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INDIAN PAPER MANUFACTURING INDUSTRY

Industry at an inflection point; Capex cycle turning towards packaging paper segment

MARCH 2022

Highlights

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Steady capacity augmentation seen in packaging papers segment supported by favourable demand from e-commerce, FMCG, Food & food products and pharmaceutical sector.

The installed capacity in packaging paper for the industry is expected to be largely at par with publication capacity in FY2023 and surpass the newsprint/writing & printing capacity by FY2024 .

Healthy demand for packaging papers is expected to drive growth for paper manufacturing companies in the near term

Margin in medium term is expected to remain under pressure owing to notable increase in raw material prices along with energy costs.

The paper industry* can be broadly classified into a) Newsprint (NP), b) Printing & Writing (PWP) and c) Packaging paper (PP), with current capacity of packaging paper at around 45-47%, vis-a-vis NP along with PWP at around 53-55% for the industry on a consolidated basis.

The sector is seeing a paradigm shift from demand perspective, with demand for NP and PWP dwindling given the rising impact of digitization, while the PP segment seeing a rise, with growing demand for packaging from e-commerce , food and food products, FMCG and pharmaceutical sector.

The industry which has seen two consecutive years of contraction in FY2020 and FY2021, owing to slowing demand for the NP/PWP segment as well as impact of Covid-19, is likely to grow between ~30-31% in FY2022 compared to FY2021 albeit on a lower base, largely driven by demand from packaging paper segment.

Mirroring the demand push from the packaging paper segment, the capex cycle has turned in favor of the PP segment, with installed capacity in packaging paper division is expected to be largely at par with publication capacity by FY2023 and later surpassing the installed capacity for the NP/PWP by FY2024.

Despite notable QoQ revenue growth in Q2 FY2022, the operating margin for the industry stood lower at 15.1% against 17.6% in Q1 FY2022 due escalation in raw material and energy cost. Continued rise in input cost resulted in further moderation in operating margin to 14.1% in Q3 FY2022. Thus, operating margins in FY2022 as well as in FY2023 are expected to remain under pressure owing to notable increase in raw material as well as energy costs, amid stiff competitive intensity.

The growth in paper manufacturing sector is expected remain in range of 7-8% over the next two fiscals aided largely by demand in the PP segment , driven by demand from e-commerce, FMCG, Food & Food Products and pharmaceutical sectors.

**Industry refers to consolidation of eight major listed paper companies based out of India*

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Thank You!