

Current Status Of Indian Paper Industry And Outlook For Investment in Near Future

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STRUCTURE OF INDIAN PAPER INDUSTRY

The Pulp and Paper Industry is one of the India's key industrial sectors. Unfortunately, it is highly fragmented. Presently, about 380 Paper Mills are in existence in India with an installed capacity of about 4 million tonnes per annum as registered with the Government of India.

Raw Material-wise classification of 380 paper mills is given below:-

Out of 380 no. of mills, 21 are large mills, each one having a capacity to produce above 33,000 tonnes of paper per annum and 359 mills are termed as medium and small mills with a capacity to produce

less than 33,000 tonnes per annum (small mill's capacity is below 10,000 TPA). However, presently, as many as 135 nos. in total, of large, medium and small paper mills are lying closed. The total capacity of the closed units is about 1.02 million tonnes per annum and thus, the effective capacity of 245 running mills is about 2.934 million tonnes.

Against this effective capacity, the production of paper during 1997-98 was 2.9 million tonnes, as reported by Indian Paper Manufacturers' Association.

The Newsprint Industry in India is about 40 years old and it has an installed capacity of 7,33,000 tonnes per annum. Six (6) numbers of mills having together a capacity of 4,18,000 tonnes per annum are

Type of Raw Material	No. of Mills	Installed Capacity (Million tonnes)	Percentage of Capacity
- Forest Based (Wood & Bamboo)	28	1.449	37
- Agro Based (Straw, Bagasse etc.)	111	1.240	31
- Others (Waste Paper etc.)	241	1.265	32
Total	380	3.954	100

Source : Development Council for pulp, paper and allied products, Government of India

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in the public sector and about 19 companies having a capacity of 3,15,000 tonnes per annum are operating in the private sector. Some of the newsprint mills are having facility to produce newsprint and cultural varieties of paper, on the same machines, as they are based on waste paper as raw material. These mills are capable to switch over to Writing & Printing Papers depending on the market demand.

CURRENT LEVEL OF TECHNOLOGY AND REQUIRED UPGRADATION

The paper mills which are in existence today, which were installed over a span of more than 100 years, have been practising technologies falling in a wide spectrum, oldest to very modern. Basically, the Indian Paper industry, has adopted technologies developed elsewhere, generally in Europe and North America, for pulping and paper making from soft woods to Indian raw materials, namely, bamboo, tropical hard woods, bagasse, straws and other agricultural residues. Most of the machinery installed was imported from reputed companies from outside the country. In the last 20-25 years, a few of the machinery manufacturers have developed fabrication facilities for the equipment required for the paper mills. However, even today, the continuous digesters for bamboo as well as agricultural residues are being supplied basically with a major portion of foreign components. The high speed paper machines, with sophisticated instrumentation and technology, are supplied to Indian industry by reputed foreign manufacturers in collaboration with the local machinery manufacturers. Adequate expertise has been developed in the country, to supply auxiliary machinery, like power boilers, chemical recovery boilers and turbines, indigenously. This machinery is already performing successfully and satisfactorily in various units of the industry.

As mentioned above, the age and origin of the machinery in some cases is more than 20-30 years old. This requires upgradation, to gain the benefits of modern development in instrumentation and process technology. A large scale rebuilding of the paper machines may be taken up only after an upward turn in the paper market, which will enable the industry to regain its financial health to an extent, to afford investments in rebuilding as well as modernisation.

In the course of adopting and inventing the technology, remarkable expertise has been gained by the Indian industry in paper and newsprint manufacturing from bamboo, hard woods, straws and

bagasse. Specially noteworthy is the technology developed for manufacturing the mechanical pulp from bagasse, which is being used for newsprint manufacture. In the knowledge of the authors, Tamil Nadu Newsprint and Papers Limited, which is located in Tamil Nadu, Southern part of India is the only mill in the world, successfully producing newsprint from bagasse mechanical pulp in combination with wood mechanical pulp and chemical pulp.

Various industrial groups in the sector using agricultural residues for pulp and paper manufacture, have been able to develop chemical recovery systems, particularly the Recovery boilers for small scale operation of 50 tonnes of pulp per day, circumventing the problems created by the presence of silica. Today, utilising the modern technology, quality papers, including photocopier paper, are being made from the indigenous raw materials.

In the present situation, where money is hard to come, it may be a wise option, to make efforts to keep existing mills alive and healthy by upgrading them to produce quality products instead of looking for green field mills. Modernisation and technology upgradation is, therefore, an area which needs immediate attention of Indian paper producers.

PRESENT DEMAND AND SUPPLY POSITION OF PAPER & NEWSPRINT IN INDIA

Paper and Paper Boards

The figures pertinent to demand and supply of paper boards vary by source. Up-to-date, statistical data on production and demand is made available by various agencies both in Public and Private Sector, like, Development Council under Govt. of India, the Experts Group constituted at the behest of the Govt. of India in the year 1995 and INFAC - a renowned Consultancy Firm on Health and Economy of Industry. The future demand is worked out basing on the anticipated growth rate of paper and newsprint. Presently, the growth rate of writing and printing varieties, as per Industry Experts, is expected to be 4-6% per annum. The growth rate of industrial papers is expected to be around 12% per annum. The higher growth rate, expected in industrial paper segment, is due to the substitution of conventional packaging of agro products by Paper & Paper Board. Based on the survey carried out in the year 1996-97 by INFAC, the demand and supply position of paper and paper boards are projected as given below:-

<u>Year</u>	<u>(Million Tonnes)</u>	
	<u>Demand</u>	<u>Supply</u>
1996-97	2.950	3.150
1997-98 (Likely)	3.147	3.162
1998-99	3.331	3.504
1999-2000	3.529	3.675
2000-01	3.740	3.772

However, as per the experts group constituted by the Govt. of India, which made the projections in the year 1996, the demand for paper and paper boards at the end of 2000 A.D. is likely to shoot up to 4.0 million tonnes. In that event, the indigenous paper supply has to be enhanced, as the existing recession in paper industry is expected to be over by 2000 A.D.

NEWSPRINT

Most of the mills having licence to produce both writing and printing paper and newsprint, are switching over from paper to newsprint or vice-versa, depending upon the market situation. Thus, it is difficult to assess the actual indigenous production correctly, in the absence of a centralised statistical data base. Based on the available information from the industry, the projected newsprint demand and supply may be as given below:-

<u>Year</u>	<u>(Fig in tonnes)</u>		
	<u>Demand</u>	<u>Supply</u>	
		<u>Indigenous</u>	<u>Import</u>
1996-97	8,05,000	2,80,000*	5,25,000
1997-98	8,30,000	4,00,000	4,30,000
1998-99	8,60,000	5,67,000	2,93,000
1999-2000	9,00,000	6,57,000	2,43,000

*Indigenous production during 1996-97 and for some part during 1997-98 was restricted because of cheaper availability of imported newsprint in the country due to dumping.

It is expected that the growth rate of newsprint in India will be around 3%. As per the expert group, which is considered as a High Power Committee, constituted by the Govt. of India, the demand/supply scenario of paper and newsprint together would be

as given below:-

(Projection were made in the year 1996).

<u>Year</u>	<u>(Figures in Million tonnes)</u>		
	<u>Projected Demand</u>	<u>Likely Production</u>	<u>Expected Shortfall</u>
2000-2001	5.0	3.3	1.7
2005-2006	6.7	4.2	2.5
2010-2011	8.5	4.9	3.6

It may be observed from the above that there would be a continuous increase in the shortfall of indigenous production compared to the expected demand and thus there is a need to create the required additional capacity. The present sluggish market does not indicate any hope of these projections to come true. However, because of the high capital intensive nature of the paper industry, no green field pulp and paper mill has been established in India in the past decade. One of the reasons for the unwillingness of the private entrepreneurs is the non-availability of fibrous raw materials on a sustained basis at economical prices. Thus, it is expected that India will be a buffer state for exporting paper and newsprint in future for the foreign suppliers.

REASON FOR THE RECENT DEPRESSION IN INDIAN PAPER MARKET

The fortune of the paper industry is closely linked to the buoyancy in the national economy. When the economy grows, the consumption of paper increases. The general recession in the industry and the consequent sluggish market led to an unprecedented slump in the paper market since Sept, 1995. Paper, as a commodity, is subjected to wild swings in price, every time the demand equation shifts and the international prices fluctuate. The paper industry elsewhere, enjoys substantial advantages, like, cheaper raw materials and power and the economy of scale.

A few years ago, newsprint came into the country, duty free, with the accompanying rider that only actual users would be allowed to import. Further, for each tonne of imported material, user would have to consume two tonnes of indigenous newsprint. As paper prices rallied, duty was reduced to 20 percent from 60 percent for ordinary grades of paper and in the case of newsprint the actual users' condition was set aside and brought under Open General Licence (OGL) umbrella, with no duty. Further, the stipulation

to continue Indian newsprint in proportion to imports was deleted. A reduction in import duties, without simultaneously addressing the problems of the Indian paper industry, has, as expected, adversely affected the Indian paper industry.

While duty on newsprint was raised to 10 per cent, the tariff of the general variety remained at 20 per cent. This anomaly created an imbalance with the imports of writing, printing and coated varieties coming into the country in huge quantities, paying only 10 percent customs duty.

EXPECTED GROWTH AND LONG TERM PROSPECTS FOR INVESTMENT

The growth of paper industry is likely to be determined by the following factors:-

- Competition from International Producers.
- Domestic Competition.
- Demand trends in Domestic Market.
- Demand trends in international market.

Competition from global markets is a function of international demand and supply situation. The prices of paper in the global market are very volatile depending on the economic condition of the exporting country. The tariff structure in India, as also the exchange rate between Indian Currency and US Dollar, are predominant factors to attract international competition. The quality of some of the imported papers being better than the indigenous one, some of indigenous buyers are willing to pay a higher price even for imported paper. This is clearly evident in case of speciality papers. The Indian market is expected to be attractive to global players because of unutilised capacity of the existing mills due to scarcity of forest raw materials.

The competition, in the domestic market is also likely to be intense. The large producers would adopt aggressive pricing and distribution strategies to compete

with the increasing competition from small mills. Niche selling is rapidly becoming common.

This is likely to result in a pressure on the domestic prices, particularly, from the aggressive small mills.

The total installed capacity of the paper industry in 1995-96 was 4 million tonnes as against the total production of 2.8 million tonnes. The total demand for paper is projected to be around 5 million tonnes by the turn of the century, warranting an increase of another 2.2 million tonnes. Looking at the present situation, it is apprehended that the demand may not cross 3 million tonnes. More than 100 paper mills have been sick for the last 15 to 20 years. There is an urgent need for the re-evaluation of the installed capacity as well as taking appropriate measures to make the idle mills productive. The paper industry also needs a package of suitable fiscal measures like soft loans, higher moratorium on loan repayment, more tax holidays and excise reliefs on the cost of modernisation and the expansion to attract fresh investment.

If the domestic industry is to become globally competitive, it must have access to adequate raw materials and other major inputs, at reasonable prices. According to the current projections, the gap in paper production due to non-availability of raw material, would be 1.5 million tonnes by 2000 AD. The gap will continue to widen to reach 2.3 million tonnes by 2005 and 3.2 million tonnes by the year 2010.

Utilisation of the degraded forest lands for pulp wood plantations can be a cost-effective measure for ensuring regular and economic supply of raw material. This would also help in providing employment to landless labourers and tribals, in addition to the social benefits to the region and extended forest cover. Additionally, ensuring availability of adequate electric power at economical prices will enable the paper industry to grow to bridge the expected gaps between demand and supply, at least partially.