

Covid 19 corollaries

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Crumpled paper

The extended lockdown to stem the Covid-19 pandemic has dealt a nasty blow to the highly fragmented paper industry in India.

Around 80% of the nation's paper capacity of ~25 MT (750-800 mills) is clustered around six states that account for half of India's gross domestic product. They are also major consumption hubs.

Problem is, 40-45% of these mills are in Covid-19 red zones and another 40-45% in orange zones.

If that wasn't enough, the industry is also grappling with weak demand, shortage of raw material and limited availability of labour, which are affecting capacity utilisation. CRISIL Research expects demand for paper and boards to contract 10-15% on-year, affecting all categories of products.

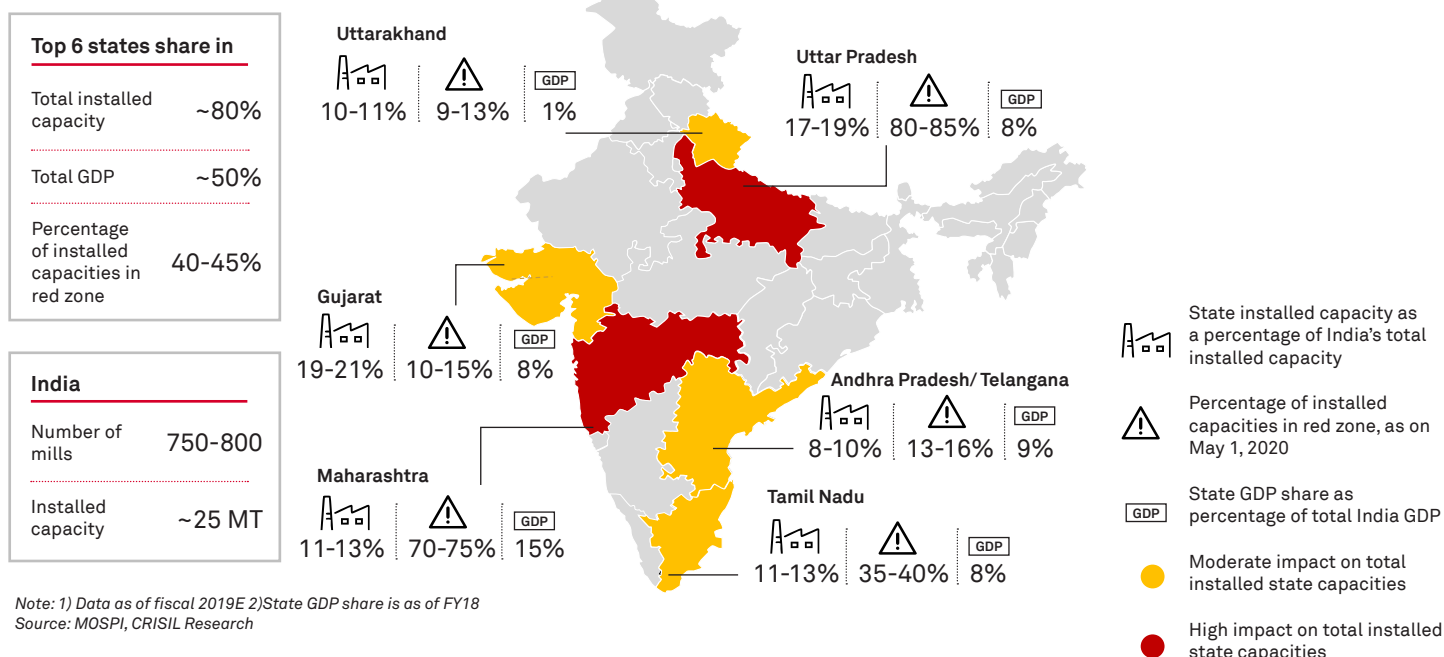
To wit, the shutdown of schools, colleges and majority of offices has crimped demand for writing & printing (W&P) paper. Industrial paper usage has also rumbled because of weakness in the FMCG, consumer durables and apparel segments, which account for 50-60% of such demand. To boot, exports have fallen.

Consequently, the financials of paper makers, especially the small- and mid-sized ones (because of high fragmentation), will be materially affected.

Bulk of capacity in the top 6 states at risk

Almost half of the installed capacity of paper mills is in the red zone

Top 6 states which account for 80% of installed capacity



Puckered financials

CRISIL Research conducted financial dispersion analysis for a set of 125 companies that account for 35-40% of the total installed capacity and held total debt of Rs 20,370 crore as of fiscal 2019. Key takeaways:

- 25 firms with Rs 10,777 crore debt burden have interest coverage ratio of ≤ 2 , and so at high risk
- Debt/Ebitda ratio is ≥ 3 for almost half of the sample set
- Almost a quarter of the sample set might face issues in meeting short-term obligations as current ratio is less than 1