent so far. He added that despite the growing use of internet and email, the need for paper remained high. Out of the total revenue generated annually, over 50 per cent was from the office papers and photocopying segment, 22 per cent from the coated paper segment and 22 –23 per cent from packaging boards. He, however, ruled out fresh investments in the pipeline. The growth (in production capacity of our plants) will come as a result of recent modernisation, optimum utilisation of existing capacity and better operational efficiencies, he said. The company has two integrated paper manufacturing plants in Orissa, with a capacity of 1,25,000 tonne and Gujarat with capacity of 55,000 tonne. At present, India's per capita paper consumption is only between 18 and 20 kilogram, which, when compared with China's 50 kg is very low. Since paper

consumption is so low compared with other countries, the potential of the market to grow is very high. In long run, the company would look to increase its share of exports back to around 10 per cent once the international markets improve. Industry experts say if consumption per capita goes up by just 1 kg, demand for paper products would go up by a million tonne.

BALLARPUR INDUSTRIES LIMITED: This company has posted a 76 per cent dip in its net profit at Rs 178 million for the third quarter ended March 31,2009, against RS 745 million for the corresponding period last year, due to sluggish demand for paper in the Malaysian market and suspension of production at a pulp manufacturing unit. Net sales remained flat at Rs. 6822.8 million. In a notice to the National Stock Exchange, the company said its board has approved a proposal to buyback zero – coupon convertible bonds worth \$ 60 million.