

# Rise in input costs put corrugated box makers in a bind

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subject=Rise%20in%20input%20costs%20put%20corrugated%20box%20makers%20in-input-costs-put-corrugated-box-makers-in-a-bind%2Farticle37088049.ece)



Rates are up by 30% more in the past three months, says manufacturers' association

Manufacturers of corrugated or brown boxes used in packing anything from electronics to e-commerce to farm produce to FMCG items used in daily life continue to go through a challenging period, with things turning from bad to worse in the last few months.

“These are not just challenging times but the survival of the corrugated box industry is at stake,” said Sanjay Rajgarhia, President-elect, Indian Corrugated Case Manufacturing Association (ICCMA).



#### Technical-Analysis

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Over the past three months, costs have increased by an additional 30 per cent. The rise comes atop at least a 70 per cent rise in the corrugated case manufacturers' raw material costs between January 2020 and March this year.

### **Involves SMEs mainly**

The corrugated box industry in the country comprises 400-odd automatic manufacturers and over 10,000 semi-automatic units, primarily micro, small and medium enterprises. It employs over seven lakh that could have a bearing on the economy if some of the units were shut.

Corrugated boxes, which play a vital role in the domestic supply chain and exports, are made from kraft paper, made from waste paper and cuttings besides recycled brown boxes. "Prices of waste cuttings, the main raw material for the kraft paper mills, have more than trebled since January 2020," said Kirit Modi, ICCMA president emeritus.

Prices of waste paper and cuttings quoted below \$100 a tonne before January 2020 are currently quoted at \$330. "Container shortage and higher freight charges are adding fuel to the fire," said Sandeep Wadhwa, ICCMA President.

According to reports, container charges to the US that were \$2,000-2,500 have now surged to \$12,000, while rates to destinations such as West Asia have gone up seven times to \$1,500 now. Ocean freight rates, on the other hand, have gone up more than 300 per cent year-on-year.

## **Energy crisis**

“Coal prices have increased from 3,000 a tonne to nearly 14,000 a tonne now. We need at least one tonne of coal to manufacture one tonne of paper for mills that have co-generation plants,” said Rajgarhia.

Wadhwa said the energy crisis has had a huge impact on the corrugated box manufacturers. With plants operating at zero inventory and crude oil prices ruling above \$80 a barrel, an energy crisis has almost set in. “Power tariff is set to rise further and everything seems to be going out of control,” Wadhwa said.

“Spiralling increase in prices of all commodities along with three times increase in coal prices has made the box manufacturers industry struggling for survival,” said Harish Madan, ICCMA Vice-President.

“In tandem with the upcycle in all commodities, kraft paper, adhesives and other inputs such as starch, ink and steel have all increased. The increase is 40 per cent in some cases,” said Modi.

Globally, coal prices have increased by nearly 190 per cent, while steel prices have gained 32 per cent since the beginning of this year. Starch prices are quoted higher as corn prices have increased 10 per cent during the period.

Starch is used for adhesive purposes, while steel pins and wires are used to manufacture brown boxes.

## **Customers' woes**

“We have notified our customers through circulars on the situation we are facing. But they are also facing similar issues due to the uptick in the commodity market,” said Wadhwa.

Rajgarhia said the problem for Indian manufacturers is that the country has a deficit in fibre and depends on imports. At the same time, the industry cannot pass on even half of the additional costs it is having to bear due to the price spikes.

Asked about the export of kraft paper to China, Modi said shipments were not as high as six months ago. “If that trend had continued, we would have been in further trouble,” he said.

China is one of the main reasons for the surge in paper prices as it began importing huge volumes of kraft paper to meet its domestic demand. It began to import kraft paper since the Communist government banned importing all wastes, mainly paper, from January 1 this year.

China had been importing waste paper from across the world before the ban. This included all waste paper generated in the US, Europe and other developed nations. Waste paper is recycled to manufacture paper.

Given the ban on wastes, Chinese paper mills turned to the import of kraft paper from India. Kraft paper is recycled paper, and Chinese mills use it as pulp or a fibre source to manufacture paper.

### **Higher GST levy**

In addition to these issues, the industry faces a higher levy under the Goods and Services Tax (GST). From October 1, the GST for corrugated boxes has been increased to 18 per cent from 12 per cent.

“This will cause further strain on our working capital as we have to give immediate credit to our customers. This blocks our working capital and we also have to pay interest to banks for this,” said Wadhwa, adding that the industry was now looking down a long dark tunnel with no light visible.

“The biggest challenge for the corrugated box industry is the lag in price implementation. While it is dynamic in the case of purchases, in the case of sales it either happens in a phased manner or contract rates,” said Vikas Goyal, ICCMA spokesman.

The issue for the sector is that the industry is owner-driven, with rate hikes announced through SMSes or Whatsapp messages with immediate effect. On the other hand, the customers are primarily corporates who need to be approached with a request for approval to hike prices so that the rates on the orders can be amended.

### **Weekly hikes**

Goyal said while paper mills have been increasing prices every week, the box manufacturers have to wait for the customers to agree and approve the rate hike. “Until then, we have to spend from our pockets, and it hurts us as the quantum of the hike is substantial,” he said.

In the past, this used to happen once, and the industry used to bear the brunt. But now, with the dramatic increase in the frequency of price increases, it’s time customers also looked into how they can correct this, Goyal said, adding, “We need immediate commensurate price hikes to remain viable.”

Madan said value-addition in the industry was minimal, and hence costs of inputs sometimes are higher than the sale price.

As of now, the industry sees no respite and way out of the situation. “Input prices are expected to rule firm until winter ends in Europe and other western nations as demand for energy will be higher. We have to accept the situation and try to tide over it,” said Wadhwa.