THE TIMES OF INDIA

22/03/2014

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Lack of regulation, input costs hit cardboard box makers hard

One-Fourth Of Manufacturers In Country Already Shut Shop

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Chennai: About a fourth of the corrugated box makers in the country are in danger of shutting down over the next few months as they are unable to pass on cost pressures to their clients. Several of the 12,000 companies in the country who make corrugated boxes (the cardboard boxes in which most goods are packaged and delivered) have already shut shop, as increase in raw material prices and lack of regulation in the industry is making business unviable.

With prices of raw material like paper, glue and stitching wire and petroleum products going up by about 30%, makers of corrugated boxes are living hand-to-mouth.

Lack of regulation, which leads to excess capacity and intense competition, labour issues and the muscle power of large customers over the smaller players are holding box makers from hiking prices to manage costs. The industry has been fighting for price hike for months now in vain. And what is worse is that this problem of plenty has no solution in sight.

"There is no regulation with regard to companies entering the industry, and since there are no barriers to entry since it is a low-capital business, a lot of new players set up small units. This leads to heavy competition, which makes it difficult to hike prices," says Anil Kumar Reddy of the Federation of Corrugated Box Manufacturers of India. Till 2007, the industry had regulations on new players entering the market, but it has since been lifted and the industry has seen a barrage of new players.

This oversupply of boxes in the market, coupled with the sheer muscle power that customers exercise on the small scale units, is making price hikes extremely difficult, Reddy says. The customers, who are usually large multinational companies across industries like automobile, textile, food products, and FMCG, are in a position to tell every supplier that there is another person willing to give better prices, and with such oversupply, it is hard to effect a price hike, he says. The Rs 12,000 crore industry constitutes primarily of tiny and small scale units.

The industry works on margins of about 5% and at current rates, a minimum hike of 20% is required so companies will survive, Ramchand Arora, president of the federation said.

In addition, shortage of labour is plaguing the industry, and efforts are on to set up a training institute. "We have secured land for this near Chennai and are planning one along the lines of the printing training institute in the city," said Santosh Lath, a member of the federation.

SECTOR IN A BOX

- Prices of raw material like paper, glue and stitching wire and petroleum products have gone up by about 30%,
- At current rates, at least a hike of 20% is needed for the industry to survive
- As more players are setting up shop, there is a constant problem of oversupply and customers refuse to pay the hike in rates