



As we approach the festive season in India, the demand for various products is surging, and with it comes a significant impact on the packaging and kraft paper industry. We would like to provide you with an update on the current trends and challenges shaping the market, as well as the prospects for the upcoming months.

1. Gradual Demand Increase and Supply Chain Disruptions

This year, like the previous ones, we have witnessed a gradual increase in demand from the beginning of July, peaking around Diwali, only to see a subsequent drop. However, the situation this season has been different due to a notable decrease in demand during the previous quarter. The low demand caused prices of recovered fiber in India to plummet, leading to a decrease in the prices of lower grades of Kraft paper. Consequently, the gap between Imported OCC and Indian OCC widened, dissuading most mills from importing any OCC in the past two months and disrupting the supply chain cycle.

Currently, as demand marginally picks up, the requirement for local fiber has risen, leading to an increase in the price of local fiber to bridge the gap between imported and local OCC. Furthermore, local OCC waste paper dealers have been stockpiling, creating a further shortage.

2. Price Surge and Capacity Reductions

Indian mills have announced four consecutive increases of Rs 1000 per metric ton (PMT) in just two weeks, totalling a Rs 4000 PMT hike in the price of Kraft paper for all grades. They anticipate this price hike to go up to Rs 6000 PMT in the coming weeks. The primary reason behind this surge is the temporary shortage of fiber due to the break in the import cycle, which is expected to take around 2-3 months to restore. After that period, a correction in pricing might occur, but for the next three months, we expect prices to remain strong and supplies to be tight.

In the last few months, many mills across India had to shut down operations due to continuous losses, resulting in a reduction of available capacity. This reduction in capacity has helped alleviate the issue of overcapacity, which was one of the primary reasons for lower prices in the past.

3. Impact of Imported OCC Prices

Another factor contributing to the increase in prices is the strengthening of imported OCC prices, which have risen by 25+ USD across all grades, particularly the US varieties, which are the main imports into India. Imported OCC suppliers are finding better price realization in supplying to Southeast Asia markets, where their freight costs and turnaround times are lower.

4. Foreseen Market Turmoil

The packaging and kraft paper industry is anticipated to face tumultuous times in the next three months, as achieving supply and demand equilibrium will require careful balancing. This situation may create significant volatility in prices, with a



likely consolidation between the already announced Rs 4000 PMT increase and the expected Rs 6000 PMT hike.

Furthermore, many mills have found themselves in a difficult financial position, leading to a sense of urgency to recover losses. This may lead to cartelization among the mills, collectively trying to stabilize prices in their favor.

5. Challenges for Corrugators and Supply Chain

The sudden and substantial increase in prices has caught many corrugators off guard. They had previously assumed that prices would remain low and had committed to long-term contracts with customers at very low rates. As a result, corrugators are now facing difficulties absorbing these sharp increases, potentially leading to defaults in honouring contracts and impacting the supply chain of corporations.

Conclusion

It's time to accept the reality that was indicated in our earlier update that the prices were extremely low and not sustainable as they were not realistic. No industry can run on prolonged losses and this situation of increased prices was inevitable. While we expect market challenges and volatility in the upcoming months, we remain committed to providing you with the highest quality products and services.

As we navigate through this rollercoaster ride, we assure you that we will continue to monitor the situation closely and keep you informed of any further developments. We greatly appreciate your understanding and support during these challenging times.