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Indian Corrugated Packaging: Good Times Ahead

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Strong demographic and economic prospects will help grow demand for packaged, processed foods and beverages in India for the next five years. This will drive the growth of the corrugated packaging industry in India. However the corrugated packaging segment is highly fragmented in India and populated with many small, inefficient, and stressed companies. Top 10 players capture 24% of the total containerboard capacity in India. Rabobank expects increasing consolidation through greenfield investments with limited scope for M&A activity.

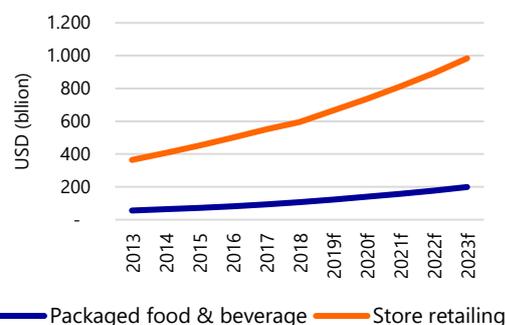
Fast-Growing Corrugated Paper Packaging Market

The Indian corrugated paper packaging industry is projected to grow at a 7.6% CAGR for the next five years due to strong demographic and economic prospects. India is among the fastest growing economies in the world, with a per capita income projected to increase by 50%, to USD 3,000 by 2023. India is also home to the largest growing pool of young, income-earning consumers (median age of 28 years). Moreover, current urban population (33%) will grow to reach 40% by 2025.

Other drivers that play a large role in the growing demand for corrugated paper packaging in India are:

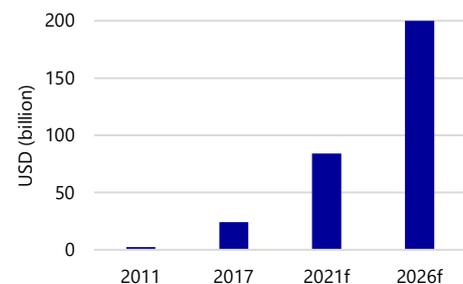
- The aggregated level of food processing/packaging is quite low in India at ~10%. The industry will undergo a transition from loose to packaged, processed food & beverage products in the next five years, and this will result in the growing consumption of packaged food & beverages (see *Figure 1*).
- Store retailing will grow at a 10.5% CAGR, to reach USD 984bn by 2023 (see *Figure 1*). E-commerce retail will also grow at a fast rate (CAGR 27%), to reach USD 200bn by 2026 (see *Figure 2*). This will increase the use of corrugated boxes in both food and non-food segments.
- The plastic packaging industry in India is facing a lot of challenges due to its negative environmental impact. Government initiatives, such as the proposed ban of single-use plastics, will benefit the paper packaging segment (including corrugated packaging).

Figure 1: Indian packaged food & beverage and store-retailing market size trends, 2013-2023f



Source: Euromonitor, Rabobank 2019

Figure 2: India's e-commerce market size trends, 2011-2026f



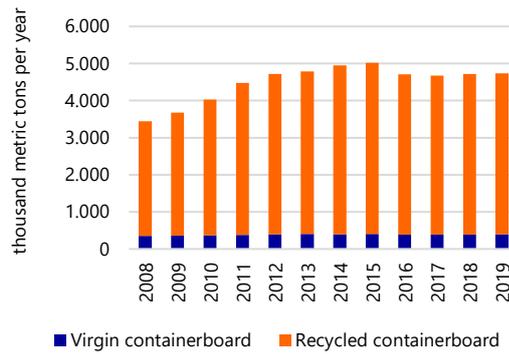
Source: Retailers Association of India, Deloitte, Rabobank 2019

Indian Corrugated Packaging: Setting the Scene

Fragmented Market Structure

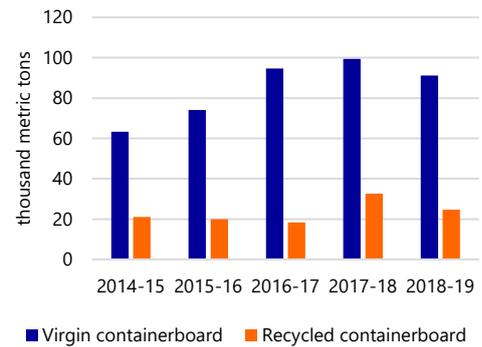
Strong growth prospects bode well for the corrugated packaging industry in India. Containerboard capacity has grown at a 3.5% CAGR over last decade (see Figure 3). Domestic production will remain the key focus to support local demand, with pressure from industry associations to limit imports of containerboard. However, imports will continue to support domestic corrugated paper packaging requirements, especially in virgin containerboard (see Figure 4).

Figure 3: Virgin and recycled containerboard share of total containerboard capacity in India, 2008-2019



Source: RISI, Rabobank 2019

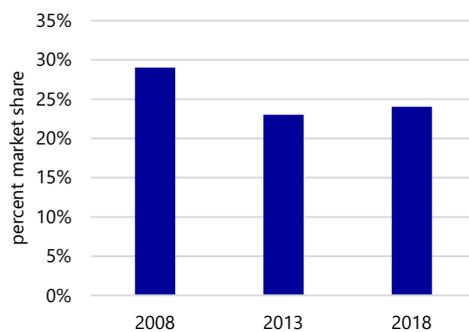
Figure 4: Imports of virgin and recycled containerboard in India, 2014-2019



Source: Government of India, Rabobank 2019

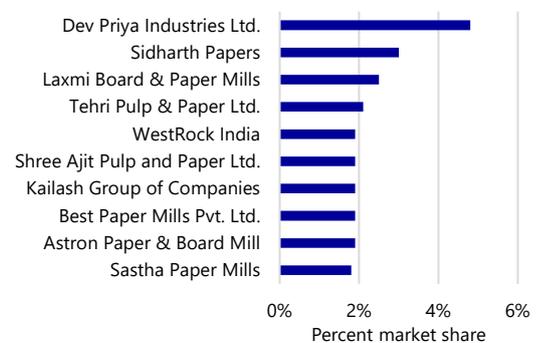
The industry is highly fragmented and populated with many small containerboard manufacturers. Top 10 companies capture ~24% of the total containerboard capacity in India (see Figures 5 and 6). Small-scale paper mills are equipped with old-age technologies. Most of them are under stress and finding it difficult to raise capital to expand and grow. Like containerboard manufacturing, the corrugated converter segment is also highly fragmented, with many small companies operating at the state/regional level (USD 20m to 40m in size).

Figure 5: Top 10 players share of the Indian containerboard market (based on capacity), 2008-2018



Source: RISI, Rabobank 2019

Figure 6: Market share of top 10 containerboard companies in India, 2018



Source: RISI, Rabobank 2019

Note: Total capacity is 4.7m metric tons

Increasing Greenfield Investments Will Accelerate Market Consolidation

Rabobank expects that both the containerboard and corrugated converter segments will be consolidating in the next five years. However, this will be largely done through greenfield projects and not through acquisitions, especially in the containerboard segment.

M&A activity has remained limited to the acquisition of a few stressed assets in the past. The limited availability of attractive, efficient assets does not encourage M&A activity. At the same time, domestic and large international players are increasingly looking for market opportunities in the growing Indian market. Some global companies, like Oji Holdings, have already set up base in India and would like to grow further with a new converting plant. A few others, like Asia Pulp & Paper and Nine Dragons Paper, have outlined their plans to enter the Indian market by means of greenfield containerboard projects worth USD 3.5bn and USD 650m, respectively (see Table 1).

Table 1: Upcoming corrugated paper packaging greenfield projects in India

Company (country)	Type	Capacity	Investment size (USD m)	Status
Nine Dragons Paper (China)	Pulp, paper & board	not announced	650	Memorandum of understanding signed. First phase to be completed by 2022.
Asia Pulp & Paper (Sinar Mas Group) (Indonesia)	Pulp, paper & board	5m metric tons	3,500	Memorandum of understanding signed. Project needs to be confirmed.
Emami Paper Mills (India)	Paper & packaging board (multi-layered)	0.45m metric tons	285	Project deferred for now.
Oji Group (Japan)	Corrugated converting plant	72m m ² per year	27	Scheduled to be operational by the end of 2019.

Source: Industry information, public reports, Rabobank 2019

All of these recent developments indicate the beginning of the consolidation trend in India. We believe especially that large greenfield investments will accelerate market consolidation.

Imprint

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