



## Paper Industry Report

September 04, 2023

### Executive Summary

- The global market for pulp and paper is currently valued at approximately USD 387.6 billion in 2022 and is projected to exceed USD 477.7 billion by 2028. Global paper and paperboard consumption has shown steady growth, reaching over 400 million tonnes, compared to 169 million tonnes in 1981 and 352 million tonnes in 2005
- China, the United States, and Japan are the leading paper-producing countries, contributing over 50% to the global production output. North America leads the international pulp and paper market, driven by demand for packaging materials and consumer goods
- **India is an emerging player in the paper industry**, showing consistent growth in demand due to increasing requirements for quality packaging boards and value-added paper products. India ranks 15th among global paper producers, driven by rising consumption of paperboards as North American and European markets slow down
- The paper industry is categorized into Newsprint, Printing and Writing Papers, Paper Boards for packaging, and Tissue and Specialty Papers. Packaging grades make up over 55% of consumption, followed by printing and writing grades at over 32%, tissue papers at 8-10%, and other categories at 3%
- *The majority of paper consumption in India is in carton boards and container boards (55%), followed by writing and printing paper (25%), specialty paper (10%), and newsprint (10%). Projections show that tissue and packaging grades will experience higher growth rates*
- India's paper industry is a core sector significantly contributing to the economy, operating in a cyclical manner tied to global market conditions and resource costs. *It consists of over 850 paper mills, producing various paper types*
- The Indian paper industry has promising prospects, with opportunities arising from eco-friendly packaging trends, the growth of e-commerce and retail, a focus on health and sanitation, and increasing global demand
- The report features the performance of several key players, including **West Coast Paper Mills Ltd, JK Paper Ltd, Seshasayee Paper, and Kuantum Papers Ltd**. These companies have demonstrated strong growth, robust margins, and potential opportunities in the paper industry

NSE:	WSTCSTPAPR
BSE:	500444
CMP:	₹ 620
Market Cap:	₹ 3880 Cr.
P/E:	3.90
P/B:	1.52
D/E:	0.09

NSE:	JKPAPER
BSE:	532162
CMP:	₹ 365
Market Cap:	₹ 6180 Cr.
P/E:	4.82
P/B:	1.53
D/E:	0.67

NSE:	SESHAPAPER
BSE:	502450
CMP:	₹ 317
Market Cap:	₹ 1968 Cr.
P/E:	4.97
P/B:	1.77
D/E:	0.00

NSE:	KUANTUM
BSE:	532937
CMP:	₹ 187
Market Cap:	₹ 1640 Cr.
P/E:	6.8
P/B:	1.7
D/E:	0.48

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## Industry View

### Global

The global market for pulp and paper is presently valued at around USD 387.6 billion in 2022 and is anticipated to exceed USD 477.7 billion by 2028. The consumption of paper and paperboards worldwide is currently surpassing 400 million tonnes, with a historical growth trajectory from 169 million tonnes in 1981 to 253 million tonnes in 1993, and further to 352 million tonnes in 2005.

The trio of China, the United States, and Japan stand as the primary paper-producing countries, collectively contributing over 50% to the global production output. Leading the international pulp and paper market is North America, driven by an escalating demand for packaging materials and consumer goods. India now holds the 15th position among global paper producers, marked by a rising consumption of paperboards at a time when the North American and European markets are slowing down. A notable emerging trend is the increasing inclination towards eco-friendly production methods and the adoption of recycled materials.

Categorically, there are four key Paper and Board segments: Newsprint, Printing and Writing Papers, Paper Boards for packaging applications, and Tissue Papers & other Speciality Papers. Among these, packaging grades currently represent over 55% of consumption, followed by printing and writing grades at over 32%, while tissue papers account for 8-10%, and other categories make up about 3%. Future projections suggest that tissue and packaging grades will experience higher growth rates, whereas newsprint, along with printing and writing grades, might witness a declining trend.

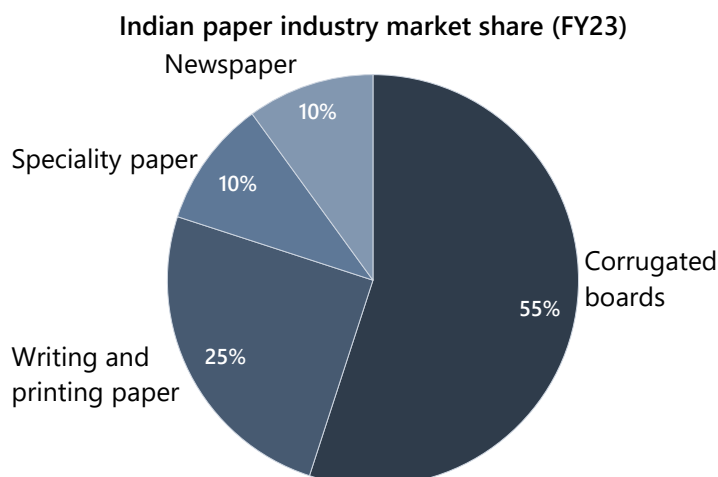
### Indian

Arguably, India stands out as one of the most rapidly expanding markets in the paper industry. The nation's paper sector is anticipated to undergo a consistent surge in demand. This surge can be attributed to the growing need for high-quality packaging boards and an increasing demand for paper with added value, including copier paper, cup stock, base paper for manufacturing straws and paper bags, as well as other disposable paper products. The domestic paper and pulp market within India is estimated to be worth \$10.6 billion. In the fiscal year 2023, paper consumption in India reached approximately 22.05 million metric tonnes.

India's per capita paper consumption, which hovers around 14-15 kilograms per person, is noticeably lower when contrasted with the global average of approximately 57 kilograms. When compared with the per capita paper consumption of other nations, India's statistics highlight a significant disparity. For instance, China boasts a per capita consumption of 65 kilograms, Indonesia maintains 22 kilograms, Malaysia records 25 kilograms, and the United States surpasses with a substantial 312 kilograms per person. This data underscores the substantial potential for the expansion of India's Paper Industry.

Within this consumption breakdown, carton boards and container boards, particularly corrugated boards, comprise the largest share at 55%. Writing and printing paper follow suit at 25%, while specialty paper accounts for 10%, and newsprint captures 10% as well. Forecasts point towards India's growth at a rate of 6-7% annually, aiming to reach 30 million metric tonnes by the fiscal year 2026-27. This growth trajectory will be significantly propelled by the robust expansion of the packaging board segment.

Notably, the consumer packaging sector is expected to experience a Compound Annual Growth Rate (CAGR) of 9.5%. This growth is attributed to the amplified volumes of household appliances, Fast-Moving Consumer Goods (FMCG) products, ready-made garments, pharmaceuticals, and the flourishing e-commerce sector. Furthermore, the prohibition on single-use plastics is anticipated to heighten the demand for paper-based alternatives.



Source: West Coast Paper Mills Limited Annual Report FY23

Over the span of FY2017 to FY2023, a consistent increase in capacity has been observed within the packaging paper sector. An addition of 240,000 tonnes per annum occurred during this period, and a further 400,000 tonnes per annum is projected to be integrated by FY24.

## Paper Industry Characteristics

The paper industry of India holds a foundational status, making a substantial contribution to the country's economy. Its significance lies in being a core sector that plays a pivotal role in economic growth. This industry operates in a cyclical manner, meaning its performance is closely tied to the overall health of the global market and the prevailing costs of resources. The dynamics of the industry fluctuate in alignment with these external factors.

The versatility of the Indian paper industry is evident in its diverse composition. With more than 850 paper mills, it stands as a multifaceted entity within the nation's industrial landscape. These mills are distributed across various sectors, including wood-based (constituting 21% of the total), recycled fibre-based (making up 71%), and agro-residue-based (accounting for 8%). This comprehensive framework enables the industry to produce an array of paper types, such as writing and printing paper, packaging-grade paper, newsprint paper, specialty paper, and tissue paper. This wide range of products showcases the adaptability and flexibility inherent in the Indian paper industry, catering to a variety of consumer needs and market demands.

Prominent standalone figures within the paper industry encompass renowned names like JK Paper, West Coast Paper, Seshasayee Paper, Andhra Paper, Tamil Nadu Newsprint and Papers, and Kuantum Papers. Beyond these, the industry landscape also features Century Textiles & Industries as a significant player, although its operations extend across textiles and real estate sectors. The paper sector, by its nature, exhibits a notably fragmented structure, with no single entity claiming a substantial market share. This landscape is further enriched by a multitude of local, smaller players, thereby intensifying the competitive landscape.

The paper industry contends with a range of concerns that significantly impact its operational landscape. These challenges encompass price volatility, sporadic availability of raw materials, and the escalating expenses associated with essential inputs. As companies respond to heightened input costs by adjusting their prices, this action sends ripples through consumer sentiments, subsequently affecting demand.



## Opportunities in the industry

### Macroeconomic factors

The Indian paper industry can anticipate a positive long-term demand outlook, influenced by rising literacy rates, the expansion of print media (especially in regional languages), increased government investment in the education sector, shifting urban lifestyles, and sustained economic growth. As previously noted, India's per capita paper consumption is significantly lower than the global average. This creates substantial room for growth and expansion in demand.

### Move towards eco-friendly alternative to plastic in the packaging industry

There are several factors contributing to the global increase in demand for environmentally friendly packaging materials in recent years. Eco-friendly packaging options like paper result in fewer carbon emissions during their production compared to traditional packaging materials. They also rely on fewer energy-intensive resources. Furthermore, eco-friendly packaging materials are often recyclable, reusable, and, in some cases, even compostable, particularly if they are highly biodegradable. Paper-based packaging stands out due to its recyclability, reusability, and consistently high recycling rates, making it one of the most sustainable and biodegradable choices available.

In July 2022, India took a significant step to address the pollution caused by unmanaged plastic waste by implementing a ban on the production, import, storage, distribution, sale, and use of specific single-use plastic items known for their low utility and potential to cause littering.

As a clear alternative to single-use plastic, paper-based packaging products have experienced a surge in demand as the country moves away from reliance on single-use plastic items. This transition presents a notable opportunity for the paper industry to leverage the situation and introduce innovative alternatives to fulfil the packaging needs of various industries.

### Rise of allied industries

The swift permeation of the global e-commerce and retail landscape has generated a substantial need for wrapping and packaging paper. Similarly, the food delivery sector, witnessing a notable upswing in demand, heavily depends on the paper industry for the efficient packaging of items meant for customers. Additionally, the pharmaceutical domain stands as a significant consumer of paper packaging products.

As these allied sectors continue their expansion, they are poised to propel a heightened demand for paper packaging products. This evolution presents a wealth of opportunities for the paper industry to leverage and benefit from.

### Increased focus on health and sanitation habits

The demand for specialty paper products such as tissue and wipes has been accelerated by the pandemic's focus on health and sanitation. This shift is particularly noticeable due to the increased emphasis on personal hygiene. The Indian market for tissue and hygiene paper is forecasted to experience a growth rate of 4.47% between 2023 and 2027, reaching a valuation of US\$47.36 billion by the year 2027.

### Wide global market

India's paper exports span a diverse range of countries, encompassing regions such as the Middle East, Africa, Southeast Asia, and Europe. The popularity of Indian paper within these markets can be attributed to its notable attributes of high quality and cost-effectiveness. These qualities have positioned Indian paper as a preferred choice for both businesses and individuals across these regions, contributing to its widespread demand and global reach.



## Peer Comparison

### Performance Comparison

Sr.No.	Name	Market Cap (₹ Cr)	Revenue Growth 3Yrs %	Net Profit Growth 3Yrs %	OPM %	NPM %	Avg ROE 3Yr %	Avg ROCE 3Yr %	D/E
1	Century Textiles	11,602	11.92	-21.31	10.73	3.69	2.82	4.19	0.27
2	JK Paper	6,134	28.13	37.98	31.34	18.73	21.91	18.26	0.67
3	West Coast Paper	3,995	25.44	36.94	34.69	22.38	25.09	29.11	0.09
4	Seshasayee Paper	1,983	20.71	29.66	26.05	19.00	16.43	19.2	0
5	Andhra Paper	1,787	18.22	35.82	36.07	25.49	20.06	23.39	0.04
6	T N Newsprint	1,775	14.27	43.65	21.61	7.49	6.35	8.91	0.96
7	Kuantum Papers	1,726	20.70	35.35	31.74	13.62	7.12	9.12	0.48
	Industry Median:		16.43	33.67	12.34	7.49	12.52	13.86	0.37

### Valuation Comparison

Sr.No.	Name	P/E	P/B	P/S	EV / EBITDA
1	Century Textiles	70.42	2.94	2.42	22.93
2	JK Paper	4.82	1.53	0.93	3.9
3	West Coast Paper	3.90	1.52	0.8	2.26
4	Seshasayee Paper	4.97	1.21	0.96	2.56
5	Andhra Paper	3.12	1.1	0.83	2.13
6	T N Newsprint	3.87	0.91	0.33	2.93
7	Kuantum Papers	7.07	1.77	1.26	5.03
	Industry Median	5.47	1.12	0.67	5.03



## Top 4 Picks

### West Coast Paper Mills Ltd

The West Coast Paper Mills Ltd (WCPL) stands as a prominent player in India's paper and paper manufacturing sector. Nestled in 'Dandeli Town within the Uttara Kannada district in Karnataka, sprawling across 240 acres of leased land, 'the company commands a considerable presence. With an annual capacity of 320,000 metric tonnes, WCPL's product range encompasses a diverse array of printing, writing, and value-added papers. In FY20, WCPL undertook the acquisition of Andhra Paper Ltd (APL), previously known as International Paper APPM Ltd, further bolstering its standing. APL adds a production capacity of 250,000 metric tonnes per annum as of March 31, 2023. Additionally, the company boasts a cables division, contributing to 7% of its total revenues.

Company Performance: After the COVID-19 pandemic, the company experienced strong growth, achieving a significant increase in both sales and net profit, with growth rates of 25.44% and 36.94% respectively. The company also boasts one of the industry's highest operating and net margins, indicating its strong financial performance.

With a production capacity of 320,000 metric tonnes per annum (MTPA), and in conjunction with Andhra Paper Limited's capacity of 240,000 MTPA, the combined operational capacity of the company reaches an impressive 560,000 MTPA. Along with Andhra Paper, the company managed to achieve a sale of about 560,000 tonnes of paper by volume during FY23, which ranks among the highest in the industry. This underscores the company's significant market presence and sales achievements.

Company Valuation: The company seems to be somewhat undervalued in comparison to the industry median. Considering the promising outlook ahead and taking into account the company's impressive track record, there's potential for generating favourable returns as valuations align with historical and industry medians.

### JK Paper Ltd

Established in 1962, JK Paper Limited holds a prominent position in Office papers, coated papers, and Packaging boards. With decades of experience, it has become a major player in India's wood-based paper industry and is a leader in branded office paper. The company is a part of the respected JK Organisation.

JK Paper Limited operates two integrated Pulp and Paper Mills. One is Unit JKPM in Rayagada (Odisha) on the Eastern coast of India, and the other is Unit CPM in Songadh (Gujarat) on the Western coast. In August 2018, the company acquired Sirpur Paper Mills in Telangana. Starting as a pioneer of branded paper in India, the company has expanded to be a significant exporter of Branded Copier Papers and Packaging Boards. Its products are exported to various countries, including the USA, Middle East, South-east Asia, SAARC, and African nations.

Company Performance: Historically, the company has demonstrated a robust pattern of growth, except for FY21 when pandemic-related disruptions impacted its performance. Nevertheless, the company rebounded impressively, achieving a 3-year Compound Annual Growth Rate (CAGR) of 28.13% in sales and 37.98% in profits. Over the years, the company has maintained a consistent increase in operating and net margins, a trend attributed to the benefits of economies of scale coming into play. This blend of substantial growth and leading industry margins has translated into commendable profits.

In terms of volume, the company operates with a capacity of 761,000 metric tonnes per annum (MTPA) and realized sales of 776,513 tonnes during FY23.

Company Valuation: Presently, the company appears to be fairly valued in relation to industry benchmarks. However, it's worth noting that the current valuations are below the company's historical average.



## Seshasayee Paper

Established in June 1960, Seshasayee Paper and Boards (SPB) was initiated by Seshasayee Brothers (Pvt) Limited, in collaboration with overseas partner M/s Parsons and Whittemore, South East Asia Inc, USA. Upon successfully meeting performance guarantee commitments and launching commercial operations, the foreign collaborators exited the venture in 1969.

Seshasayee Paper & Boards specializes in the production and distribution of printing and writing paper. With a legacy spanning six decades, the company possesses extensive experience within the Indian paper industry.

**Company Performance:** Following a phase of stagnant performance, the company has impressively regained momentum and entered a growth trajectory after the pandemic. Over a span of 3 years, both Sales and Profit have surged by 20.71% and 29.66% respectively, coupled with robust operating and net margins of 26.05% and 19%.

Regarding production capacity, the company is equipped to manufacture 255,000 metric tonnes per annum (MTPA) and accomplished sales totalling 241,000 tonnes in the fiscal year 2023.

**Company Valuation:** At present, the company's valuation seems to be in line with industry standards, although its P/B (Price-to-Book) and P/S (Price-to-Sales) ratios are slightly elevated.

## Kuantum Paper

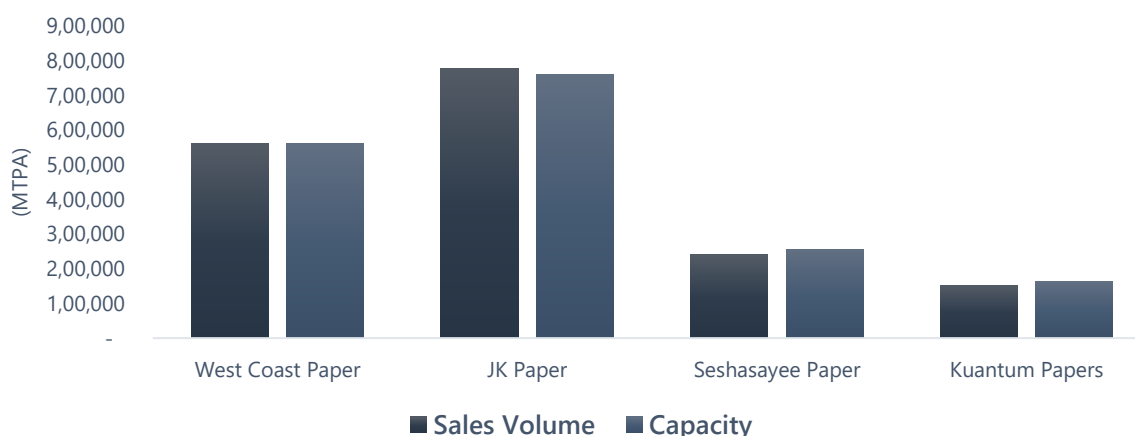
Kuantum Papers Ltd, a prominent manufacturer of wood and agro-based paper, embarked on its commercial journey in 1980 within an economically disadvantaged village of Hoshiarpur, Punjab. Its product range finds extensive application in printing various items such as books, notebooks, annual reports, directories, account books, envelopes, diaries, calendars, computer and office stationery, as well as soap wrapping, cups, and straws. In recent years, the company has broadened its global reach by expanding its exports to over 30 countries, further diversifying its market presence beyond national borders.

**Company Performance:** Following the trend of other companies on the list, Kuantum Papers has also demonstrated remarkable growth over the past 3 years, achieving an impressive 3-year Sales Compound Annual Growth Rate (CAGR) of 20.70% and a Profit CAGR of 35.35%. The company maintains robust margins, indicative of its strong financial performance.

In terms of production capacity, the company possesses the capability to manufacture 164,250 metric tonnes per annum (MTPA) and achieved sales reaching a total of 152,304 tonnes in the fiscal year 2023.

**Company Valuation:** The company's valuation seems to be somewhat elevated in comparison to both the industry median and other companies featured on the list.

Sales Volume and Capacity (FY23)





## Key Takeaways

The global pulp and paper market is valued at around USD 387.6 billion in 2022, predicted to surpass USD 477.7 billion by 2028, driven by China, the US, and Japan as major producers. India is emerging in the industry, ranking 15th globally, with growing demand for quality packaging boards and value-added paper. Segmented into Newsprint, Printing and Writing Papers, Paper Boards for packaging, and Tissue and Specialty Papers, India's consumption pattern leans towards packaging grades, indicating growth potential. Despite a low per capita paper consumption compared to the global average, opportunities lie in eco-friendly trends, e-commerce growth, health focus, and global demand. Key players like West Coast Paper Mills Ltd, JK Paper Ltd, Seshasayee Paper, and Kuantum Papers Ltd exhibit strong performance and margins, reflecting industry potential.



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