

We are in the middle of the 2<sup>nd</sup> wave of the pandemic in India and country is being battered by the virus in all aspects be it healthcare, trained personnel, supply chain or the overall economy. Most of the states have been under strict lock down from the last 2-3 weeks and will continue to be under lockdown for another 1-2 weeks. No doubt this has started the down ward curve of the number of positive cases but has also brought the economy to its knees. The lockdown was the need of the hour and is being supported by one and all but the down side to it is the irreversible damage to the economy.

This time the virus has affected so many people that the supply chain especially in the last mile is severely affected causing a major chocking of the whole supply chain. Demand is almost zero in whitegoods, apparel, automobile, engineering and capital goods and all other industries that do not come under essential goods and due to the bottle neck at multiple points in the supply chain the essential goods sector too is suffering.

The general thinking is that with demand being low the price of all products should drop but on the contrary they are not. If we take the kraft paper market, due to strict lock downs the collection of local waste is severely affected and the mills today are shutting their plants on and off due to shortage of local waste. The only reasons the price has not sky rocketed is that demand is not supporting the situation. The cost pressure is not allowing for the price to fall and the low demand is not allowing for the prices to increase.

In fact, in the first week of May due to lower demand there was a drop of Rs 2000 PMT in the price of finished kraft paper and a similar drop in the price of local waste paper. The price of Imported OCC too had softened by 25-30 USD for a couple of weeks creating an illusion that the prices have started reversing and it will continue to fall further. To support the above the Chinese had stopped imports of pulp rolls from India and had started quoting absurdly low prices for it.

Within a week or two into the lock down things changed and quickly. The price of local waste has shot back to the April levels and there has been a sudden spurt in the imported OCC prices by 30-35 USD taking it back to March – April levels. There are rumours that the Chinese have started enquiring for pulp rolls again and are offering better pricing. With the above factors in play the price of kraft paper has already increased by Rs 1000 PMT and is expected to increase further by another Rs 1000-2000 PMT in the coming week taking it back to the March- end April first week levels.

We expect that the low demand will continue into June and this will keep the prices at similar levels but what will happen when the economy opens up fully in July when the main festive season starts in India is to be seen.

In the eastern region the trend has been similar and in the west the prices had dropped by Rs 3000 PMT and has increased by 1500-2000 PMT and in the North the prices had dropped by Rs 5000 PMT and has increased by Rs 3000 PMT.

To summarise the situation the price should remain stable till end of June and once the economy opens up we need to see if there is a sudden surge in demand which might affect the pricing. The biggest concern is the manpower front. Every industry even after maintaining all COVID protocols are facing a huge surge in the number of infections and this has created situations where production has dropped from 3 shifts to 1 shift but due to most industries being shut the low demand it is offsetting the lower production. Manpower are scared and are migrating back to their home towns due to which you are seeing a surge in cases in the rural areas. Lower production and productivity have resulted in huge cost increases in production costs. The manpower shortage situation might take up to 3 months to stabilise but if the demand surge happens in July almost all industries will struggle to meet it due

to shortage of manpower and also the bottle necks in the supply chain caused due to manpower-based distortions.

We have been working on mitigating these problems and are hopeful that we should be able to achieve 90% capacity by the end of June from the current 50% that we are at due to manpower and transport issues.

Once again, we assure you of the best in service and quality even under these challenging circumstances.

Warm regards.  
Manish Gupta