

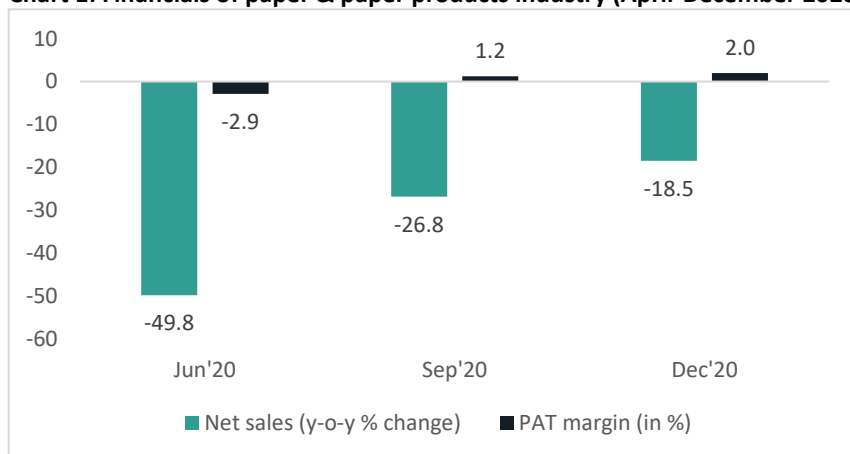
Paper & paper products Update: March 2021

March 30, 2021 | Industry Research

Financials of paper & paper products industry during April-December 2020

The paper & paper products industry is one of the worst affected industries due to the outbreak of Covid-19 pandemic. The lockdown imposed in the last week of March 2020 resulted in closure of operations of paper industry in the initial phase. Even while paper industry’s operations resumed with reduced capacities as restrictions eased, challenges remained in terms of logistics disruption and migration of labour. In addition to this, subdued demand from consumers also impacted sales. As a result, industry’s sales plunged by 49.8% on a y-o-y basis during the June 2020 quarter. Closure of education institutions, adoption of work from home by offices, muted demand for printing of newspapers among others disturbed the consumption of paper & paper products. Moreover, subdued demand also had an impact on prices of paper & paper products which further affected the revenues of industry during the quarter. The overall Wholesale Price Index (WPI) of paper & paper products segment declined by 2.1% y-o-y in the June 2020 quarter.

Chart 1: Financials of paper & paper products industry (April-December 2020)



Source: Ace Equity

Note: The sample size includes data on 50 companies

The September 2020 quarter and the December 2020 quarter, however, saw some impact of easing of lockdown restrictions which had started 1 June 2020 onwards. With unlocking of economy, the user industries that procure packaging products from paper industry had gained some traction. Also, increase in usage of e-commerce activities by consumers to avoid infection supported the revenues of packaging segment of paper industry. In addition to this, some workplaces had resumed work from office (though at reduced capacities and in a gradual way) which aided the revenues of paper industry’s printing and writing segment. Another major consumer of printing & writing segment, education institutions like schools and coaching centres that had remained physically shut till September 2020 since lockdown could reopen 15 October 2020 onwards in a phased manner with states being given the authority. This, in turn, supported the industry’s revenues in the December 2020 quarter. As a result, the y-o-y fall in sales narrowed down for the paper & paper products industry from 49.8% in the June 2020 quarter to 26.8% in the September 2020 quarter and 18.5% in the December 2020 quarter.

Also, some improvement was seen in the industry’s PAT margin on sequential basis as the margin improved from negative 2.9% in the June 2020 quarter to positive 1.2% and 2% in the September 2020 quarter and the December 2020 quarter, respectively. However, it is to be noted that the industry had reported negative PAT margin of 2.9% in the June 2020 quarter as against positive PAT margin of 9.3% in the June 2019 quarter and the PAT margin contracted in the range of 5.8%-6.6% in the second and third quarters of FY21 on y-o-y basis.

The industry’s sales and profit margins during the period April-December 2020 were affected not only on account of lower demand for paper & paper products in these quarters but also due to subdued prices for paper & paper products in this period. The overall WPI for paper & paper products had declined by 2.1% and 1.7% in the June 2020 quarter and the September 2020 quarter, respectively, which increased only by a marginal 0.6% in the December 2020 quarter on a y-o-y basis.

It is to be noted that packaging grade paper accounts for the highest share of about 54% followed by printing & writing, newsprint, and speciality paper with a share of around 35%, 7% and 4%, respectively, in the domestic paper industry demand.

WPI of paper & paper products

On a cumulative basis, the overall WPI for paper & paper products declined by a marginal 0.4% y-o-y during April 2020 – February 2021 primarily backed by 0.6% growth in WPI in the December 2020 quarter and 3% increase in WPI during January-February 2021.

Of all the segments mentioned in the table below, it can be seen the WPI of maplitho paper fell by a higher 9.8% during the period April 2020 – February 2021 followed by 6.2% decline in WPI of paper for printing & writing and 5.6% decrease in WPI of newsprint. The fall in WPI of maplitho and printing & writing paper indicates muted demand from offices and education institutions where these papers are used. Also, the fall in WPI of newsprint signifies subdued demand for newspaper printing. However, it is important to note that the newsprint WPI showed some improvement as it grew by a marginal 0.9% in the first two months of 2021, while the WPI for maplitho paper and paper for printing & writing continued to fall by 10.5% and 5.7%, respectively.

Table 1: Y-o-Y % change in WPI of paper & paper products

Segment	% weight*	Jun'20 quarter	Sep'20 quarter	Dec'20 quarter	Jan-Feb 21	Apr 20- Feb 21
Manufacture of paper and paper products	100.0%	-2.1%	-1.7%	0.6%	3.0%	-0.4%
a. Manufacture of pulp, paper and paperboard	44.3%	-3.8%	-3.7%	-0.8%	2.6%	-1.8%
i. Paper for printing & writing	17.3%	-4.9%	-7.2%	-7.0%	-5.7%	-6.2%
ii. Kraft paper	7.4%	-1.5%	-1.2%	8.3%	16.7%	4.5%
iii. Newsprint	7.1%	-9.5%	-6.6%	-4.5%	0.9%	-5.6%
b. Manufacture of corrugated paper and paperboard and containers of paper and paperboard	28.2%	1.7%	4.0%	8.2%	8.7%	5.4%
i. Corrugated sheet box	17.5%	2.3%	7.5%	13.0%	13.4%	8.6%
ii. Paper carton/box	6.9%	0.2%	-1.7%	1.3%	1.1%	0.2%
c. Manufacture of other articles of paper and paperboard	27.5%	-3.0%	-4.0%	-4.6%	-2.2%	-3.5%
i. Duplex paper	16.2%	0.4%	0.3%	0.5%	2.8%	0.8%
ii. Maplitho paper	8.8%	-7.0%	-10.0%	-11.9%	-10.5%	-9.8%

Source: Office of the Economic Advisor

Note: * indicates % weight in overall manufacture of paper & paper products segment

Of the paper segments mentioned above which find their application in packaging, the WPI for corrugated sheet box grew by a faster 8.6% during April 2020 – February 2021 followed by 4.5% increase in WPI of kraft paper, 0.8% and 0.2% rise in WPI of duplex paper and paper carton/box, respectively. The WPI of kraft paper that had declined by 1.5% and 1.2% in the June 2020 quarter and the September 2020 quarter, respectively, saw a spurt in the December 2020 quarter and during January-February 2021 as its WPI increased by 8.3% and 16.7%, respectively. This, in turn, also pushed up the WPI of corrugated sheet box during these 5 months in the range of 13%-13.4%. This is because kraft paper (which is made from waste paper) is used to make corrugated boxes. Also, in the current quarter, the companies have revised the prices of end products a couple of times.

The prime reasons for the rise in kraft paper prices are shortage of wastepaper in the international market (primarily the USA and Europe) which is affecting waste paper imports by India in addition to already lower supply of waste paper in the domestic market due to Covid-19 disruptions. The pandemic has also affected the usage of paper globally which is thus resulting in shortage of wastepaper creation in the international market. It is important to note that of the total paper produced in India, paper manufactured from wastepaper/recycled fibre as raw material is estimated at 58% followed by 25% and 17% from wood/bamboo and agro residue (bagasse/wheat straw), respectively.

Moreover, scarcity of containers which are used for imports is also adding to the higher costs of kraft paper manufacturers. All these factors are thus causing the prices of corrugated boxes to rise as well. Apart from this, higher exports of kraft paper from India to China amid shortage of its raw materials for domestic manufacturers is also resulting in higher prices of corrugated boxes in India. China has imposed ban on imports of waste paper since 1 January 2021 which is encouraging China to import kraft paper directly instead of waste paper.

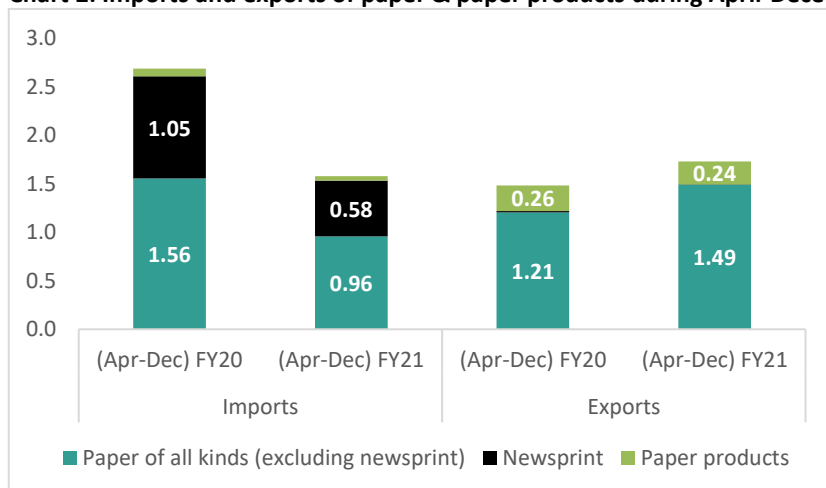
The increase in prices of corrugated boxes however have come at a time when all the user industries may not be fully ready for such price hikes given the current situation which remains affected by the disturbances caused by Covid-19 pandemic. Such a situation may have an impact on the profitability of paper & paper products industry.

Imports and exports of paper & paper products

During April-December 2020, while imports of paper & paper products declined by a sharp 41.3% to 1.6 million tonnes, exports of paper & paper products increased by 16.7% to 1.7 million tonnes. This was mainly backed by 23.7% rise in outbound shipments of the segment paper of all kinds (excluding newsprint) to 1.5 million tonnes. Higher exports to China primarily on account of growing kraft paper outbound shipments are believed to have led this growth. Exports of paper of all kinds (excluding newsprint) to China surged by 212% to 0.6 million tonnes and China's share in this segment's exports expanded to about 40% during April-December 2020 from 16% in the corresponding period a year ago.

Outbound shipments of other segments, newsprint and paper products however fell by 81.9% to 2.7 thousand tonnes and by 9.7% to 0.24 million tonnes, respectively, in the first 9 months of FY21. On imports front, the inbound shipments of all the three segments declined in the range of 38%-45%. The trade scenario was largely affected due to Covid-19 disturbances. The specific issue been shortage of containers which led to reduced imports and, in turn, benefited the domestic players.

Chart 2: Imports and exports of paper & paper products during April-December (in million tonnes)

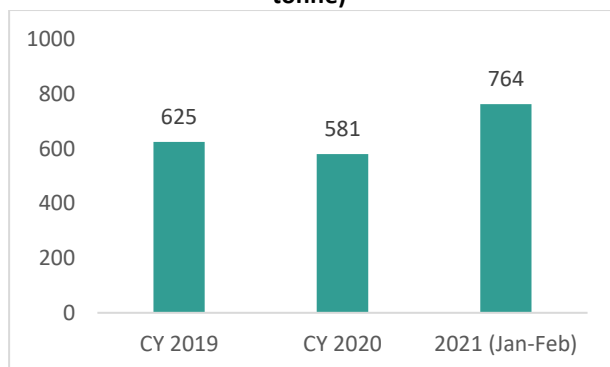


Source: CMIE

International pulp prices

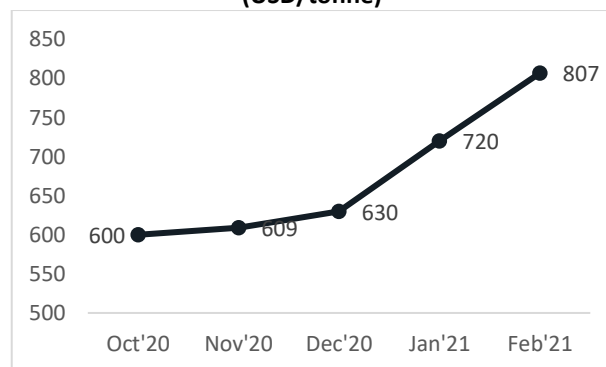
The global paper & paper products industry not just witnessed rise in wastepaper prices but also saw an upward trend in pulp prices. Similarly, the Indian paper & paper products industry also observed the rise in input costs as the Indian industry needs to import pulp to meet the raw material requirements.

Chart 3: Average NBSK pulp prices in China (USD/tonne)



Source: British Columbia
Note: CY is calendar year

Chart 4: Month-wise NBSK pulp prices in China (USD/tonne)



Source: British Columbia

The Northern Bleached Softwood Kraft (NBSK) pulp prices that had averaged at USD 625 per tonne during CY 2019 fell to USD 581 per tonne in CY 2020 due to Covid-19 pandemic and the worldwide lockdown restrictions which affected the consumption of paper & paper products. The NBSK pulp prices however witnessed some uptick at the end of CY 2020 backed by returning demand and logistics disturbances in the international market. Also, no usage of wastepaper by China since the start of 2021 is believed to have supported the price rise. The NBSK pulp prices that had averaged at USD 600 per tonne in October 2020 grew by 34.5% to USD 807 per tonne in February 2021 and had increased sequentially in each of the months during this period.

Outlook

With the ongoing vaccination program in India and with people now adapting to Covid-19 norms and environment, it is expected that the sales of paper & paper products industry will witness an uptick during FY22 on y-o-y basis backed by better paper demand and increase in its prices.

The education institutions are likely to begin upcoming academic sessions (around June 2021) physically at least for higher class students if not for all the students. Physical study sessions for higher class students have been witnessed in the past few months as well. This is expected to result in better demand for papers like printing & writing and maplitho that find their usage in education institutions and offices. In addition to this, more employees are expected to work from office going forward. Another segment, newsprint which has seen sequential improvement in newspaper circulation and advertisement revenues is expected to see uptick only when businesses increase advertisement spends, offices and transport services (rail services, airline services) operate at pre Covid-19 levels and household circulation of newspapers return to normal levels. Considering these factors, the demand for paper & paper products from these segments is expected to improve by Q2FY22.

The packaging segment, on the other hand, which has witnessed better demand compared to other segments during the Covid-19 induced lockdown period and thereafter in FY21 is expected to grow in FY22 backed by an increase in economic activities during the year. The paper & paper products industry is also likely to see further price increases during FY22 on account of returning demand and higher input prices (which were discussed above).

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