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INDIAN PAPER MANUFACTURING INDUSTRY

Industry margins shrink under pressure from low-cost imports and higher input costs in FY2025

December 2024

Highlights

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A sharp rise in paper imports from China and few South-East countries in the last few quarters have affected the realisations of paper manufacturers in the last one year.

While demand continues to be stable amidst steady off-take from end-user industries, a sharp contraction in realisations coupled with increase in input costs (like wood pulp) and rupee depreciation is likely to result in 500-700 bps YoY contraction in operating margins for FY2025.

The domestic paper sector can be broadly classified into Newsprint (NP), Printing & Writing (PWP) and Packaging Paper (PP), with the current domestic market share in terms of volume of PP at around 65%, vis-a-vis NP along with PWP at around 35% for the industry on a consolidated basis.

The industry's* revenue declined by 8% in FY2024 on a high base of FY2023, impacted by moderation in realisations in H2 FY2024 owing to intense competition from low-cost imports and elevated input costs, especially for virgin paper. Realisations continued to decline by ~9% in H1 FY2025, and in turn affect the industry's revenues in the current fiscal.

The demand remain stable amidst steady performance of end-user industries, thus supporting the volume growth. The operating margins are however affected by pressure on realisations, given the limited pricing power for domestic paper manufacturers amid competition from cheaper imports. Input costs, especially for virgin paper manufacturers, witnessed an uptick, owing to supply constraints because of reduced wood plantations (which has a long lead time of ~4 years) in the previous years.

Industry's revenue growth is expected to remain muted at 0-2% in FY2025 despite an expected volume growth of 6-8%, owing to a sharp contraction in realisations. While industry players have started undertaking price hikes in select segments, the impact of the same on revenues and sustenance of timely pricing actions remains to be seen.

Margins are expected to contract sharply by 500-700 bps in FY2025 owing to material correction in realisations and elevated input costs, especially for virgin paper mills. Also, with the rupee depreciating sharply in recent weeks, the imported prices are likely to remain elevated. Decline in earnings is expected to result in moderation in industry's credit metrics in FY2025. While expected improvement in the raw material availability will support margins in FY2026, improvement in pricing power remains to be seen.

**Industry refers to consolidation of eleven major listed paper companies based out of India: Andhra Paper Ltd. , Shree Ajit Pulp and Paper Limited, Tamil Nadu Newsprint & Papers Ltd, N R Agarwal Industries Ltd, West Coast paper Mills Ltd, Emami Paper Mills Ltd and JK Paper Ltd, Seshasayee Paper & Boards Ltd, Satia Industries Ltd, Kuantum Papers Ltd., The South India Paper Mills Limited*

Agenda

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1 **Global Industry Updates**

2 **Domestic Industry Updates**

3 **Industry Trends**

4 **ICRA's Outlook**

5 **Quarterly Performance of Key Paper Companies in India**

6 **Peer Comparison**

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