

Paper mills' profit improves in June quarter

Capacity addition and moderating raw materials prices yield results

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Indian paper mills have reported a sharp increase in their profitability in the April-June 2016 quarter, indicating a turnaround in their fortunes after three years of low margins.

Rising demand of writing and printing paper, coupled with a fall in raw material prices, helped boost margins of Indian paper mills.

While net profit of Tamil Nadu Newsprint jumped 33 per cent to ₹69.51 crore for the June '16 quarter, that of JK Paper shot up 79 per cent to ₹26.66 crore. The June quarter net profit of Seshasayee Paper and International Paper surged 347 per cent and 91.53 per cent to ₹24.12 crore and ₹15.38 crore, respectively.

During the past three stressful years of margins squeeze, Indian paper mills such as JK Paper

infused fresh capital on capacity expansion and exercised various cost-cutting measures to reduce their expenditure.

These mills also improved their operating efficiency to increase production and thereby sales. "In the past few years, Indian paper mills suffered because of higher wood prices, which started moderating. The prices of other raw materials are under control. Still, the situation is not healthy due to rising import from FTA (free trade agreement) countries, especially from Indonesia," said Sanjay Singh, president, Indian Paper Manufacturers Association (IPMA).

Paper companies across the segment faced margins pressure during the past three years, owing to rising wood prices. The Indian paper industry with 13 million tonnes (mt) capacity accounts for three per cent of global paper production. India's paper consumption is estimated at 13.9 mt.

The industry is estimated to witness a seven per cent compounded annual growth rate (CAGR) to achieve 20 mt in five years. V Kumaraswamy, chief

ROLLING AHEAD

Quarter ended June (₹ crore)

| | Net sales | | | Net profit | | |
|------------------|-----------|--------|--------------|------------|-------|---------------|
| | 2015 | 2016 | % chg | 2015 | 2016 | % chg |
| T N Newsprint | 639.02 | 744.84 | 16.56 | 52.25 | 69.51 | 33.03 |
| JK Paper | 578.55 | 606.00 | 4.74 | 14.89 | 26.66 | 79.05 |
| Seshasayee Paper | 234.78 | 244.81 | 4.27 | 5.39 | 24.12 | 347.50 |
| Internat. Paper | 295.40 | 289.37 | -2.04 | 8.03 | 15.38 | 91.53 |
| Kwantum Papers | 115.79 | 142.11 | 22.73 | 3.45 | 14.34 | 315.65 |
| Star Paper Mills | 64.99 | 73.57 | 13.20 | 3.90 | 12.76 | 227.18 |

Compiled by BS Research Bureau

Source: Capitaline

financial officer of JK Paper, attributed the improvement in the company's profitability to better efficiencies, stable chemical prices, a decline in raw material prices and an improvement in power efficiencies with a slump in power consumption per unit.

The growth looks imminent with a sharp decline in the prices of wood. According to trade sources, wood prices have declined 10 per cent to ₹7,500-8,000 a tonne in the April-June quarter and moving almost range-bound thereafter. Pulp prices also moderated significantly during the quarter under review.

A Care Ratings study suggests that paper mills' operating margins showed a declining trend with increase in raw materials, power and fuel cost largely during FY13. Also, with capacity expansion during FY09 and FY11, players could not increase the prices and faced import threat. Owing to this, the operating margins declined to 11 per cent between FY12 and FY14, which started gradually arresting in FY15.

By the second half of FY16, however, paper mills' margins started improving on declining raw materials, power, and fuel

costs. The study noted that within the paper industry, the writing and printing paper segment witnessed a sharp improvement in its margins to 20 per cent now from a low of 10 per cent two years ago.

"In the past few years, to remain cost-competitive, integrated pulp and paper manufacturers have undertaken significant technological upgradation, process optimisation and introduction of better practices to reduce the resource intensity of their production processes. For example, to minimise the usage of energy, the manufacturers

have managed to bring down their energy consumption by 20 per cent in the past five years. The demand for paper and paper board in India in the past two quarters has been very positive and is anticipated to grow further," said Rohit Pandit, secretary-general, IPMA.

In the writing and printing segment, there is a discernible trend towards consumers wanting better quality paper. Several state governments have announced tenders with enhanced volumes for notebooks and textbooks. The number of queries from the publishing industry has also seen an increase. Some of the issues that had plagued the education season in the past couple of years such as change in syllabi, pattern of Centre-state funding under the Sarv Shiksha Abhiyan etc have been corrected.

The growth in demand for packaging paper / board in the country is also picking up due to growth in the fast moving consumer goods and pharmaceutical sectors. Most paper stocks are currently trading with a profit booking after hitting 52-week high last week.