Indian Paper Industry: Operating Margins Set to Recover ~200 BPS in FY26 Post Sharp Dip in FY25

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Synopsis

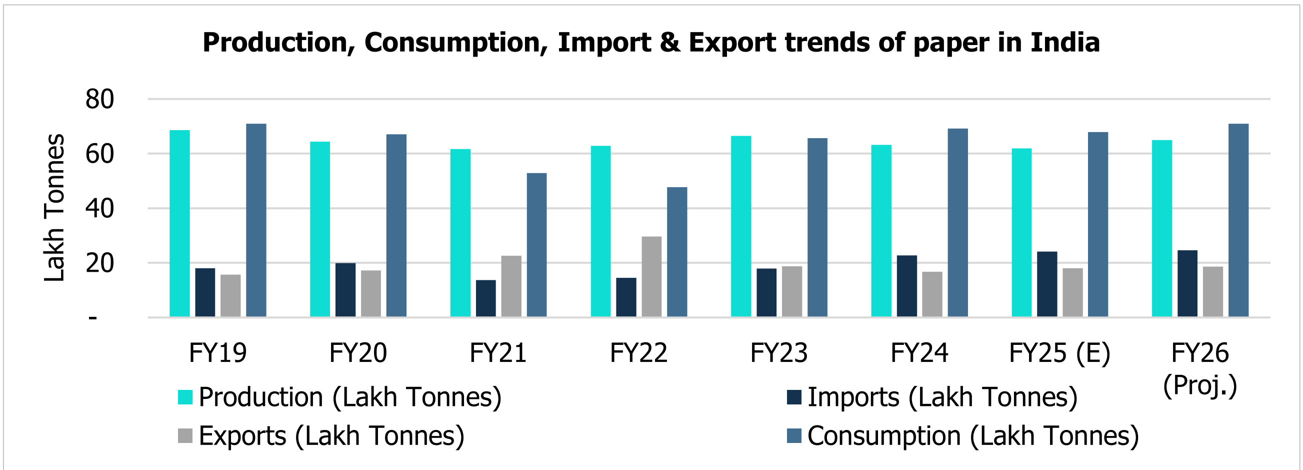
- In FY23, with increased demand owing to return to office, India's printing and writing paper (PWP) manufacturers witnessed significant growth in net sales realisations (NSR). Given the unique case of Covid and pent-up demand in FY23, this performance was short-lived and moderation in sales realisations happened thereafter in the paper industry^.
- Following that, the domestic market faced an oversupply issue, primarily caused by a significant rise in net imports, particularly from China and ASEAN countries, which reduced realisations. Furthermore, in FY24 & 9MFY25, the cost of raw materials (domestic wood) surged to unprecedented levels as other wood-based industries heightened their demand, coinciding with a decreased wood supply due to plantation impacts from Covid. This combination of increased imports and soaring wood prices severely pressured the profit margins of paper manufacturers in FY24 & 9MFY25.
- CareEdge Ratings expects that with moderation in wood pulp prices, stabilisation in imports and steady growth in demand from the paper board segment would improve the paper industry's operating profits by about 200 bps during FY26.

Ongoing challenges in domestic paper production and margin pressures in the industry:

a) Surge in paper imports post FY22 leading to decline in domestic paper production

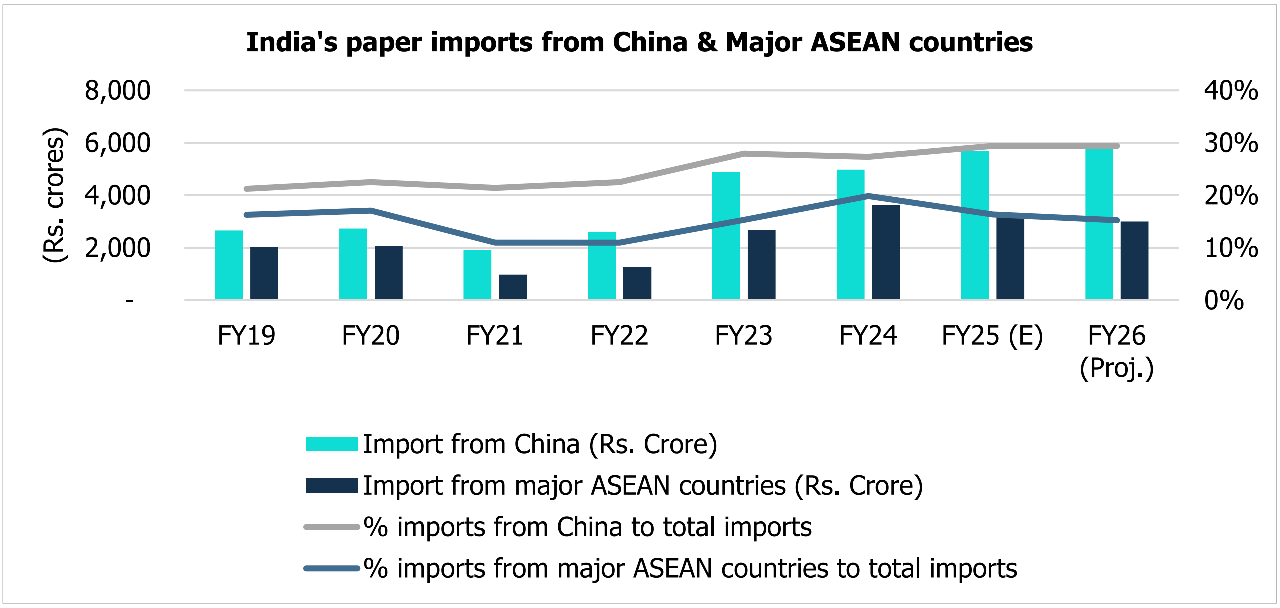
After a slowdown during the Covid-19 pandemic, paper imports in India surged post-FY22, creating challenges for domestic manufacturers. Due to imports from China and ASEAN countries, India became a net paper importer again in FY24 in terms of volume. India's Free Trade Agreements (FTA) with ASEAN and South Korea have allowed duty-free paper imports, affecting local production.

The ongoing rise in imports throughout FY24, especially at a faster rate, has increased pressure on domestic manufacturing. Domestic paper production fell by about 5.1% in FY24, and this decline is likely to continue through the end of FY25, with an expected drop of approximately 1-2%, while imports are set to increase by 4-5%. In H1FY25, paper and paperboard imports rose by 3.5%. Consequently, according to 9MFY25 data, paper manufacturers' overall revenue is projected to decrease by about 3-4% for domestic paper companies during FY25.



Source: CMIE & compiled by CareEdge Ratings

^Comprising of paper of all kinds (excluding news print)

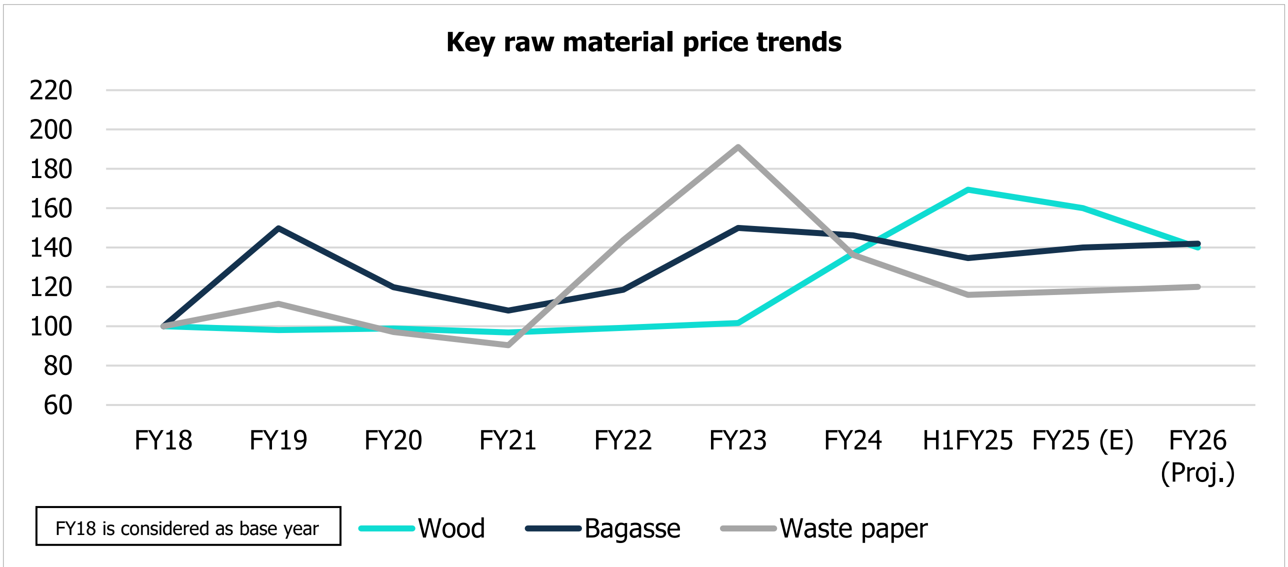


Source: CMIE & compiled by CareEdge Ratings. ASEAN countries considered above are Indonesia, Thailand & Singapore

b) Declining sales price realisation and rising raw material costs strain industry margins

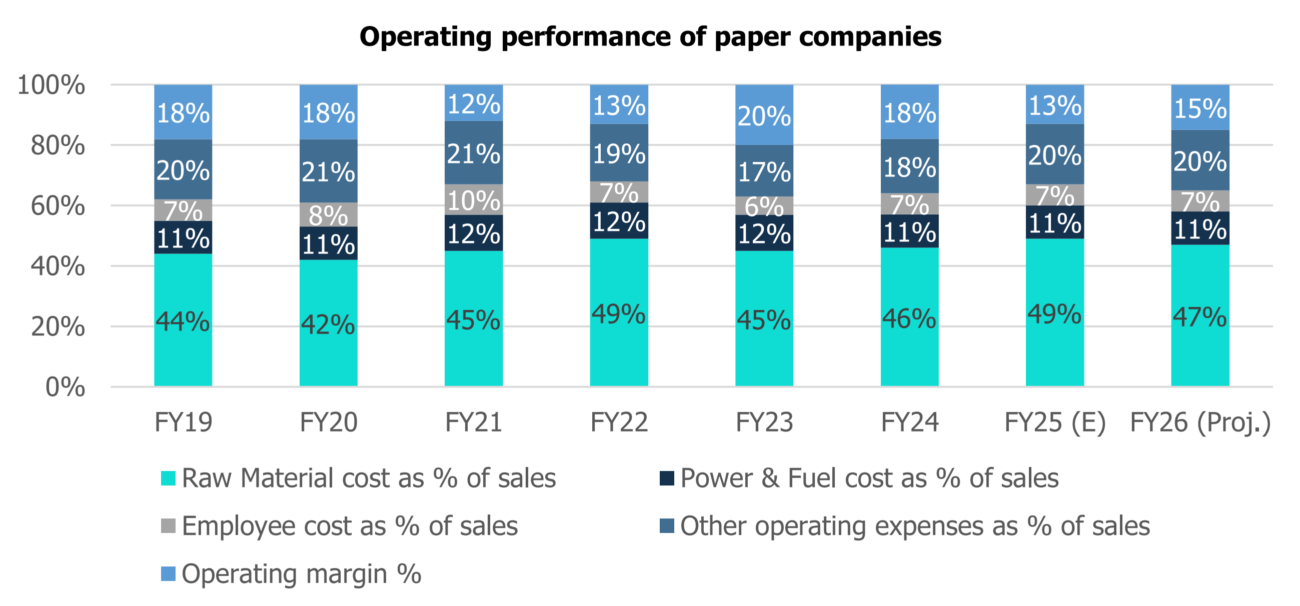
The Indian paper industry faced margin pressures in FY24 and 9MFY25 due to a decline in average sales price realisation vis-a-vis FY23, during which the paper industry benefitted immensely in the Covid aftermath. However, this surge began to normalise from Q3FY24 onwards.

Meanwhile, raw material prices increased sharply, particularly for wood pulp, due to global supply chain disruptions and geopolitical tensions. Domestic hardwood pulp prices saw a 20–25% hike during this period due to heightened demand from other wood-based industries and lower plantation during Covid. Domestic producers struggled to pass on higher costs due to intense competition from cheaper imports, particularly from ASEAN nations and China, leading to a supply glut. As a result, companies were forced to absorb rising input costs, impacting the margins.



Source: Compiled by CareEdge Ratings, FY18 is considered the base year.

Overall, the paper sector struggled under the combined pressures of declining average sales price realisation and raw material cost inflation, leading to margin declines in FY24 and 9MFY25. However, it is observed that with normalisation of prices of hardwood pulp and stability in the costs of other raw materials such as wastepaper and Bagasse along with improved demand from the paper board segment, CareEdge ratings expects the operating margins of the sector to improve by about 200 bps during FY26.



Source: ACE Equity – Top 20 paper industry companies based on revenue and CareEdge Ratings estimates

Segment wise overview:

a) Paper board & packaging segment (contributed 55% of total industry revenue during FY24): Long-term growth driven by E-commerce demand and single-use plastic ban:

India's policies have boosted paper demand, especially with the July 2022 ban on single-use plastics, promoting paper alternatives. The ban on low-utility plastics may further increase the demand for paper packaging. Manufacturers favour paper for its environmental and cost advantages. FMCG, food, healthcare, and e-commerce growth has led to higher paperboard consumption, corrugated boxes, and wrapping paper.

India's paperboard and packaging segment, contributing around 55% of the industry, grew 8.2% in FY24. The tissue segment, driven by health and hygiene awareness, grew the most at 13.3%, followed by Cupstock at 10.5%. However, these segments account for only 4% of domestic consumption. With India's FMCG market projected to grow 7% in FY25-FY27, demand for paper and packaging is set to rise further.

b) Printing & writing paper segment (PWP): (contributed 30% of total industry revenue during FY24)

Volume growth in the PWP segment driven by the new education policy, and the rising literacy rate

The implementation of the National Education Policy (NEP) 2020 from the academic year 2023–24 is expected to drive strong growth in the PWP segment. As per Union Budget 2025-26, total budget allocation for Ministry of Education has reached Rs 1,28,650 crore, marking a 6.22% increase over Budget Estimate (BE) 2024-25. This is expected to enhance literacy and learning, boosting demand for PWP.

India’s large, young population, growing workforce, and rising literacy rate drive strong paper demand in education and professional use. However, increasing digital communication, e-learning, and e-governance continue to moderate PWP demand.

CareEdge Ratings' View

"The Indian paper industry is at a critical juncture, navigating a complex landscape of rising imports, fluctuating raw material costs, and evolving market dynamics. While FY24 and 9MFY25 have posed challenges in terms of declining domestic production and significant pressure on margins, the sector is poised for a gradual turnaround. CareEdge Ratings expects that stabilisation of raw material costs & moderation in imports, coupled with strong demand drivers from packaging, e-commerce, and education, would improve operating margins by 200 bps in FY26. Government policies, such as the ban on single-use plastics and the implementation of NEP, will continue to support the industry's long-term growth. However, domestic manufacturers must focus on modernisation, cost optimisation, and innovation in sustainable packaging solutions to sustain competitiveness," says D. Naveen Kumar, Associate Director, CareEdge Ratings.

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