

RESEARCH**[SECTOR REPORT] PAPER**

Indian paper industry: Margin recovery on the horizon

SUMMARY**[SECTOR REPORT] PAPER**

- We expect the paper industry's EBITDAM to recover in the near future on bottoming of global pulp prices, weak rupee and stable timber prices
- The industry is likely to operate at a high utilisation rate in future due to limited capex, despite material improvement in balance sheet position
- Initiate coverage on JKPAPER with a BUY rating on strong market share gain prospects, healthy return ratios and reasonable valuations

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PAPER

26 March 2025

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Indian paper industry's margin fell to its lowest level since FY05: The Indian paper industry's EBITDA margin fell to its lowest level (6.9% in Q3FY25 vs 20Y average of 16.6%) compared to the past two decades on (a) weak pricing power due to a sharp slowdown in domestic demand and rising cheap imports pressure from China and Indonesia; and (b) a steep rise in timber prices (due to the sharp increase in demand from the MDF and particleboard industry).

Indian paper industry margin to improve to 16-20% over the next 4-6 quarters: on the back of (a) high operating rate of domestic paper industry; (b) anticipation of price hikes due to bottoming of global pulp prices in Dec'24 and weak rupee; and (c) expectations of moderation in timber prices over the next four to six quarters due to increased plantation activities from wood-based industries.

How is the current environment different from previous weak cycles? Net debt /EBITDA of the top 10 listed paper companies in India improved sharply to 0.3x in FY24 from 4.6x in FY14. However, we do not envisage large capacity additions over the next three to four years (as seen during FY11-FY14) due to (a) the weak balance sheets of a few large players (BILT [Not Rated], TNPL [Not Rated]); (b) change in management focus towards other businesses (Century); and (c) inability of small paper companies to undertake large capex (as minimum capex size is Rs 20bn-25bn for a brownfield 200ktpa paper plant).

Initiate coverage on JKPAPER with a BUY rating and TP of Rs 450: as we believe (a) it could undertake large capex via the organic and inorganic routes (unlike most of its peers) due to strong balance sheet positions and large size of operations; (b) its business risk profile has improved due to rising share of fast-growing packaging revenue; (c) it could likely generate superior return ratio profiles due to cost leadership in a commoditised product due to a diversified manufacturing base, efficient operations and low dependency on expensive imported pulp; and (d) it has reasonable valuations (trades at a 1Y forward P/BV of 1.0x vs 5Y average of 1.1x). We have valued the stock at an EV/EBITDA multiple of 6.0x on FY27E (which is near to its 5Y avg of 5.8x).

Recommendation snapshot

Ticker	Price	Target	Rating
JKPAPER IN	320	450	BUY

Price & Target in Rupees | Price as of 26 Mar 2025



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