Initiating Coverage

JK Paper Ltd.

October 11, 2021

RETAILRESEARCH

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JK Paper Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Paper	Rs. 246.85	Buy at LTP & add more on dips at Rs 212	Rs. 274	Rs. 292	2 quarters

HDFC Scrip Code	JKPAPREQNR
BSE Code	532162
NSE Code	JKPAPER
Bloomberg	JKPAPER IN
CMP Oct 07, 2021	246.85
Equity Capital (Rs cr)	169
Face Value (Rs)	10
Equity Share O/S (cr)	16.9
Market Cap (Rs cr)	4182
Book Value (Rs)	149
Avg. 52 Wk Volumes	1992520
52 Week High	284
52 Week Low	87

Share holding Pattern % (Jun, 2021)	
Promoters	51.4
Institutions	11.2
Non Institutions	37.4
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

JK Paper is one of the leading players in the paper segment and has presence across segments. Company is a market leader in the office paper segment and one of the two companies manufacturing coated paper in India. The Company's distribution footprint covers 28 States and 8 Union Territories. JK Paper was the first within the paper sector in India to extend to proprietary retail, which helped widen its value chain, engage with customers and capture consumer insights. Company exports its products to more than 60 countries across the world and derived 14% of volume from exports in FY21. The company has set up packaging board facility in Gujarat with a capacity of 1,70,000 TPA and this would contribute significantly from FY23E onwards. The market for packaging board is likely to grow at 9-10% annually in India compared to around 4% growth in the world. This growth is catalysed by rising personal consumption and the growing substitution of plastic products. Along with that the company is also setting up a 160,000 TPA chemical pulp mill and utilities. Total cost for both the projects would be around Rs 1900cr.

We believe that backward integration would ensure raw material (pulp) availability and also boost overall margins for the company. Once completed, the capacity for Packaging Board would increase to 290,000 TPA. Company has ~25% market share in office paper segment, 12% in coated paper business, 13% in packaging board segment in India. Increasing trend in the e-commerce would lead to higher packaged paper demand for delivery purposes. Also, due to the ban on usage of plastic bags, the companies have started using packaged paper for delivery purposes which could lead to higher demand for packaged paper. Management guided for revenue of > Rs 3000cr for FY22 and margin would be around 24-25 percent. We believe that paper segment is positioned to grow at healthy rate led by i) increased E-Commerce (online) penetration ii) higher packaging demand iii) light weight packaging iv) recyclable v) anti-plastic sentiments across the globe.

Valuation & Recommendation:

Strong rebound in paper demand and large expansion plan would be key drivers for growth. In Q4FY21, the company had registered robust performance both in India and international operations. Even in Q1FY22, the YoY growth in revenues and PAT was noticeable. We expect 18% CAGR in revenue led by strong double digit volume growth over FY21-23E. Operating margin is expected to expand 740bps to 27.8% led by better product mix, backward integration and cost efficiency. Strong sales along with healthy margin expansion would drive 57% CAGR in net profit over the same period. As per the management commentary, Gujarat expansion added debt of around Rs 1400-1500cr and total gross debt would be around Rs 2500-2600cr by end of FY22. We are positive on JK Paper given its leadership position across its segments, diversified business and healthy balance sheet. We feel that investors can buy the stock at LTP and add more on declines to Rs 212 for base case target Rs 274 (7.8x FY23E EPS) and bull case target of Rs 292 (8.3x FY23E EPS) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY19	FY20	FY21	FY22E	FY23E
Total Revenues	661	469	40.8	898	-26.4	3257	3060	2751	3288	3814
EBITDA	190	63	204.0	229	-16.7	869	872	562	863	1061
Depreciation	44	41	6.3	44	0.5	128	150	174	204	231
Other Income	34	27	25.7	37	-7.6	50	104	111	115	121
Interest Cost	33	35	-6.5	28	17.1	124	129	129	165	168
Tax	44	10	335.6	58	-23.6	241	228	134	168	200
APAT	104	4	2871	136	-23.4	425	476	240	449	593
EPS (Rs)						24.0	26.7	14.2	26.5	35.0
RoE (%)						23.2	21.6	9.8	16.6	19.0
P/E (x)						10.3	9.2	17.4	9.3	7.0
EV/EBITDA (x)						7.5	7.4	11.6	7.5	6.1

(Source: Company, HDFC sec)

Q1 FY22 result update

Revenues for the quarter grew 40.8% YoY at Rs 661cr. Despite the challenging times, the company reported decent volume of 104,841 tonnes, +29.6 % YoY (down 35.2% QoQ). The sequential decline in volume was impacted due to lockdown. EBITDA margin improved 340bps QoQ at 28.8% on better gross margin. Net profit surged and came in at Rs 104cr led by robust margin and healthy sales growth. In FY21, the company had registered sales volume of 4.98 lakh MT and capacity utilisation of 103%. Gross debt increased to Rs 2539cr as against Rs 1545cr as the company has undertaken large capacity expansion. Average cost of borrowing was at around 6.5% in FY21. Company was able to source almost 100% of raw material from local area at both of its plants in FY21.

Company and its business segments

JK Paper has presence across business segments namely Writing & Printing Segment (WPP), Packaging board and Pulp. Company has presence across more than 60 countries. It has ~25% market share in office paper segment, 12% in coated paper business, 13% in packaging board segment in India. Company has 18 warehouses, 357 trade partners and > 4000 dealers in India as on FY21. Demand in the Writing & Printing Segment (23% of revenue) (excluding copier) was severely affected during the first half of the year. Two major segments - publishing and school note books which comprise almost 65% of the W&P market – saw a major decline in demand. Government tenders remained at their normal levels. Overall market was operating at around 30-40% till Q3, while Q4 saw the demand bouncing back to normal levels. The market situation led to a drastic drop in prices by 20%. JK Paper volume dipped around 9% and prices of various products by 10-15% respectively over 2019-20.

Copier (Cut size Office paper), which accounts for over 40% of company's revenue segment was affected, due to Work from Home and closure of educational sector and offices. Demand was lower by ~25% in FY21. The market was operating at around 60-70% during the first 3 quarters, which reached 90-100% in Q4. The market situation led to a drastic drop in prices by almost 15%. The drop in JK Paper's prices was relatively lower at around 5-10%. Company performed better than competition due to its extensive reach across the country through a combination of wholesale and retail channels and ended the year with market share of over 25%.

For Writing Printing Paper, there is a need of only the chemical pulp. For Packaging Board, chemical as well as the mechanical pulp is needed. And broadly, mechanic pulp required is around 40-45% depending on the different product. So that 40-45% is always imported, rest is 55-60% pulp is a chemical pulp. But the pulp requirement in the Packaging Board is more than the pulp required in the Writing

Printing Paper

Writing and Printing Paper (WPP) is growing half of the economy growth rate however it will grow as per economic growth in the next 2-3 years. Packaging board segment is growing in double digits because of growth in organized retail and strong growth in online business. Coated paper C2S (about 10% of revenue), which is majorly dependent on commercial printing, operated at 60% in FY21. However, JK Paper could sell 100% of its target volumes. Prices started to increase from October 2020 in the wake of supply constraints from international sources.

In the Packaging Board segment and pulp (about 25% revenue), Virgin Board manufacturers operated at 100% capacity utilization from Q3. However, 15% of their capacities were filled with re-cycled categories. Converters for non-essential commodities like Garments, Electronics & premium FMCG started operating at 90% capacity utilization in Q3. However, JK operated its entire capacity in the higher valued added virgin grades. Domestic market share increased to 14% for the year up from 12% during 2019-20. Virgin board prices dropped by an average 7% in Q1 and Q2, but recovered in the second half of FY21.

Introduced new products across category in FY21

JK Paper has the most diversified product portfolio in the industry, the company is emerging as the segment leader in premium office papers, packaging boards, security papers and functional grade of papers. To enrich the product basket and leverage on the opportunities offered by the smaller paper machines, JK Paper is actively engaged with customers to understand their needs better and become a customized solutions provider. Riding on the back of new mandates of FSSAI coupled with the increasing focus on food grade and food safety packaging, the food packaging industry is seeing a paradigm shift from plastics to paper with oil and water resistance aided by moisture and oxygen barrier and heat sealable capabilities. JK Paper is positioned to take advantage of this shift and has been launching new products in this niche category to capture higher value.
In FY21, the company produced new products, namely JK VFL, JK UFL, JK Color Kraft, JK Pac Fresh among others. Product categories launched in 2020-21 comprised Color Kraft paper, Kraft liner paper, JK Pac fresh. JK Sublime paper (rolls) & Liquid packaging board. The

company is working on various new products under various stages of development focusing on functional grades, speciality paper & board as well as sustainable packaging.

Acquisition of Sirpur Paper Mills

In Aug-2018, JK Paper had announced acquisition of sick company Sirpur Paper Mills. It has integrated paper and pulp mill with capacity of 1,38,000 tones per annum. This consisted of cash payment of Rs 165 crore and issue of securities consisting of equity shares of Rs 43 crore and preference shares of Rs 162 crore by Sirpur Paper Mills Ltd. The company issued equity shares of SPML through primary subscription at the face value of Rs 10 each.

The Sirpur Paper Mills Limited, which has seen an investment of about Rs 700 crore since it was taken over by JK Paper Limited in August 2018, is on course to recovery as it steps up production by the year end. The company was taken over by JK Paper through a Corporate Insolvency Resolution Process of National Company Law Tribunal Hyderabad, in a structured deal of Rs 370 crore.

After the acquisition the company had to take up lot of refurbishment and upgradation by making new investments in boilers and related infrastructure. After forced shut down, the company started production and it was functioning at 70 percent capacity, which is good given the tough scenario.

In Q4 FY21, average capacity utilisation reached 69% and that is now at around 75-80% levels. Considering favourable market conditions across different segments, there has been an improvement in production and sales volumes besides growth in realisations from the market leading to better performance as compared to earlier periods. The company also started trial runs of its new boiler and turbine, which are contributing significantly to stabilizing operations and cost reductions. Better utilisation of capacities is expected to significantly improve overall paper production and improve operating margins and achieve strong PBT. Sirpur facility has reached 80 percent capacity utilisation, it will also give additional turnover. At 80 percent capacity, it can give quarterly revenue of close to Rs 150 crore from the facility.

Capacity Expansion

The company had embarked upon an expansion of its Virgin Fibre Board (VFB) or packaging board capacity by 170,000 TPA at Unit CPM at Songadh to take advantage of its strong market standing and double digit growth arising from changes in organised retail and the quest for more eco-friendly, aesthetic and customer-friendly packaging. Along with 160,000 TPA chemical pulp mill and utilities, the total project cost was estimated at Rs 1935cr. Once completed the capacity for Packaging Board would increase to 290,000 TPA.
Despite disruptions due to the pandemic affecting manpower availability and restrictions on construction activities, most of the civil construction has been completed. Majority of the equipment and machinery had been received as per schedule. Management does not

anticipate any major cost and time overruns. Initial runs of boiler and turbines have commenced and trial production of Packaging Board is expected to start by Q3FY22.

Pulp Mill at Gujarat facility will be the only pulp mill and it will feed old and as well as the new, both the areas. It is likely to start operations by Dec-2021. So, till that time old pulp mill is in operation and rest of the pulp, the company gets from Orissa and Telangana. Once the new pulp mill at the Gujarat plant starts, the old pulp mill at Gujarat will be stopped, and it will be fully integrated for both, old as well as the new area.

JK Paper can generate peak revenue of around Rs 1200cr from the packaging board plant and EBITDA breakeven would be at 40-50% utilization. Company guides to achieve 75-80% utilization at packaging board plant in FY23. The said capacity is of 1,70,000 tons. Company has set up 1,60,000 tons capacity for pulp which would help the company to reduce dependency from others and also help margin improvement.

Company is also setting up unit for corrugated box at Ludhiana. It has already acquired the land. Company has chosen Ludhiana based upon customer location. The facility is expected to get commissioned in the next 18 months. Company would spend around Rs 150cr in the said facility and expects Rs 150-170cr revenue at peak utilization. After this facility also the company has land parcel at Ludhiana.

Production Capacity

	Existing	After Expansion
Uncoated Paper	3.97 lakh MT	3.97 lakh MT
Coated Paper	54,000 MT	54,000 MT
Packaging Board	1.21 lakh MT	2.91 lakh MT
Saleable Pulp	19,000 MT	19,000 MT
Pulp	3.86 lakh MT	5.46 lakh MT

Paper players to benefit from plastic ban

The government had notified Plastic Waste Management Amendment Rules, 2021, prohibiting identified single-use plastic items from Jul-2022. We expect that further growth will be driven by these and specialty paper segments induced by plastic substitution as the world replaces single-use plastic with eco-friendly paper based alternatives. Increasing trend in the e-commerce space will use higher packaged paper for delivery purposes. Also, due to the ban on usage of plastic bags, the companies have started using packaged paper for delivery purposes which could lead to higher demand for packaged paper. Paper cups and paper-based straws are also quickly finding high relevance in the food & beverage industry in comparison to such types of plastic materials. The market for packaging board is likely to grow at 9% to 10% annually in India compared to around 4% the world over. This growth is catalysed by personal consumption and the growing substitution of plastic products. We believe that paper segment is positioned to grow at healthy rate led by i) increased E-Commerce (online) penetration ii) higher packaging demand iii) light weight packaging iv) recyclable v) anti-plastic sentiments across the globe.

Demand Outlook

After the reopening of the offices and schools and revival of economic activities, the paper demand is back and growing at strong pace. The demand for office paper, which gives significant business to JK paper, has picked up well. September was better than the pre-COVID level, and there was some inventory correction from the dealers and demand is very good for office paper. Since school and colleges are reopening, the writing and printing paper demand has also picked up. There is also very good demand for the packaging board led by revival in FMCG, food, white goods as well as apparel segments.

Due to increases in input prices of fuel and commodities, the company hiked prices for all papers like coated and uncoated paper office paper, packaging board. There is likely to be further cost increases on the energy part and the company needs to look at what kind of price increase it can take. The price increases were in the range of 3-5 percent for different products and categories.

Gujarat plant at its full capacity can give additional revenue of around Rs 1200 crore per year. It is a big project and ramp-up will take time. There will be small volume in the December quarter but thereafter there would be a sizable volume coming from the Gujarat facility. Under the difficult pandemic situation, JK Paper volumes and prices dropped the least in the Industry. The company overcame the difficult conditions by introducing new brands, gaining market share and higher exports.

Packaging grade paper segment

The Paperboard demand in India is expected to grow at CAGR of ~5% during 2021-2026. This market is growing rapidly owing to the higher growth of food and beverages, cosmetics, and other industries in India. Indian packaging industry is expected to grow at a CAGR of 18% during 2021-26. Covid-19 may have derailed this growth considerably; however, certain manufacturing sectors, such as pharmaceuticals, packaged food and beverages, functional food and hygienic products among FMCG, have been less affected by the crisis, and have seen a sizeable growth both in demand and in production, raising the demand of packaging. Moreover, different government initiatives to reduce plastic wastes are also influencing the growth of this market.

Post-pandemic, paper sector on the path to recovery

Due to the Covid pandemic since March 2020, the paper industry's both inward and outward supply chains got disrupted and now gradually seeing recovery. There was severe demand compression due to the lockdown, closing down of educational institutes, commercial establishments and downstream printers, publishers, converters, stationery services.

The consumption has gone down drastically, not only due to closure of educational institutes but also offices, IT companies and service industries. This has adversely impacted writing and printing grades and also grades like tissue. All segments of paper were adversely impacted, and it is only a matter of degree amongst different grades, with writing and printing and newsprint segments the worst impacted.

From January 2021 onwards, some signs of recovery were witnessed, especially in packaging and paperboard and tissue segments. After the second wave of the pandemic, the scenario dampened again for the industry from mid-April onwards with orders drying up for some segments. Sentiments have revived after June 2021 when the impact of the second wave declined.

However, the writing and printing paper is facing a bleak scenario and demand has now started to improve as schools and colleges have started to reopen. As the other sectors of the economy have started recovering, the need for packaging and paperboard is improving. Exports are providing some relief, even though realisations have gone down, as other countries have not been so severely impacted compared to India.

The sector can grow as per capita paper consumption in India is at around 15kg as against the global average of ~50kg. While the demand for paper is growing at 6-7% per annum, India's share in world production of paper is at about 5 percent, with an estimated output of 19 million tonnes per annum (TPA) and an annual turnover of about Rs 70,000 crore wherein the domestic market size of Rs 80,000 crore.
The emphasis on education and literacy coupled with growth in organised retail and demand for better quality paper are the major drivers for writing and printing paper. There has been continued demand for quality packaging of FMCG products, organised retail, booming e-commerce, and other segments.

Company spent Rs 83.4cr in the buyback

In April-2020, JK Paper announced buyback at maximum Rs 130 per share via open market route at max of Rs 100cr. Company announced closure of buyback in Nov-2020. Under the said offer, the company bought back and extinguished 88.41 lakh equity shares at average price of Rs 94.3 per share. Company had spent Rs 83.4cr in the buyback programme. As a result, the paid-up capital of the company stands reduced to Rs 169cr as on date.

Cost pressures

The growing cost of raw materials and significant cost increase of fuels and other inputs has resulted in a substantial increase in the cost of domestic manufacture of paper and paperboard, making India's Paper Industry less-competitive. The paper and paperboard (not including newsprint import data) imports into India have been steadily increasing. In the last nine years, imports have risen at a CAGR of 11.3% in value terms (from Rs 3,411 crore in 2010-11 to Rs 8,972 crores in 2019-20). Imports are growing against the increase in domestic production rate with under utilisation of domestic installed capacity. Of the total demand for wood, over 90 percent is sourced from industry-driven agro/farm forestry, with the rest from government and other sources. About 5,00,000 farmers are engaged in growing plantations of eucalyptus, subabul, casuarina, acacia, poplar to meet the sector demand. About 125,000 hectares are being brought under agro/farm forestry annually on an average, with around 1.2 million hectares on a cumulative basis across the country.

However, the improvement in operating efficiencies, including reduction in lead distance of wood procurement, farm forestry coverage, improvement in plant yields, reduction in power, coal and water consumption, etc have resulted in cost savings that are sustainable through the cycle. These measures have made the company as one of the lowest cost producers of WPP in India.

Indian paper and packaging industry

India accounts for 4% share of the global paper demand and is the fastest growing paper and packaging board market, globally. The Indian paper and packaging board market was estimated to be growing at a CAGR of 6.2% pre-Covid. In terms of volume, the market stood at 20mn tones in 2019-20. However, in 2020-21, the Indian paper and paperboard market is estimated to have contracted by 15% YoY, led by a massive contraction in demand for printing & writing paper grades.

The Indian paper industry was severely impacted due to Covid pandemic and ensuing lockdown. Around 80% of domestic manufacturing capacity is clustered in 7 states, i.e. Uttar Pradesh, Uttarakhand, Andhra Pradesh, Telangana, Tamil Nadu, Maharashtra and Gujarat. These 7 states are also major demand centers as they constitute nearly 50% of India's GDP. The long-term outlook of the Indian paper and packaging board market remains positive with growth expected to be driven by the packaging segment. Rising imports, due to surplus capacity globally, remain a concern for domestic manufacturers.

While the paper industry is fragmented with over 750 paper mills in existence, fewer than 100 mills have a capacity of more than 50,000 tonnes per annum (tpa) and less than 10 have a scale and integration comparable to that of JK Paper. High capital investment, technical expertise, long gestation period and raw material procurement challenges have restricted the number of large players in the industry.

Pulp price trend

The global paper industry witnessed significant rise in waste paper and pulp prices. Pulp prices averaged at around US$ 625 per tonne during FY19 which had touched US$ 800 per tonne in February 2021 and currently it is at around US$ 640-660 per tonne. This was attributed to high demand and logistics disturbances in the international market. Also, no usage of wastepaper by China since the start of 2021 is believed to have supported the price rise.

China and Indonesia paper exports data

Indian Paper Manufacturer Association (IPMA) asked that Paper should be placed on the negative list of all existing and future trade agreements (FTA) to provide a level playing field to the domestic paper industry. Import should be allowed only on the basis of licence so that genuine users import for their consumption, i.e. the import policy should be changed from "free to restricted". This would help curb wrong practices adopted by market in imports.

Countries like China and Indonesia have significant excess production capacity and they push their production/inventories to India at very low prices which either attract nil duty/under the India - ASEAN FTA under Asia Pacific Trade Agreement (APTA). In the year 2018, 2019 and 2020, China had reported exports of paper and paperboard, articles of pulp and paper etc. at around US$ 19-21bn. In the year 2018, 2019 and 2020, Indonesia had reported exports of paper and paperboard, pulp and paper at around US$ 4-4.5bn, according to the United Nations COMTRADE database on international trade.

Company Background

Incorporated in 1960, JK Paper has two manufacturing plants, one each in Songadh, Gujarat; and Rayagada, Orissa. Songadh plant produces copier paper and paper boards, and the Rayagada unit produces copier and coated paper. In Aug-2018, the company had acquired Sirpur Paper Mills with a capacity of 1.36 lakh tonne through the National Company Law Tribunal (NCLT) process for an enterprise consideration of Rs 750 crore, including incremental capex and working capital investments. The company has annual capacity of 5,91,000 tons of paper and paper boards (before the Songadh expansion comes on stream – JK Paper 4.55 lakh tonnes and Sirpur 1.36 lac tonnes). Company derived 86% of volume from domestic market while 14% from exports in FY21. In the year FY21, the company produced new products, namely JK VFL, JK UFL, JK Color Kraft, JK Pac Fresh among others. Product categories launched in 2020-21 comprised Color Kraft paper, Kraft liner paper, JK Pac fresh. JK Sublime paper (rolls) & Liquid packaging board.

JK Paper is among the top five paper manufactures in India and the second-largest manufacturer of writing and printing paper (WPP). JK Paper made an offer for buyback of its shares from the open market in Q2/Q3FY21 (up to a maximum price of Rs 130 per share), which closed on 06 November 2020. Under the said offer, the company bought back and extinguished 88.41 lakh equity shares. As a result, the paid-up capital of the company stands reduced to Rs 169cr as on date.

Key Concerns

Long gestation period in capacity addition and lead time in raw material generation, among other factors, make the paper industry inherently cyclical. Company has improved availability of hardwood near its plants through its farm forestry programme, it remains exposed to any sharp increase in hardwood prices due to higher minimum support prices of agricultural commodities. Further, efficiency-related technology improvements in the space require periodic capacity up gradation, leading to high capital intensity over time.

After a strong up cycle in FY18 and FY19, paper prices started to moderate in FY20 on subdued global demand that resulted in a fall in global pulp prices, increasing the competitiveness of imports. However, pulp prices have seen a sharp increase of 20-25% in the past 8-10 months, reaching the highest since September 2019. While a recovery in demand could also lead to an increase in imports, sustained strong pulp prices could reduce import competitiveness.

Anti-dumping duty
The prices of copier paper could come under pressure if the anti-dumping duty is not renewed in December 2021.

Delay in capacity ramp-up and turnaround of Sirpur
Sirpur facility commenced phase-wise operations in H2FY20 after a delay due to operational challenges in the mill and has witnessed a delay in ramp-up with capacity utilisation of around 40% in FY21. The company took a shutdown of around three months in August 2020 owing to subdued demand coupled with the requirement of machinery realignment. Sirpur reported EBITDA loss of around Rs 70-80cr in FY21 (FY20: ~Rs 20cr) but it has turned EBITDA positive in Q1FY22.

Also, JK Paper’s virgin-based packaging board capacity expansion is non-modular and a fairly large capex given the size of its balance sheet. However, the brownfield nature of the capex and the company's execution track record mitigate these risks.

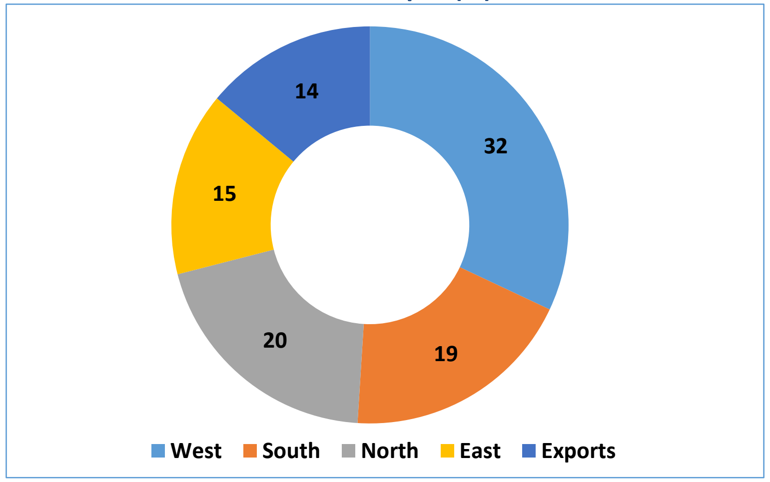
Peer Comparison

Company	Mcap (Rs cr)	Revenue			EBITDA Margin			PAT			RoE		
		FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
JK Paper	4183	3257	3060	2751	26.7	28.5	20.4	425	476	240	23.2	21.6	9.8
West Coast Paper	1831	1979	2493	2245	25.8	24.8	11.6	296	370	-3	22.5	25.7	-
Andhra Paper	974	1427	1270	887	26.6	23.9	6.9	200	213	-5	25.6	20.5	-

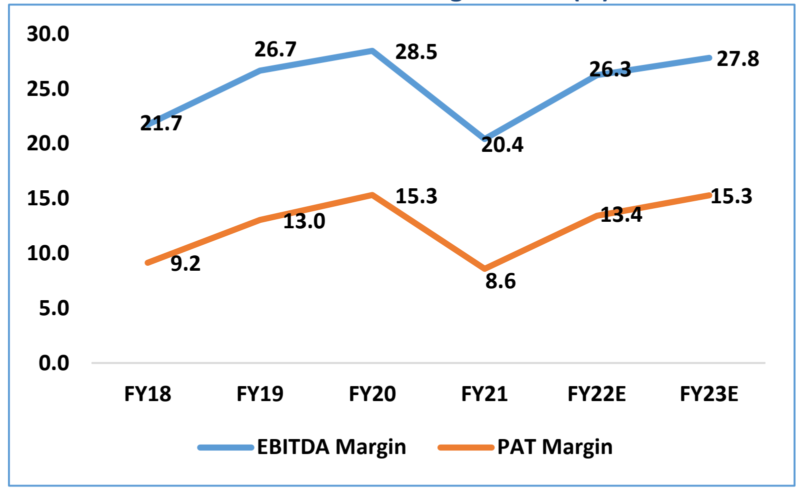
Company	EV/EBITDA			P/E		
	FY19	FY20	FY21	FY19	FY20	FY21
JK Paper	7.5	7.4	11.6	10.3	9.2	17.4
West Coast Paper	4.9	4.1	9.6	6.2	4.9	-
Andhra Paper	3.2	3.3	14.6	4.9	4.6	-

JK Paper Ltd.

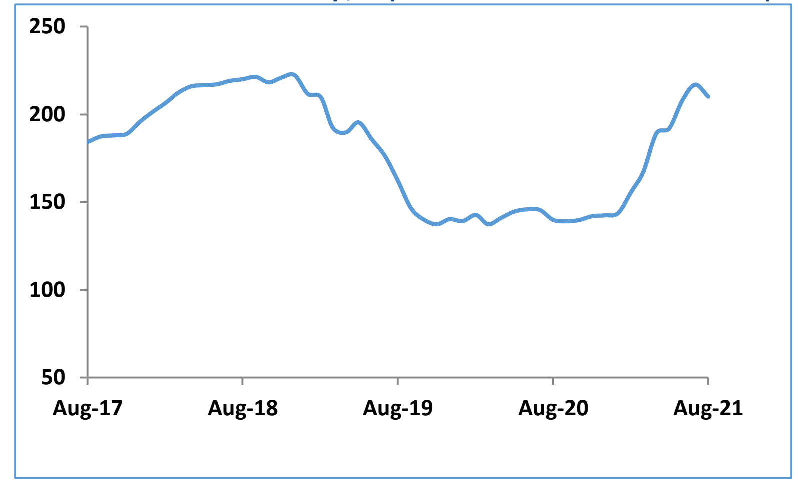
Revenue Split (%)



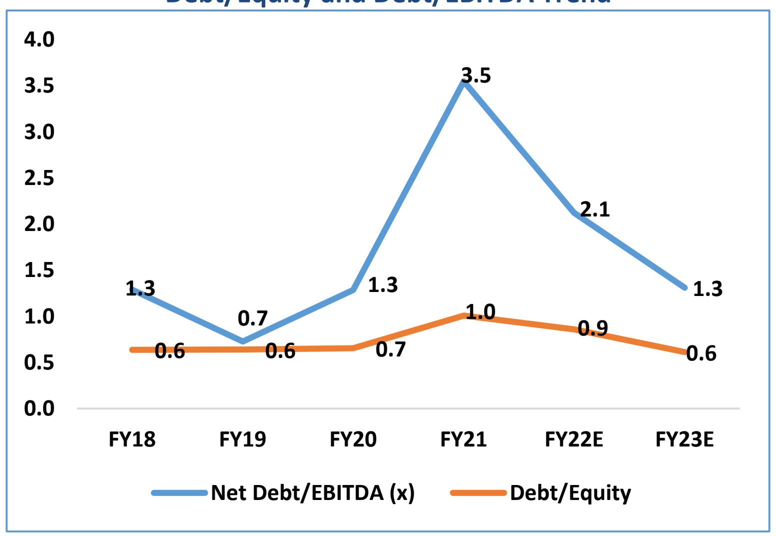
EBITDA and PAT Margin Trend (%)



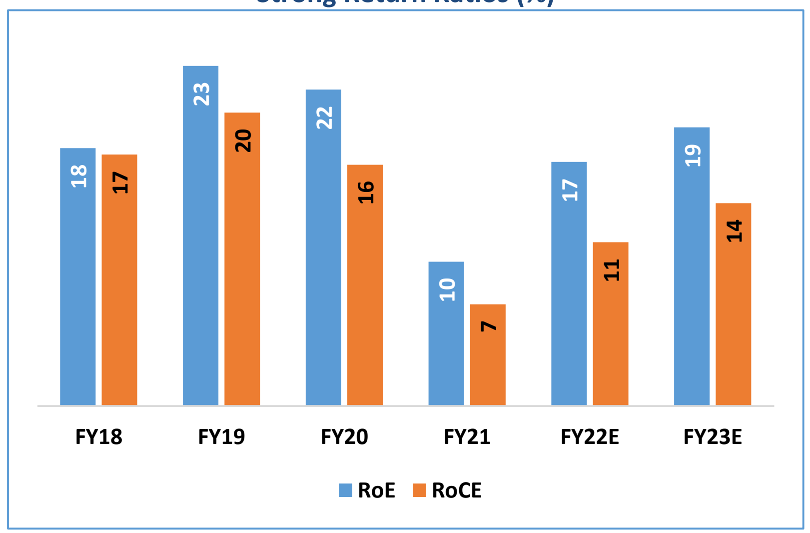
Producer Price Index – Pulp, Paper & Allied Products: Wood Pulp



Debt/Equity and Debt/EBITDA Trend



Strong Return Ratios (%)



(Source: Company, HDFC sec)

Financials (Consolidated)

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E
Total Revenue	**3060**	**2751**	**3288**	**3814**
Growth (%)	-6	-10.1	19.5	16
Operating Expenses	2189	2189	2424	2753
EBITDA	**872**	**562**	**863**	**1061**
Growth (%)	0.4	-35.5	53.6	22.9
EBITDA Margin (%)	**28.5**	**20.4**	**26.3**	**27.8**
Depreciation	150	174	204	231
EBIT	722	388	659	830
Other Income	104	111	115	121
Interest	129	129	165	168
PBT	697	370	610	784
Tax	228	134	168	200
RPAT	**476**	**240**	**449**	**593**
Growth (%)	10.3	-49.5	86.5	32.1
EPS	26.7	14.2	26.5	35

Balance Sheet

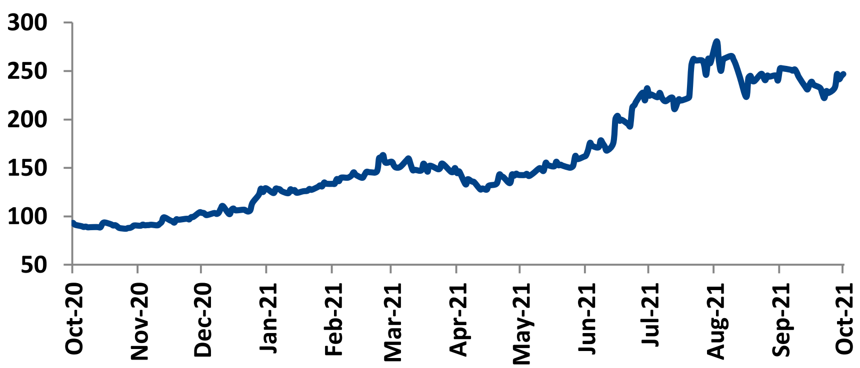
As at March	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS				
Share Capital	178	169	169	169
Reserves	2187	2347	2707	3191
Shareholders' Funds	**2366**	**2516**	**2877**	**3360**
Long Term Debt	1425	2358	2273	1843
Net Deferred Liabs	341	396	409	422
Long Term Provisions & Others	127	134	141	148
Minority Interest	8	5	5	5
Total Source of Funds	**4267**	**5411**	**5704**	**5778**
APPLICATION OF FUNDS				
Net Block (incl. CWIP)	3454	4647	4823	4812
Goodwill	33	32	32	32
Long Term Loans & Advances	376	262	281	304
Total Non-Current Assets	**3864**	**4940**	**5136**	**5148**
Current Investments	383	527	485	470
Inventories	498	383	477	562
Trade Receivables	74	79	102	115
Short term Loans & Advances	118	128	131	134
Cash & Equivalents	42	20	152	201
Other Current Assets	312	478	464	487
Total Current Assets	**1429**	**1618**	**1812**	**1970**
Short-Term Borrowings	120	181	196	217
Trade Payables	382	397	433	476
Other Current Liab & Provisions	514	566	611	643
Short-Term Provisions	8	2	2	3
Total Current Liabilities	1026	1147	1243	1340
Net Current Assets	403	470	569	630
Total Application of Funds	**4267**	**5411**	**5704**	**5778**

(Source: Company, HDFC sec)

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E
Reported PBT	697	370	610	784
Non-operating & EO items	-104	-111	-115	-121
Interest Expenses	129	129	165	168
Depreciation	150	174	204	231
Working Capital Change	-184	-10	33	-13
Tax Paid	-130	-77	-168	-200
OPERATING CASH FLOW (a)	**557**	**475**	**728**	**848**
Capex	-722	-1,173	-380	-220
Free Cash Flow	185	-1,026	348	628
Investments	223	-220	-19	-23
Non-operating income	104	111	115	121
INVESTING CASH FLOW (b)	**-396**	**-1,282**	**-284**	**-122**
Debt Issuance / (Repaid)	111	995	-65	-410
Interest Expenses	-129	-129	-165	-168
FCFE	356	-161	118	50
Share Capital Issuance/MI	-43	-12	0	0
Dividend	-86	-70	-81	-100
FINANCING CASH FLOW (c)	**-147**	**784**	**-311**	**-678**
NET CASH FLOW (a+b+c)	15	-23	133	48

One Year Price Chart



Key Ratios

	FY20	FY21	FY22E	FY23E
Profitability				
Gross Margin	55.4	52.1	56.7	58
EBITDA Margin	28.5	20.4	26.3	27.8
EBIT Margin	23.6	14.1	20	21.8
APAT Margin	15.3	8.6	13.4	15.3
RoE	21.6	9.8	16.6	19
RoCE	16.5	6.9	11.2	13.8
Solvency Ratio				
Net Debt/EBITDA (x)	1.3	3.5	2.1	1.3
D/E	0.7	1	0.9	0.6
Interest Coverage	5.6	3	4	4.9
PER SHARE DATA				
EPS	26.7	14.2	26.5	35
CEPS	35.1	24.5	38.5	48.6
BV	133	149	170	198
Dividend	4	4	4.5	5.5
Turnover Ratios (days)				
Debtor days	9	10	11	11
Inventory days	50	51	53	54
Creditors days	69	81	73	70
VALUATION				
P/E	9.2	17.4	9.3	7
P/BV	1.9	1.7	1.5	1.2
EV/EBITDA	7.4	11.6	7.5	6.1
EV / Revenues	2.1	2.4	2	1.7
Dividend Payout (%)	15	28.2	17	15.7
Dividend Yield (%)	1.6	1.6	1.8	2.2

(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks
This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks
This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks
This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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