

Indian Paper Scenario – July 2009

The first quarter of the current year has been a sobering experience for large paper mills as they see a build up in stocks, slow demand and fall in prices across segments. Printing and writing paper is witnessing cut-throat competition in pricing, say leading manufacturers with production facilities in the southern and western regions. The demand shrinkage has been across a range of paper segments including industrial paper – packaging material and, printing and writing paper, including branded copier papers, and the calendar and diary segment. One large manufacturer with production facilities in the west estimates that demand could drop about 30–40 per cent across the board. In the printing and writing paper, the situation is bound to worsen as paper manufactures are anticipating a large influx in supply as expansions go on stream even against the backdrop of the shrinkage in demand. On an estimated demand of about 2.6 million tonnes a year and an installed capacity of about 30 lakh, tonnes, the capacity addition is pegged at about 6,00,000 tonnes by the year end. These are capacities that are now under installation or are conducting pilot production, say industry representatives. The demand from the academic segment was something that the large players could depend on as it is an assured market in April and May just ahead of the start of the new academic year. But this year large mills appear to have been edged out by the smaller players – the recycled paper mills, particularly those based in the North. One manufacturer who had consistently supplied over 3,500 tonne to this segment saw orders come down by about 75 per cent.

Printing and writing paper prices have dropped about Rs 3,000 a tonne in the last two months. The price now ranges around Rs 38,000 – 40,000 a tonne. But most large mills only break even at these levels, the manufacturer said. The recycled paper manufacturers in the South have not been able to exploit the market as they are handicapped by the prevailing power shortage which had affected their delivery schedules and dependability. Another representative with a major presence in branded copier paper segment said that manufacturers have seen a consistent demand growth of about 15 per cent on year for the last few years. But the segment would barely see double-digit growth as companies cut back on costs. Competition is also at a peak as more players, including recycled paper manufacturers, have entered this market. Commercial printing is also down substantially, hitting coated papers and graphic segments as retailers, FMCG players and manufacturers cut back on advertisements, brochures and POP material. The estimated demand is about 4,00,000-5,00,000 tonnes a year and it could be down by about 30 per cent, one manufacturer said. Over the last one month prices of pulp and printing and writing paper have been firming up in the international markets, but domestic players do not take this as a rally that can sustain. This price stability has been achieved at the cost of drastic cuts in production by global players. There is no real pick up in demand from developed markets.

Large paper mills that have depended on virgin raw material will increasingly look at recycling paper to increase raw material availability. Traditionally, for the large players – designated a grade mills in industry terms the sources of fibre has been wood pulp or agro – waste such as bagasse, or imported pulp for manufacturing printing and writing paper. Small players, focussed more on cost, use waste paper as a raw material to manufacture paper and for making boards. But with increasing environmental concerns, the absence of a long – term policy on allocating land to the private sector for pulp wood plantation, and the fluctuation in international prices of pulp, large paper manufacturers are bound to look at waste paper as a supplement, say industry sources. Limitations in final product quality has been a constraint for large mills using waste paper as raw material. But in recent years developments in waste paper pulping technology have addressed this issue for the industry to use this as a supplementary source of pulp. The paper industry is growing 7-8 per cent annually, which means an additional 7,00,000 tonnes of paper a year. Manufacturers cannot entirely depend on imported pulp because of fluctuating costs or source pulpwood domestically because of availability constraints or raise captive pulpwood under their ongoing social forestry schemes fast enough. So, the industry is exploring this option. Among the large paper mills, Century Pulp and Paper has a recycled paper plant. The Tamil Nadu Newsprint and Papers Ltd plans to set up a 300 tonne a day plant to recycle paper. Official sources say that once TNPL sets up the de-inking plant to recycle waste paper, nearly a third of its raw material will be recycled fibre that would supplement bagasse and wood pulp. This would be used for making printing and writing paper.

The Government has maintained the effective rate of duty on paper, paper board and articles at 4 per cent while raising the duty for certain stationery products like folders, letter pads and file covers to 8 per cent. Notebooks and exercise books have also been exempted. The move will have no impact what so ever on paper consumption. . However, this will help maintain the consumption demand. Demand for paper tracks gross domestic products (GDP) growth and the demand is currently growing at close to 7 percent. A hike in duty on paper would have forced paper manufacturers to pass on the increase either partially or completely to consumers. “In case of a hike , we would have tried to pass on the change. But in current circumstances passing on the entire hike would have been difficult. Paper producers might have had to absorb a part of the hike.

TAMIL NADU NEWSPRINT AND PAPERS LIMITED: This paper mill is planning to set up a 300 tonne a day de –inking plant to produce pulp from recycled waste paper. It will invest Rs 1740 million in the de- inking plant which would go on stream in 2011. The company will also modernise its steam and power generation facilities at a cost of Rs 1350 million. These investments follow its ongoing Rs 10,000 million expansion plan to increase its paper production capacity to 4,00,000 tonne (lt) a year from the present 2,45,000 tonne. The expansion of pulp production and captive power facilities will complement this capacity expansion. This company now has an 840 – tonne a day pulp capacity using bagasse, the fibrous material from sugarcane, and wood as raw materials. Now, waste paper

will be the third raw material sources for pulp supporting its plans to continue being self sufficient in raw material even with the capacity expansion which will add a third paper machine. The company will also invest in expanding its captive power plant to 83 MW from the present 68 MW by replacing three old boilers with a single high capacity unit.