CHAPTER IX

CONCLUSION
Communication of information, thoughts, messages in writing is an integral part of the modern civilization. The importance of paper in the dissemination of knowledge can hardly be over-emphasised. In India's development plans, removal of illiteracy is one of the important items of economic planning. A rapid increase in the demand for paper can therefore be expected. The paper has various industrial uses also, particularly in the field of packing and wrapping. Hence, the industrial development is also resulting in a rapid growth in the demand for paper.

It is, therefore, natural that production of paper should have received attention even in the early era of country's industrialisation. The production of paper in India which was only 27.2 thousand tonnes in 1911 increased to 134.81 thousand tonnes in 1951 and to 1235 thousand tonnes in 1981. The paper industry received special attention during the five year plans and installed capacity which was 136,600 TPA in the year 1951–52 rose to 12,75,999 TPA in 1978–79. The number of paper mills in the same period increased from 17 to 86. However, this development fell short of the plan target which was 1613 thousand tonnes for the year 1978-79. The target for the sixth five year plan is 2280 thousand tonnes.
Bamboo is the principal raw material being used for manufacturing paper in India. Wood and grass are other important raw materials. These forest based raw materials are not available in unlimited quantities hence, keeping in view the urgent need for increase in the production of paper, besides efforts to replenish the used up forest resources, the industry must undertake research for developing other raw materials for manufacturing paper. Use of bagasse, rags, and recycling of waste paper are some of the alternatives. Agricultural residues like, grain straw, can also be used. The fact is that presently the country is importing large quantities of pulp from other countries for manufacturing paper. The problems of the industry are not only confined to the raw material shortage, the environmental aspects particularly the pollution of water is an important consideration in selecting sites for the paper mills. Keeping pace with the advanced technology in developed countries, is also a problem faced by the paper industry in India, as most of the mills, at present are equipped with out-dated and obsolete manufacturing plants. Paper being one of the essential consumer item which is not only used by people in general. A substantial quantity is also used in the Government office and public undertakings hence, paper has, right from the second world war period been subjected to price control, although there have been brief periods during which price control was lifted. Increasing cost of inputs and dual pricing of the product has created a situation in
which while industry has to fight for its survival the corrupt practices in marketing are unavoidable.

The pattern of demand of paper in India is different from that in industrially advanced countries. In these countries the demand of industrial paper is more than that of cultural paper. In our country most of the consumption and demand is represented by the writing and printing paper i.e. cultural paper accounts for 60 per cent of the total demand. From the trends of production and demand it is observed that the production of paper and paper board in India remained short of our domestic requirement. Particularly in respect of the Newsprint, the country has to depend largely on imports. Various projections have been made regarding demand of paper by the end of the present century. These estimates put the demand in the year 2000 AD at around 55 lakh tonnes. Even a very conservative estimate would put the demand at 48 lakh tonnes by the turn of the century. Capacity utilisation in the industry has been very low, only 68 per cent during the last three years. In the year 1983-84 the production of paper and paper boards was 11.5 lakh tonnes against the installed capacity 19.15 lakh tonnes representing capacity utilisation of only 56 per cent.²

¹ The Chairman's speech - West Coast Paper Mills Ltd. published in Indian Express, dated January 5, 1985.
Even presuming a capacity utilisation of 75 per cent and demand at around 48 lakh tonnes a installed capacity of 64 lakh tonnes will have to be reached by the end of the century as against the installed capacity of 18.92 lakh tonnes in the year 1981. The constraints of shortage of raw material are also there. It has been estimated that as against the estimated demand of 27.86 lakh tonnes of paper in 1991-92 the available resources for producing paper would be sufficient for 20 lakh tonnes only. A gap of 6.5 lakh tonnes between demand and supply is estimated in the year 2000. However, if the required new capacity is not generated the gap could be much wider causing a drain on India's foreign exchange resources. All this leads us to conclude that immediate and urgent steps should be taken to not only increase the installed capacity but also to ensure development of forests which are the principal source of raw material. Development of alternative raw materials, technological developments and fiscal measures to encourage the growth of the industry are necessary if the dependence on imports is to be avoided.

Paper is a capital intensive industry requiring a huge capital investment. Study shows that paper industry has relied more on loan capital than on the equity capital. The Debt Equity Ratio which was 1.56 in the year 1967 rose to 2.65 in 1982. The industry being subjected to price control by the Government the high gearing has adversely affected the return on shareholder's equity. In the recent
years particularly after the year 1979, the industry has depended more on long term resources. This is perhaps due to the availability of long term finance from public financing institutions and reliance on fixed deposits from public by the corporate sector. During the past fifteen years the industry generated substantial amount of funds from internal sources but relatively the external sources of capital played a more important part in providing finances for the industry. As regards the uses of funds in the earlier years the industry had been working with a very low working capital but the position since 1979 onwards has improved and in 1982 the working capital formed 22.6 per cent of the total assets. The statutory requirements for creating a development rebate reserve is one of the important factors, which have helped in accumulation of profits and consequent increase in working capital.

Profit margin in the industry has been very low. Even when compared with other capital intensive industries the profit margin of paper industry was only 7.1 per cent while the margin in the Cement industry, Engineering and chemical industry respectively was 8.6 per cent; 11.6 per cent and 15.6 per cent. This low margin was registered despite the fact that amongst the four capital intensive industries enumerated above the assets turnover rate was the highest in paper industry.
The fixed assets during the entire period covered by this study exceeded the net worth thus a substantial part of the fixed assets was financed through borrowed funds. In the years 1967 and 1969 the fixed assets exceeded even the long term funds but thereafter the position gradually improved and long term funds not only covered the entire investment in fixed assets but also left a substantial amount for working capital. The fact that the working capital position of the paper industry has been gradually improving is also indicated by the fact that the percentage of current assets to the total assets increased from nearly thirty-three per cent in 1967 to approximately 46 per cent in 1982. There has not only been increase in the percentage of current assets but the study also reveals a better utilisation of the current assets as both the inventory turnover rate and debtor turnover rate increased substantially during the period of study. The finances for investment in current assets which were entirely drawn from short term sources are now substantially provided through long term sources. This is in keeping with the changes in the financial structure which has been mentioned earlier and which showed that a greater reliance was being placed by the industry on the long term sources of finance. The liquidity position during the period of study also improved substantially the current ratio was 0.91 in 1967 and after touching a high of 1.77 in 1981. It was 1.53 in 1982 representing a comfortable current payment position.
Paper, as already stated, is a capital intensive industry. However the capital cost depends on the size of the paper mill and the material to be used in the manufacturing of paper. Considering according to the size the lowest investment per annual tonne is required for a paper mill of the size of 30 tonnes per day (TPD). Smaller and larger mills required a comparatively higher capital investment. The cost structure of manufacturing of paper shows that material cost wages and direct manufacturing costs constitute nearly 80 per cent of the total cost of production. Over the period of last fifteen years there has been a substantial increase in the cost of material both in absolute and in relative terms. Material which constituted only 22.8 per cent of the total cost of production in the years 1967–70, formed 37.0 per cent of the total cost in 1979–82. Proportionately speaking while the cost of wages and salaries remained nearly constant the direct manufacturing cost showed a substantial decline from 49.1 per cent to 33.1 per cent.

In keeping with the inflationary trends it is but natural that the various costs of manufacturing should have gone up during the last fifteen years but the cost increase had not been uniform. The index of material cost was nearly 200 in 1979–82 when compared the base years 1967–70. The similar index for employees remuneration was only 110.
There has been a sharp rise in the cost of production of paper, cost of production which was Rs. 2307 per ton\(^2\) in 1973-74 rose to Rs. 3350 in the year 1975. For the year 1980-81 the cost of production was estimated to be Rs. 5806 P.T. a further increase of 73 per cent. Bamboo constitute the principal raw material for manufacturing of paper but the increased demand for raw materials has necessitated a larger use of wood in the manufacturing of paper. The cost of wood has in the recent years increased much faster because of the general hike in the prices of all fuels and hence the industry still remains dependant on bamboo for its raw material needs.

Power and fuel constitute essential components of the manufacturing cost. The energy consumption in the Indian paper mills is so to 39 per cent higher than that in the mills in developed countries. It was estimated that the cost of power and fuel per tonne of paper in 1981 came to Rs. 548. Technological improvements to reduce the power and fuel consumption in industry are essential not only from the point of view of reducing the cost but also from point of view of general need of the conservation of energy resources.

Paper industry was subjected to price controls during the second world war period when due to stoppage of imports, scarcity of paper resulted in high prices. The provisions of Defence of India Rules (DIR) were invoked to control the
prices. After the second world war the matter of paper prices was firstly referred to a Commodity Price Board and then to the Tariff Board which submitted its report in November 1948. The Tariff Board recommended a dual pricing system - a lower price for Government purchases and a higher price for non-government consumers. However, as the supply position of paper became easy the price control was withdrawn in 1950, on an assurance from the industry that the prices will not be increased without the prior permission of the government. However, during the period 1951-1958 there was an increase of Rs. 390 per tonne (approximately 26 per cent) in the selling prices of paper. The increase was made on the ground of increase of the price of raw material and the imposition of the excise duty by the government in 1953. In 1959 the Tariff Commission was again asked to examine and recommended fair prices of paper. The Commission recommended a dual price structure as before. From time to time ad-hoc increases were granted till 1968. The government after reviewing the situation withdrew the control over prices of paper for non-government consumers.

The dual pricing of paper and the requirement that 40 per cent of the writing and printing paper has to be supplied to the Government at the fixed price, has resulted in the industry adopting changes in product-mix. Mills tried to shift their production to varieties which were more profitable and were not subject to Government levy. The
Government had to take measures to prescribed the product-
mix of the paper mills in order to ensure adequate supply
of writing and printing paper.

The policy regarding price control of paper has been
guided by the consideration that paper should be available
at reasonable price for Government use and also for writing
and printing needs of the non-government consumers. It was
also realised that prices should be remunerative enough to
ensure the development of the industry to meet the rapidly
growing demand. However, the policy of the dual pricing has
resulted in diversion of newly installed capacity to
industrial paper rather than cultural paper. While the index
of installed capacity in 1982 (1970 = 100) was 209. The
index of production of writing and printing paper was 146 and
that of wrapping paper 200. Profitability of the industry
has continued to be low and when compared with other
industries which gave 17.7 per cent return on the capital
employed, the paper industry had shown only a 7.8 per cent
return in 1982-83. The policy of dual pricing envisaged that
the industry would be able to recover the loss on the supplies
made to the Government from the supplies in the open market
but the study shows that due to rising cost while the loss
on Government supply has been increasing profit on sales in
the open market has been decreasing making it impossible for
the industry to cover up its loss on sale of writing and
printing paper. It is the industrial papers which have been
earning good profit for the industry.
There is an urgent need to review the policy regarding control of prices. The dual pricing has resulted not only in a change in the product-mix but has also led to adoption of corrupt practices in marketing of paper. Unless an effort is made to stabilise the prices of inputs, particularly raw material and power, the control over price of paper would only lead to hamper the development of this vital industry.

The profitability of the paper industry both in terms of Gross Profit Ratio to sales and, Return on Investment (Capital Employed) has continuously declined during last ten years. Gross Profit Ratio came down from 16.3 per cent in 1970-71 to 8.3 per cent in 1982-83. Return on investment came down during the same period from 12.5 per cent to 7.8 per cent. The rate fell down particularly since the year 1976-77.

The profit management has also been affected by the falling rates of profits in the industry. The industry, in view of lower profit did not have much to plough back and had to depend more and more on external sources particularly borrowing for financing the expansion of the industry.

As regards taxation the study shows that the direct taxes could not be passed on by the industry to the consumers but a reduction in corporate tax will tend to boost the production. There is, therefore, a strong case for relief in direct tax for the development of the industry.
The excise duty is however, shifted by the industry to the consumer. An increase of one per cent in excise duty resulted in an increase of approximately 1.12 per cent in the wholesale price of paper. The sharp increase in the rates of excise duty has not adversely affected the growth in the production because of the ability of the industry to pass on the burden to the consumer.

Low margin of profit and rate of return on investment has already been mentioned above. Productivity is an important factor in the profitability of an industry and its capacity to compete with imports and with the substitutes that might be developed. One important factor in determining the productivity of the capital employed is the utilisation of installed capacity. The paper industry which achieved maximum capacity utilisation of 98.9 per cent in 1970 has ever since showed a declining trend in this regard. The productivity came down to 68 per cent in 1981 and as already mentioned earlier, it came down further to 56 per cent, in 1983-84. Shortage of raw materials, frequent power cuts, irregular supplies and poor quality of coal may be mentioned as none of the causes of low capacity utilisation.

As regards labour productivity in the paper industry on the basis of available data, production in tonnes per workers per annum has been worked out. It shows that there was a marked decline in labour productivity during the period
1970 to 1978 with only a modest increase in 1979.

Capital employed per tonne per paper produced also shows a continuous increase over the past few years. The general inflationary trend is obviously one of the causes for this increase poor capacity utilisation is also a important factor in not only higher capital employed per tonne but also for poor productivity of labour.

In this study an effort has also been made to compare the return on shareholders' investment in mills of different sizes. However, no definite correlation between the return and the size could be established. Regional differences in the return on capital employed are also significant. Maharashtra and Tamil Nadu seem to be in a advantageous position as far as the cost of production is concerned.

From the point view of contribution made by the paper industry to the national economy, as study has been made as to how the Net Value Added by the industry has been shared by the various concerned parties. While the proportionate share received by the employees has remained more or less constant the share going to the public exchequer, particularly in the form of excise duty has shown a significant increase. The shareholders, on the other hand, received a lesser and lesser proportion of the value added.

The study reveals that the present position of the paper industry in the country is far from the satisfactory.
Raw material shortage is one of the crucial problems. Unless large-scale forest plantation is undertaken the industry is likely to face a still more grave situation in future. Fortunately afforestation has received the attention of the Government. Forest plantations will not only make the industrial needs but is very important from the point of view of creation of new employment and from the point of environmental improvement.

Cost of production in the industry has been increasing due to rise in the cost of inputs. On the other hand, the price control policy has reduced the profit margins. Cost of production can be reduced considerably by technological improvement and better capacity utilisation. The transport and power needs of the industry should be met on a priority basis. This would go a long way in reducing the cost and improve productivity. In the matter of fixation of sale price also a more realistic approach has to be adopted and price fixed should be commensurate with the cost. In the absence of realistic policy not only the development of the industry will be hampered but diversion of production to non-cultural varieties of paper is also apprehended.

The policy regarding taxation in the industry also deserves to be reviewed. Tax reliefs for the industry would help in providing the necessary incentives for its developments. The excise duties are naturally shifted by the industry to the consumers. Hence, if the burden of the
consumers is to be reduced it would be better to fix the price on a more realistic basis and grant relief in excise duties to lessen the burden of the consumer.

With the increasing literacy and industrialization demand for paper is bound to increase in the years to come. This can be met only by a better utilisation of the existing capacity and a large scale investment in creating new capacity. Assurance of better return on the investment is necessary to attract the necessary additional investments in the industry. Alongwith it an integrated plan for augmenting the supply of raw materials, facilities for its transportation developments of substitute raw materials and ensuring regular supply of power and cool is also imperative.