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**CAPACITY SHUTDOWN** in China and resultant hike in imported paper prices could prove to be a shot in the arm for Indian cos

# Better Valuations of Paper Cos: Just a Matter of Time

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**ET Intelligence Group:** Paper companies have reported double-digit earnings growth over the past two years. In addition, their balance sheets look lighter with reduced debt burden and improved leverage ratios. Yet, these changes do not seem to fully reflect in their stock valuations, which remain in single digits. However, the valuations may improve given the growth opportunity in the wake of rising paper prices due to shutdown of capacities in China.

China has stopped imports of several grades of waste paper as a part of campaign against foreign garbage, which has created shortage of raw material and impacted the paper production. Further capacities close to 3 lakh tonnes per annum are shut down due to lack of environmental compliance. As a result, packaging paper prices, for instance, have shot up by 40% to over 5,500 yuan per tonne since August, according to Bloomberg data.

"This has led to paper suppliers from China and other countries, such as Indonesia, to either stop selling paper in India or sell at a higher price.



"We see a good momentum in the industry," PS Patwari, CEO, Emami Paper Mills, said, adding, "India, which did not export paper to China, has now started exporting."

Prices of imported paper have increased by 10% in the past few weeks. "International paper prices have remained low for a very long time due to oversupply from China and Indonesia. We expect the current prices to sustain or even go up," said AS Mehta, president, JK Paper.

Paper is usually manufactured from either waste paper or wood

pulp. China's ban on waste paper has led to a fall in the waste paper prices and a rise in pulp prices. Since major Indian paper companies, such as JK Paper and West Coast Paper, which use in-house pulp to make paper will not be affected by higher pulp prices.

Companies such as NR Agarwal Industries manufacture paper from waste paper: "Ban in China has led to fall in the waste paper prices, which should lower our cost. Also, rise in imported prices gives us more headroom to increase product prices," said the company's MDRN Agarwal.