

SECTOR RESEARCH

PAPER & PAPER PRODUCTS

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Paper industry to print healthy growth

Industrial Sector Analysis

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Executive Summary

The Indian paper and paper products industry witnessed numerous opportunities in FY22 to recover from prior years' losses incurred due to the pandemic. The gradual reopening of educational institutions, resumption of work-from-office and popularity of online shopping made for some factors supporting demand recovery in the paper industry by 2-4% in FY22, and BWR expects the same to continue in FY23. Some major drivers for the paper segment were demand for kraft paper, which increased by 26-28%, and the revival of stationery paper and books (mainly due to a lower base effect) in FY22. BWR expects demand for paper products to increase moderately by 10-12% in FY23.

BWR estimates a 24-26% increase in the total exports in FY22E, supported by excessive demand for kraft paper from China and overall paper demand from the UAE. BWR expects 12-14% growth in the total exports in FY23 because of export opportunities arising for India in Asia due to the disturbance in European paper supply. BWR estimates a 22-24% increase in the exports of paper and 41-43% increase in the exports of paper products in FY22, driven by increased demand for packaging paper and boxes. E-commerce and logistic companies emerged as sectors demanding significant amounts of corrugated and duplex paper and boxes. Newsprint, although having gained in exports, still remained as a segment with low or negative profitability.

An increase in the raw material cost, coupled with the high import cost of coal for power generation, high oil prices, container crisis, and so on, led to an increase in the overall cost of production. BWR estimates the EBITDA to reduce to 16-18% in FY22E (FY21: 21%), given the y-o-y 14-16% increase in the total expenses. BWR also expects the EBITDA margin to remain at the 16-18% level in FY23 because of growth in exports and domestic demand.

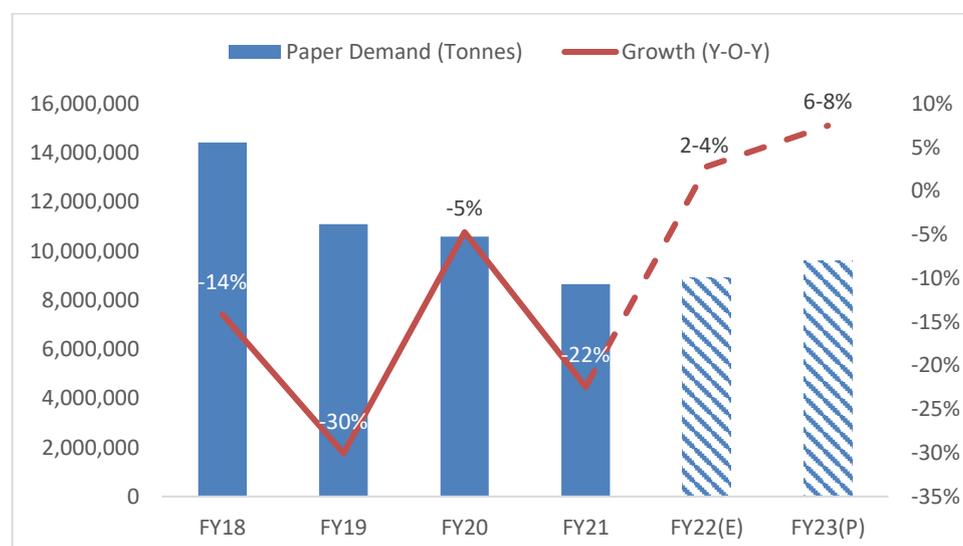
Paper demand to witness healthy growth, led by demand increase for kraft paper and demand recovery for stationery paper

Demand for paper is usually driven by corporate houses and the education, packaging, magazines and newsprint segments. The pandemic-induced lockdown impacted all the segments of the paper industry. The closing of schools, colleges and educational institutions, and the work-from-home scenario for corporate offices led to the fall of domestic stationery paper consumption by 12% in FY21. BWR expects FY22E to witness a slight recovery of 2-4% in demand for paper because of the continuation of the online mode of classes, offices majorly remaining shut and the negative impact of digitalisation. BWR expects 6-8% growth in FY23 in demand for Indian paper because of demand revival in the domestic and international markets.

BWR estimated 16-18% growth in FY22 as demand for stationery paper and books increased due to the resumption of educational institutions and offices in the offline mode. The manufacturing and e-commerce sectors also witnessed a boom, leading to an increase in demand for kraft paper, which is an important material for packaging. Health concerns led to a positive impact on the sales of tissues during the pandemic.

Pent-up demand from educational institutions and corporate houses along with demand from packaging industry will boost paper demand.

Trend in demand for paper (Tonnes)



E- Estimated, P-Projected

Source: CMIE, BWR Research

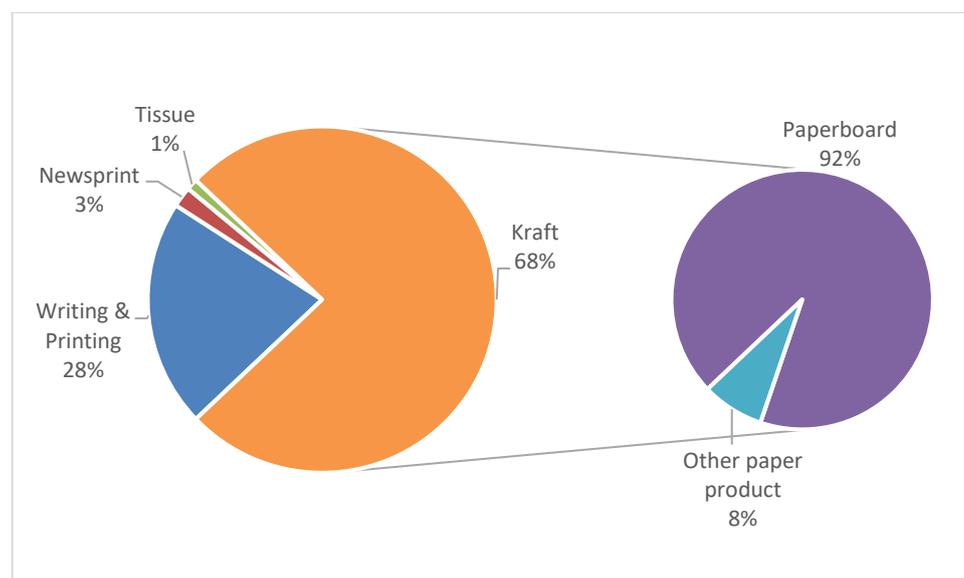
Kraft paper demand expected to be strong due to increased demand for paper products, especially paperboard segment

Corrugated boxes are usually in demand for packaging manufactured industrial goods, household goods and even for personal care products. Growth in demand for these products aided demand for paper packaging boxes. With growing awareness on sustainable packaging for products in early 2021, many companies took it up as a

branding and promotional tool, and started to switch their product packaging from plastic to paper. This also helped in increasing demand for paper packaging from companies, as evident from the rise in demand for paper products in FY22. Low capacity and energy requirements also prompted the majority of the paper mills to switch from newsprint to the manufacture of kraft paper. In FY20, many paper mills reduced their capacity by shutting down or transitioning to manufacturing packaging grade paper because of high demand for packaging boxes from the food, pharma and e-commerce industries.

While corrugated boxes witnessed a substantial increase in demand, other paper products created from duplex paper such as paper plates and boxes, also witnessed demand due to the increase of its use in the food service industry. Increasing business of fast-food franchises, which use paper boxes and cups for serving food and beverages, shows an increase in demand for such products. BWR estimates demand for paper products to have increased by 26-28% in FY22E. In FY23 too, BWR expects demand to increase moderately by 10-12%, especially from China and the UAE, our biggest export destinations.

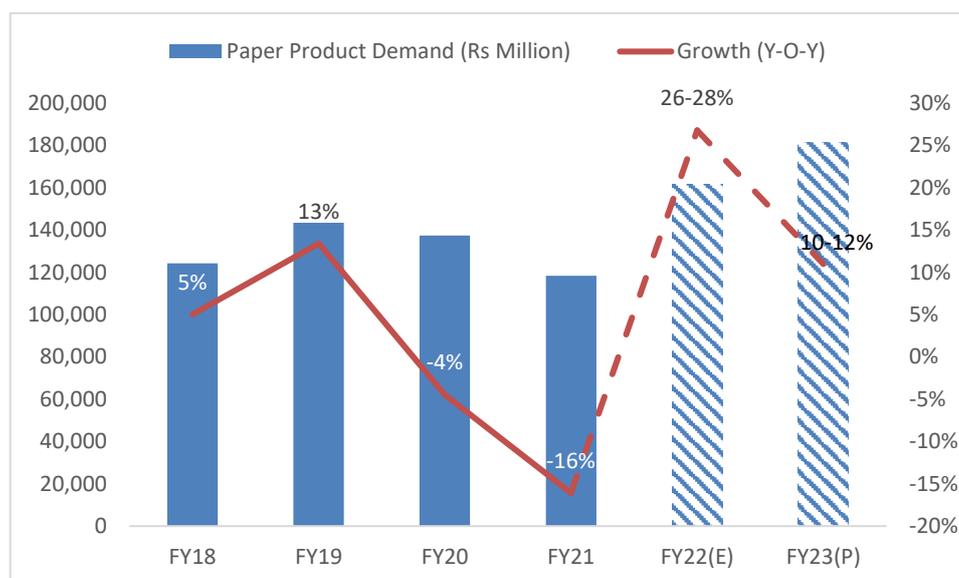
Segmentation of Paper industry



Note: This segmentation is based on data available for FY20. Writing and printing consists of all kinds of paper including books, speciality paper and stationery paper. Kraft paper includes corrugated paper and boxes and paperboard.

Source: Indian Pulp & Paper Technical Association, BWR Research

Trend in demand for paper products (in Rs Million)



E- Estimated, P- Projected

Source: CIME, BWR Research

Exports to continue maintaining healthy growth owing to new export opportunities in Asia and the CEPA

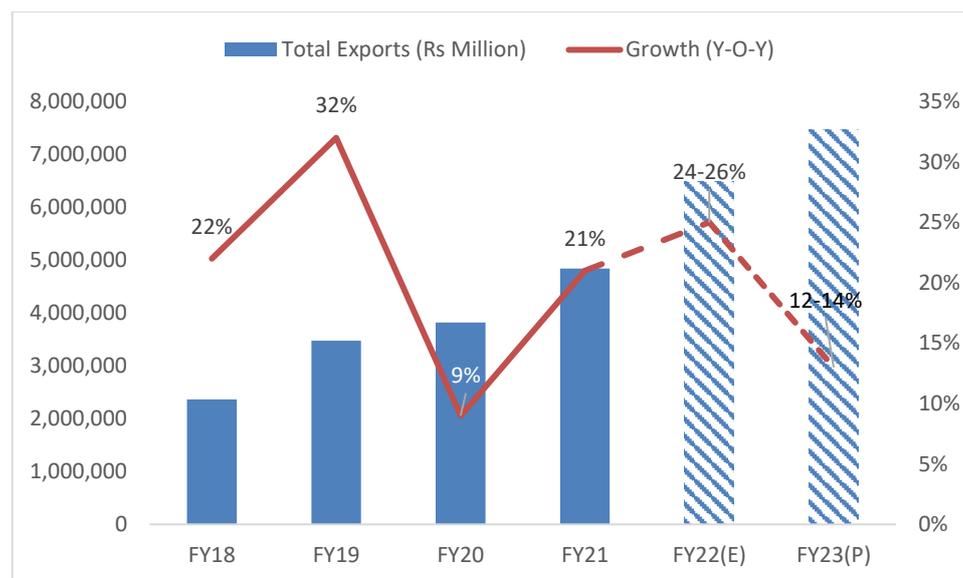
The export of paper and paper products is expected to witness 24-26% growth in FY22E, and BWR expects the healthy growth to continue even in FY23. With Asia being one of the leading consumers of paper, India can expect positive growth in terms of the export market potential for paper and paper products. Among the top 10 export destinations for India, seven are from Asia. Vietnam and South Korea emerged as destinations with a more than 50% increase in demand for Indian paper. This gave an unexpected opportunity to further improve the export market in Asia when factors such as hindrances in shipping routes and the unavailability of containers are impacting European exports to Asia.

China is the biggest export destination of Indian paper (34% of India's total paper exports in FY21), and its ban on old corrugated cartons was one of the reasons for the increase in exports for FY22. In FY21, exports to China increased by 57% and a similar trend is expected in FY22 and FY23. After China, the UAE is the second largest export destination for India (13% of India's total paper exports in FY21) and is emerging as a next best partner for paper exports for India; trade is expected to further strengthen, given the Comprehensive Economic Partnership Agreement (CEPA) executed in April 2022.

Emergence of new export destinations, CEPA and increased demand for Indian paper in Asian countries will help India in increasing its global market share.

BWR estimates the newsprint segment to witness slight growth of 2-4% in FY22 as demand for newsprint exports increased by 56% with the addition of new countries such as the UK and Afghanistan. A fall of 104% has been seen in newsprint imports in FY22 as Russia is now unable to supply newsprint paper, and this is likely to continue in FY23. Domestic capacity for the newsprint segment not being 50% of the total supply hampers the country's production.

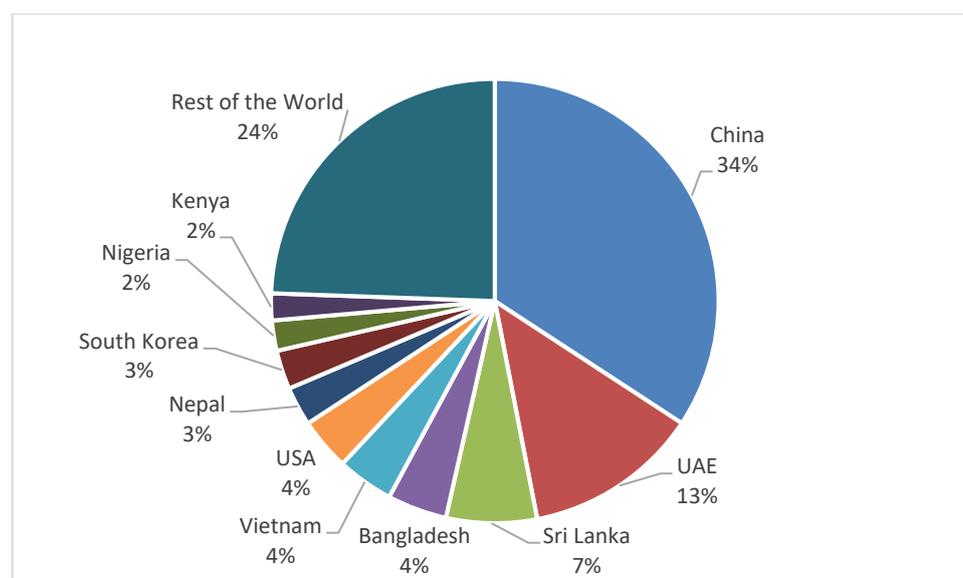
Trend in Exports of paper and paper products (in Tonnes)



E- Estimated, P-Projected

Source: CMIE, BWR Research

Export destinations for Indian paper and paper products (FY 21)



Source: CMIE, BWR Research

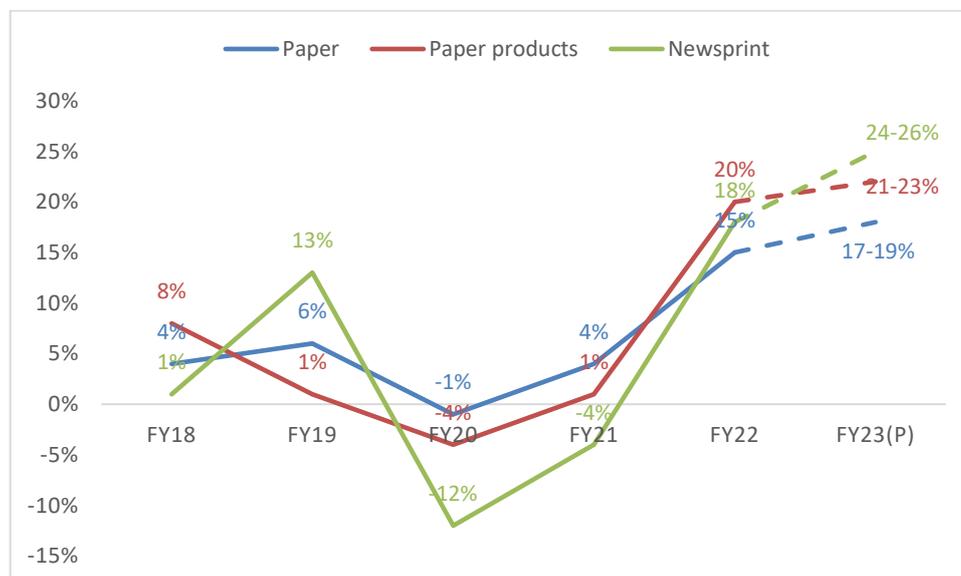
Paper and paper product prices to rise in FY23 owing to robust demand and higher raw material prices

Overall, the price of paper products, irrespective of the segment, witnessed a significant rise in FY22, the main reason for this being the shortage of coal and raw material. The shortage of coal led to a shortage of power to produce paper, and importing coal increased the cost of production. The shortage of raw material such as waste paper, pulp and newsprint forced producers to procure the material even at higher prices. The Russia-Ukraine war has also hindered the trade routes for the import and export of raw material and finished goods, increasing the cost of transportation.

High demand for kraft paper both in the domestic, as well as international markets, has led to prices surging by 15% in FY22. BWR expects the prices of paper to further increase by 17-19% in FY23 because of the current shortage of kraft paper due to excessive export to China. BWR expects the price of paper products to increase by 21-23% in FY23. Moreover, BWR estimates newsprint to witness a 24-26% hike in prices because of the shortage of newsprint paper for printing.

Prices are expected to soar high given high demand and increased cost of production, especially cost of raw material.

Trend in the growth of prices of paper and paper products



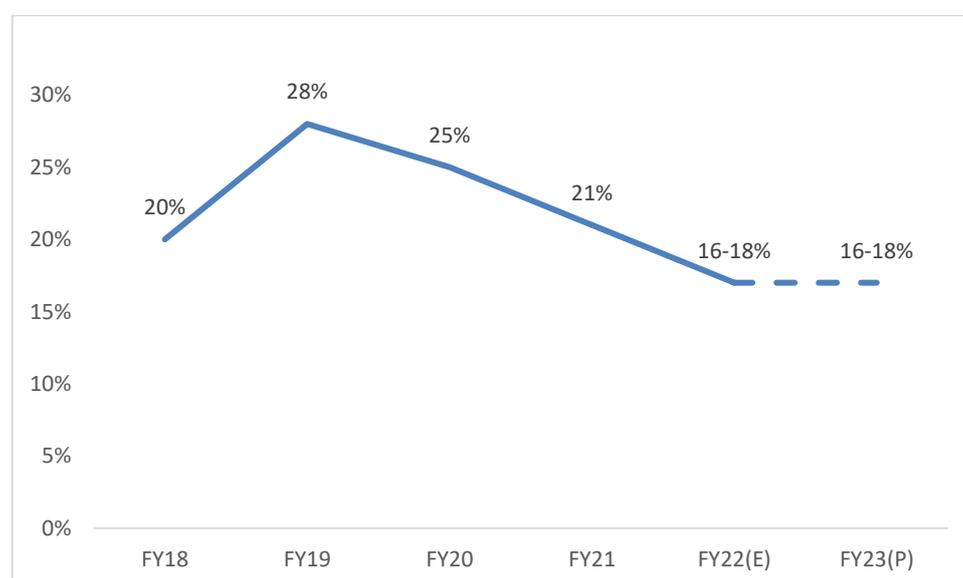
P- Projected

Source: CMIE, BWR Research

Profitability margins to contract in FY23 owing to rising input costs

Given international events such as the container crisis and the Russia-Ukraine war, all the expenses are expected to increase, especially the cost of procurement and transportation. Importing coal to fulfil demand to be used for power generation will also lead to an increased cost of production. BWR estimates the cost of material consumed to have increased by 32-34% in FY22 and expects it to further increase by 12-14% in FY23. The cost of waste paper, which is the main source of raw material for the Indian paper industry, and pulp are soaring high due to geopolitical tensions. BWR expects the EBITDA to be around 16-18% in FY23 as increased revenue from exports and domestic demand will help in recovering the cost of production.

Trend in EBITDA margin



Note: The above data is derived from the sample companies of the paper industry as listed on the stock exchange

E- Estimated, P- Projected

Source: CMIE, Company reports, BWR Research

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