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Paper companies to script record profits in FY18

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AJAY MODI
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In spite of an expanding digital economy, JK Paper, West Coast Paper and International Paper are set to script their most profitable performance in this financial year.

Profits at these paper manufacturers had surpassed the 2016-17 numbers in the first nine months of 2017-18, with improved efficiency, a favourable pricing environment and reduction in interest expense.

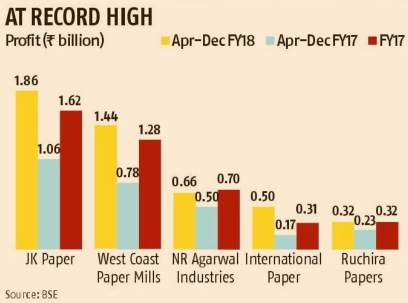
JK Paper has reported net profit of ₹1.9 billion during the April-December period of FY18, growing 75 per cent over a year before. The FY17 net profit was ₹1.6 billion. West Coast Paper earned ₹1.4 billion in the first nine months of this financial year, growing 85 per cent over a year before; the profit was nearly ₹1.3 billion in FY17.

The story is similar at many others in the sector. Share prices of these companies surged to a new high last month.

Interestingly, revenue growth has been almost flat for the top paper makers, as they have been operating at full capacity for over a year.

Saurabh Bangur, vice-chairman at West Coast Paper, says market sentiment has improved. "Prices of wood, 40-45 per cent of raw material cost, have been at a comfortable level in the past few quarters. We have been able to increase prices of paper by 2-2.5 per cent since December, following an increase in costs of crude oil and chemicals. Since no new capacities are coming into the market, there will be some shortage on the supply side and the market is expected to remain strong," he said.

His company reduced long-term debt by ₹1 billion in the past year and renegotiated interest rates on high cost loans. Current long-term debt is about ₹2.75 billion.



"Since no capex (capital expenditure) is planned, we will continue to reduce debt and working capital loans," Bangur said.

West Coast's finance cost was ₹245 million in April-December of FY18 vis-a-vis ₹434 million in the corresponding period of FY17.

The global paper and pulp mill industry has contracted slightly over the past five years. Primarily due to a shift to digital media and paperless communication in most developed economies, said a CARE Ratings report early this month. In India, however, as in most emerging countries, demand continues to expand. Per capita paper consumption in India is about 13 kg; the global average is 57 kg.

V Kumaraswamy, chief financial officer at JK Paper, said the gains had come primarily due to operational improvement. "Due to supply overhang in recent years, we could not adjust prices in tune with input cost increases. However, the oversupply situation has largely corrected in segments like writing and printing paper."

JK Paper, through partial repayment of debt, brought down its finance cost to ₹1.1 billion in April-December of FY18 against ₹1.4 billion in the same period the previous year.

Reduction in energy consumption and part replacement of wood pulp with lower cost chemicals and fillers has helped. "The new capacities that came up during 2009-2013 at leading companies have led to savings of six to nine per cent in energy consumption. We have been able to increase the use of chemicals/fillers by about 10 per cent in our new machines, resulting in a corresponding decrease in usage of high cost pulp," Kumaraswamy said.

Import concern is also on a decline. "Our major challenge was the sustained increase in import of dutyfree paper from Asean (Southeast Asia) nations. But, the price of imported paper has gone up owing to a double-digit increase in global prices in the past two quarters. The market price of imported paper has gone up by ₹5,000-6,000 per tonne to ₹58,000," he said.

This gives the industry scope to raise prices. The government recently initiated an anti-dumping probe on import of coated and uncoated paper. India's current annual paper consumption is 16 million tonnes and demand is growing at about six per cent a year. Packaging and paperboard form almost half this demand, expanding at eight to nine per cent annually, owing to rising consumption in delivery-based e-commerce businesses. The writing and printing segment accounts for about 31 per cent. The rest is newsprint.

Companies are now talking about expansion. "This is the right time to think about capacity addition. We are looking at options," Bangur said.