

Paper industry

Paperex 2023 - Yet another milestone achieved

Summary

We attended Paperex 2023, the largest paper exhibition held at Delhi-NCR, which is a reflection of the increasing capabilities as well as the potential for new technologies and investments in the Paper, Pulp and Allied Industries. The event received overwhelming response from industry and it repeated the success story with over 600 leading exhibitors from 24 countries and thousands of trade visitors from all over the world. The key players like JK Paper, ITC, TNPL, Orient Paper, Westcoast, Andhra Paper, Naini papers, amongst others were part of this exhibition. We were thrilled to interact with key business heads of these companies to understand current industry dynamics and outlook, as they perceive for near future. We maintain positive outlook on the industry and like JK Paper amongst the listed domestic players. Currently we have HOLD rating on the stock with a TP of Rs386.

Key Highlights

- **Key raw materials may move up driving NSR improvement:** The industry experts are of the view that global softwood pulp prices have bottomed out recently and the current prices are quoting at \$650-680/MT. Even in the domestic market, raw material prices (wood, coal, chemical prices) have seen uptick. We believe given cost of manufacturing is increasing, NSR are bound to improve, if demand remains buoyant. On Import front, ASEAN countries are actively looking at any possible export opportunities, including India market, and demand dynamics and pricing would be key driver of quantum of paper import.
- **Industry on a consistent growth path, JK Paper remains our top pick:** In absence of any major capacity expansion in the domestic market, organized players are in sweet spot to benefit from healthy demand and higher pricing in near term. We like JK Paper amongst the domestic listed paper players given its scale of operations, extensive distribution reach and foray into allied business segment of corrugated packaging. Recommend HOLD with a TP of Rs386.

Paper Sector: Valuation

Companies	CMP (Rs)	Mkt Cap (Rs bn)	Sales	EBITDA (Rs mn)	PAT	EV/EBITDA (x)
JK Paper	394	66	64,368	21,845	12,082	4.4
Andhra Paper	571	23	20,977	7,867	5,225	3.0
West Coast Paper Mills	674	45	49,120	17,198	10,870	2.7
TNPL	282	20	51,799	10,480	3,879	3.5
Orient Paper & Ind,	42	9	9,430	1,911	992	6.2

Source: IDBI Capital, Company; Note: FY23 Financials

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Domestic Paper Industry Overview

The Indian paper & paper products market to reach \$13.4 billion by 2024

India's share in the demand for paper across the globe has seen impressive growth, as the domestic demand is increasing at a steady pace. Growing manufacturing sector, requirement of better quality packaging of FMCG products marketed through organized retail and the demand for the upstream market of paper products, such as tissue paper, filter paper, tea bags, light weight online coated paper and medical grade coated paper are expected to drive the paper & paper products market in India in coming years. The per capita paper consumption in India at a little over 15 kg/year, is way behind the global average of 57 kg/year.

The paper and board industry in India is considering this transition phase as a great opportunity coupled with the challenge of providing affordable alternatives. Paper mills are conducting various trials to make paper and paperboard for the intended use, like carrying, wrapping, protecting, packing and holding as a container. Under the baseline scenario, by 2024-25, domestic consumption is projected to rise to 23.5 million TPA and production to 22 million TPA. About one million TPA of integrated pulp, paper and paperboard capacity is required to be created in India on an annual basis over the current capacity to meet the growing demand.

India is the fastest growing market for paper globally and it presents an exciting scenario; paper consumption is poised for a big leap forward in sync with the economic growth.

Packaging Segment Leading the Show

India's packaging paper segment has grown strongly in recent years, and today the segment makes up 63% of total paper demand in India, up from 52% six years ago.

■ Upsurge in e-commerce

The packaging paper segment has grown quickly, thanks partly to the flourishing e-commerce sector, particularly after the Covid-19 pandemic. According to one India's e-commerce business is expected to grow from \$29 billion in 2020 to just over \$100 billion by 2025. This trend has led to a growing need for packaging materials, including corrugated boxes, cartons, and wrapping papers. Effective and efficient packaging solutions have become paramount as more consumers turn to online shopping for their daily needs. In addition, packaging paper and paperboard provide an eco-friendly solution for businesses seeking to deliver their products safely and efficiently.

■ Rising income levels

The second driver of growth for packaging paper is the rise in the middle class, which has grown from 14% to 31% of the population between 2004-05 and 2021-22 and is projected to rise to 63% by 2047, according to the People Research on India's Consumer Economy survey. Rising income has boosted consumer spending, with more people buying products with high-quality packaging solutions. The Indian paper industry has tapped into this opportunity by capitalizing on the growing demand for high-quality paperboard and packaging paper & paper boards. The increasing demand for high-quality paperboard and packaging paper has encouraged paper manufacturers to introduce innovative products and expand their distribution channels. In addition, increasing consumer demand has allowed them to cater to a broader range of consumers who demand safe and secure packaging solutions.

■ Single-use plastic ban in India

On August 12, 2021, the Indian Government's Ministry of Environment, Forest, and Climate Change issued the Plastic Waste Management Amendment Rules, 2021 to reduce plastic waste and promote eco-friendliness. The ban on single-use plastic came into effect in July 2022 and has led to good traction in demand for paper-based alternatives such as paper bags and cups, presenting attractive growth prospects for the paperboard and packaging paper segment. Paper manufacturers have responded to this trend by

increasing the production of these products and investing in new technology to enhance their quality and durability. While the current ban covers items with low utility and high littering potential, a potential extension to cover other things, such as sachets, pouches, and wrappers, will significantly impact the demand for paper-based alternatives in the medium term.

■ **A sustainability and eco- friendliness shift**

Consumer preferences are also undergoing a significant transformation, as 60% of consumers indicate that socially responsible or sustainable products constituted at least half of their most recent purchases. Moreover, almost 50% of global consumers have acknowledged paying a premium, averaging 59%, for sustainable or manu socially responsible products. The market shift towards sustainable and environmentally friendly products, combined with the upsurge in e-commerce and rising income levels, has created a favourable environment manufacturers for paper to invest in paperboard and packaging paper.

Recent Key Developments

- Andhra Paper BoD approved a capital expenditure of Rs400Cr to rebuild and upgrade the existing pulp mill.
- Andhra Paper to set up an integrated greenfield project at Unit: Kadiyam and install 175,000 TPA approx Board Machine along with ancillary infrastructure.
- ITC installed a new décor paper machine at Unit Tribeni with 20,000 TPA capacity.
- ITC installed a high efficiency recovery boiler (the largest in the Indian pulp & paper industry) at Unit Bhadrachalam, setting a global benchmark in emission standards.
- JK Paper's new packaging board capacity started production during FY 2021-22 and is in ramp up mode.
- Kuantum Papers to debottleneck and upgrade all 4 paper machines and pulp mill, to increase production capacity to 600 TPD.
- Kuantum Papers is setting up a specialty paper machine.
- Naini Papers commissioned a 1,00,000 TPA new wood fiber line (Bleached Hardwood Kraft Pulp).
- Naini Papers ordered a 1,30,000 TPA new specialty fine paper machine from Valmet, which is expected to start in Dec/Jan 2025.
- NR Agarwal Industries to set up a 500 TPD board machine at Unit 5, expand- able to 900 TPD.
- Orient Paper announced plans for modernisation and capacity debottlenecking of operations with a capex of Rs475Cr.
- Pakka is setting up a new production facility in Guatemala, which will be the first overseas facility for the company.
- Pakka is undergoing an expansion at its Ayodhya plant which entails setting up a new paper machine - PM4, a new power plant, capacity enhancement of existing paper machine and pulp mill.
- Pakka is now listed on NSE.

- Satia Papers added the 4th paper machine with 1,00,000 TPA capacity.
- Seshasayee Paper & Boards secured environmental clearances for project MDP - IV to augment paper capacity from 1,65,000 TPA to 2,31,000 TPA and pulp capacity (Wood and Bagasse) from 1,80,000 TPA to 2,52,000 TPA at Erode unit.
- TNPL to implement the second phase of the MEP, for capacity enhancement of Unit II.
- Trident installed a shoe press on their PM2 machine to increase the production capacity by 50 TPD.

Exhibit 1: Performance Summary-FY23

Mill Name	Production Capacity (MTPA)	Actual Production (MT)	Turnover (Rs Crores)	EBITDA (Rs Crores)	Growth Turnover (%)
ITC Limited -PSPD	9,80,000	NA	9,081	2,294	18.9
JK Paper Limited	7,61,000	8,72,226	6,208	1,759	60.0
Tamil Nadu Newsprint & Paper Limited	6,00,000	5,88,828	5,180	1,048	28.8
Century Pulp & Paper	4,81,130	4,55,225	3,571	NA	27.0
West Coast Paper Mills Limited	3,20,000	3,14,919	2,605	948	40.0
Andhra Paper	2,41,000	2,50,292	2,098	787	52.5
Seshasayee Paper & Boards	2,55,000	2,41,145	2,083	565	54.0
Emami Paper Mills	3,40,000	2,96,594	2,308	237	18.0
Satia Industries Limited	2,19,000	2,09,910	1,884	426	111.0
Kuantum Papers Limited	1,64,250	1,52,304	1,313	383	57.0
Bindals Paper Mills Limited & Bindals Group	4,70,600	3,97,459	2,215	179	20.5
Trident Limited (Paper & Chemicals Division)	NA	1,48,145	1,343	368	37.0
NR Agarwal Industries Limited	2,88,000	2,70,941	1,766	197	9.3
Naini Papers Limited	1,25,000	1,26,415	1,114	376	71.0
Orient Paper & Industries Limited	1,00,000	79,933	943	191	61.0
Silverton Pulp & Papers Private Limited	1,80,000	1,39,858	866	128	40.0
Shreyans	94,000	92,996	866	112	48.0
Ruchira Papers Limited	NA	1,46,758	803	109	31.0
Pudumjee Paper	72,000	57,600	759	95	36.6
Star Paper	75,000	67,000	514	101	47.7
Dev Priya Products	1,66,000	1,46,303	737	43	7.4
Genus Paper & Boards Limited	4,50,000	NA	655	24	49.0
Pakka Limited	39,100	39,768	408	94	40.3
Dev Priya Industries Limited	2,00,000	1,46,030	516	6	9.4

Source: Paper Mart Issue Oct-Nov, 2023; IDBI Capital Research

A Glimpse of Paperex 2023 – World's Largest Paper Show













Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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