



INDIAN PAPER MANUFACTURING INDUSTRY

**Industry to witness low single digit
volume growth; earnings to contract
amidst pressure on realisations**

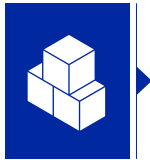
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After reaching peak levels of realisations in Q1 FY2024, driven by an inflationary cost regime, printing and writing paper has seen a sharp dip in realisations on a sequential basis, but still remains at higher than pre-Covid levels. Margin pressure seen for the packaging paper segment in FY2023 continued in the current fiscal too, with some stabilisation seen in realisations from mid of Q3 FY2024. Kraft paper being a relatively commoditised segment in the packaging paper portfolio, remains the most impacted particularly exposed to vagaries of pass-on benefits in case of any dips in raw material prices, restricting margin expansion.



The domestic paper sector can be broadly classified into Newsprint (NP), Printing & Writing (PWP) and Packaging Paper (PP), with current domestic market share in terms of volume of PP at around 60-65%, vis-a-vis NP along with PWP at around 30-35% for the industry on a consolidated basis.



The industry's* revenue grew by 42% on an aggregate in FY2023, primarily driven by elevated realisation levels of PWP segment amid a healthy demand scenario, also supported by rise in input costs. The realisation levels for the packaging segment started falling from the second quarter of FY2023, which has continued in the current fiscal, limiting the overall growth of the paper industry.



The demand continues to remain strong for the PWP segment in the current fiscal, which is likely to fuel the earnings for the sector as a whole. The operating margins remained healthy in H1 FY2024 for the PWP segment, however, it is slated to fall in FY2024 from peak levels of FY2023, due to falling realisations and economic slowdown in various geographies. The operating margins for the packaging segment also witnessed some pressure in H1 FY2024 on a YoY basis due to softening realisations, given the competition from imports as well as falling paper prices.



The industry revenue is likely to shrink in the range of ~7-10% in FY2024 due to lower realisation levels and grow by ~6-9% in FY2025, aided by commercialisation of increased capacity (especially in the packaging segment) and improving demand conditions for packaging segment.



The debt levels are expected remain at elevated levels in the near term, given the ongoing and upcoming debt funded capex primarily towards capacity expansion in the packaging segment for a few companies. The credit metrics, however, are expected to improve from FY2025 onwards driven by earnings derived from the commercialization of the upcoming manufacturing capacities.



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