



JK Paper Ltd

16/02/2018

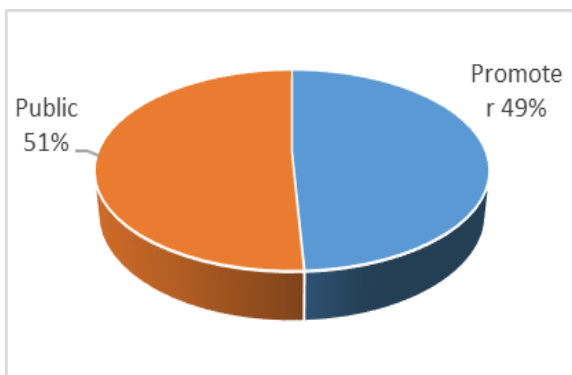
BUY
CMP **Rs 137.55**
Target Price **Rs 180.00**

BSE Code	532162
NSE Code	JKPAPER
Market Cap (Rs crore)	Rs.2414.00
52 Week High/Low	169.90/88.00
Industry	Paper & Paper Products
Face Value	Rs 10.00
Shares O/S	17.55 (Cr)

EPS*	13.84
Book Value*	90.59
P/E	9.93
P/B	1.52

Note *: On TTM basis

Shareholding Pattern as on Dec' 2017



Research Analyst :Astha Jain

Co has posted strong set of numbers in Q3FY18 with bottomline of company surging by almost more than 90% at Rs 69.81 Cr against Rs 35.89 Cr in Q3FY17. The rise was on account of increase in volumes and cost efficiency on raw material side with captive pulp wood from farm forestry. Also reduced finance cost by almost 20 % YoY from Rs 46.08 Cr in Q3 FY17 to Rs 36.97 Cr in Q3FY18 helps company in posting whopping growth in its bottomline during the Q3FY18. The co's operating profit margin has shot up by almost 8% in Q3FY18 at 19.46 % from 18.10 % in Q3FY17 while net profit margin of company has shown huge increase of more than 65 % from 5.35 % in Q3FY17 to 8.83 % in Q3FY18.

Co has shown increase in copier market share to 23 % in domestic Market from 19 % in FY 2012-13. Also , co has registered highest ever production of 4.70 Lac MT during FY 16-17 against 4.50 Lac MT in FY 15-16 coupled with highest ever sales of 4.82 Lac MT during FY 16-17 v/s 4.60 Lac MT in FY 15-16. Co's unit JKPM PM-6 achieved 108.4% capacity utilisation & has achieved best in the class of industry .

Due to co's thrust on plantation, its unit CPM able to source 100% of its raw material from area within a radius of 200 K.M. with actual weighted average cost during FY 16-17 of Rs. 7,360/ADMT. In another unit JKPM during FY 2016-17, sustained plantation efforts has resulted in increased sourcing volume within 200 KM from 42% to 53% thereby reducing the average cost from Rs 9,450/ADMT to Rs 8,787/ADMT .

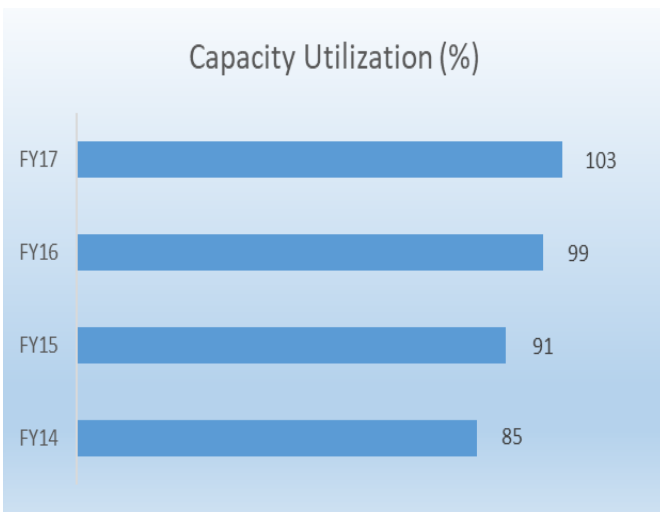
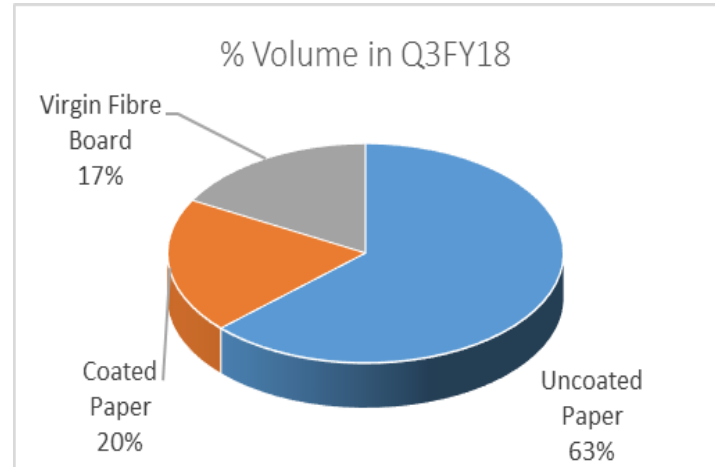
With growing economy, population & govt's emphasis on education & literacy , demand for paper is & paper products is increasing. Also growth in organized retail & demand for better quality paper acts as a major drivers for writing & printing paper. Demand for better quality packaging of FMCG products marketed through organized retail, rising healthcare spends, over-the-counter medicines & increasing preference for ready -to-eat foods are the key demand drivers for paperboard, which in turn creating ample opportunity for co's products in the sector.

Valuation

The company is currently trading at 9.69x of FY18E eps of Rs 14.19 & 8.78x of FY19E EPS of Rs 15.65. On the back better product mix, increased operating efficiencies, reduced interest cost due to proper working capital management and decreasing debt, company is able to show strong financial performance. With the strong demand outlook from paper sector & co's thrust towards organic & inorganic growth coupled with deleveraging its balance sheet , stock is all set to deliver strong performance going forward. Hence , we recommend "Buy" on the stock with price target of Rs 180(appreciation of almost 30%) for long term investment.

Business Overview

JK Paper Limited is engaged in the manufacture and sale of branded papers and packaging boards. Incorporated in 1960, the Company has two large integrated manufacturing units – JK Paper Mills, Rayagada (Odisha) and Central Pulp Mills, Songadh (Gujarat) with a combined capacity of 4,55,000 tonnes per annum. JK Paper's products are marketed across India via an extensive distribution network comprising over 4000 dealers, 191 wholesalers, 14 depots and 4 regional marketing offices. The Company is exporting to more than 40 countries including Sri Lanka, Bangladesh, Middle East, Africa, Australia, Singapore, Malaysia etc. JK Paper's flagship brand JK Copier is the largest selling copier brand in Sri Lanka.



Manufacturing Capacities

JK Paper Mills: JK Paper Mills was commissioned in 1962 in Rayagada (Odisha) as an integrated pulp and paper plant with an installed capacity of 18,000 tonnes per annum. The production capacity was progressively scaled to 2,95,000 tonnes per annum today. This facility manufactures a range of paper from 58 grams per square metre to 300 grams per square metre.

Central Pulp Mills: Central Pulp Mills was established in Songadh, Gujarat, in 1966. This was taken over by the Group in 1992-93. This integrated pulp and paper plant manufactures writing and printing paper as well as virgin packaging board with an installed capacity of 1,60,000 tonnes per annum.

Wide Product Portfolio

Office papers- JK Cedar , JK Copier, JK Easy Copier, JK Sparkle ,JK Copier Plus and JK Excel Bond. New brands 'JK CMax' and JK Max have established presence in market place.

Packaging boards- JK TuffCote, JK Ultima ,JK TuffPac , JK IV Board

Printing & Writing Papers- JK Cote , JK Ledger, JK SHB, JK Evervite, JK Finesse ,JK Elektra, JK Lumina, JK Ultraprint, JK Essay Draw

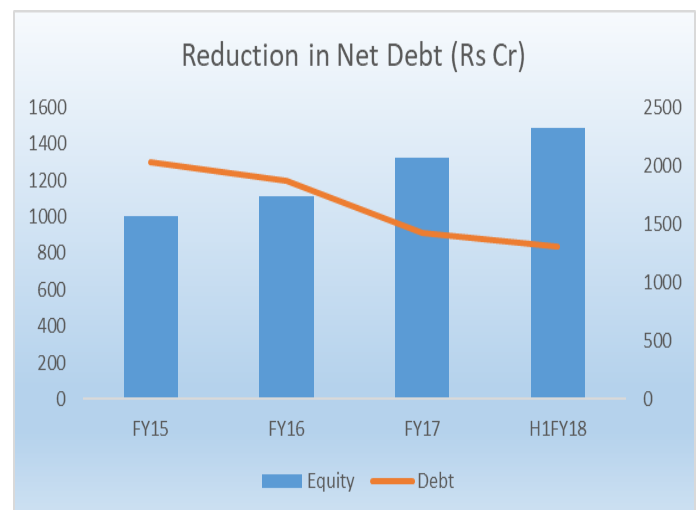
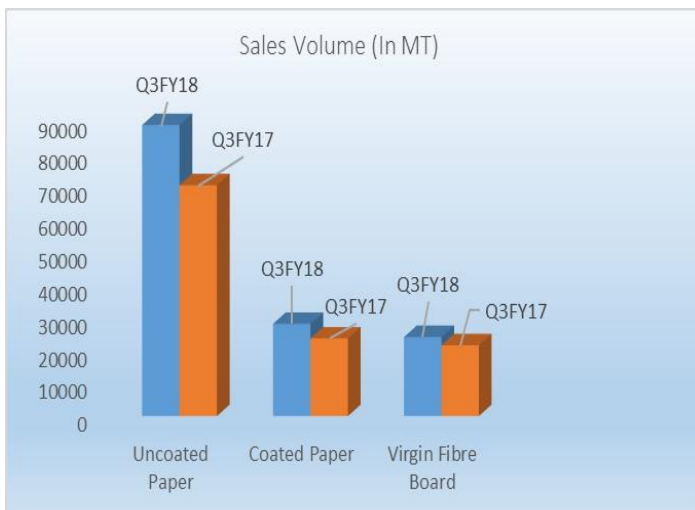
Speciality Papers- MICR Cheque paper, Parchment , Cedar digital

Growing market Share

JK Copier continues to be India's largest-selling premium paper brand. JK Paper's leadership in the category has been indicated by the fact that the additional volume resulting from capacity expansion has been readily absorbed in the marketplace, increasing its market share to 24%. The Company has also aggressively forayed into the lower tiers of the copier market through its brand 'JK Max' which has gained immense popularity among jobbers. The quality of the Company's branded copier paper manufactured at the Unit JKPM is respected not only in India but also in Middle East, Sri Lanka, and other countries including USA. The Company achieved exports of 3500 tonnes per month during the year. Irrespective of import threats and other challenges, all copier brands of the Company (JK Copier, JK Easy Copier, JK Cedar, JK CMax, JK Sparkle and JK Max) performed extremely well in their respective market and price segments. This was possible due to efficient planning, channel expansion, relationship management and strategic positioning of the copier range. In Packaging boards segment growth in India's retail, consumer and e-commerce segments catalysed the demand for packaging boards. The result was that the nation's high-end packaging segment reported growth of 13.7% per annum in 2016-17. The country encountered a substantial increase in boards capacity by more than 50 percent in the short space of 18 months. For the year, JK's packaging brands 'JK Ultima' and 'JK TuffCote' retained market shares in their markets by regularly interacting with customers, servicing them in a timely manner and being flexible in dealings. In Coated papers segment, company maintained its market leadership by identifying new customer segments, providing tailor-made solutions, guaranteeing on-time deliveries and offering proactive after-sales service. Consequently, 'JK Cote' continued to be a popular choice among customers. In Maplitho papers, the Company was able to scale capacities through a keen emphasis on quality control and product development. While brands like JK Finesse, JK Lumina, JK Envelope, JK Green Maplitho catered to incipient customer needs, brands like JK Easy Draw, JK Elektra and JK UltraPrint established their presence in the core segments. The company added maplitho finishing capability (reeling and sheeting), which enhanced availability, quality and customized output.

Robust Financial Performance

Co has posted strong set of numbers in Q3FY18 with bottomline of company surging by almost more than 90% at Rs 69.81 Cr against Rs 35.89 Cr in Q3FY17. The rise was on account of increase in volumes and cost efficiency on raw material side with captive pulp wood from farm forestry. Also reduced finance cost by almost 20 % YoY from Rs 46.08 Cr in Q3 FY17 to Rs 36.97 Cr in Q3FY18 helps company in posting whopping growth in its bottomline during the Q3FY18. The co's operating profit margin has shoot by almost 8% in Q3FY18 at 19.46 % from 18.10 % in Q3FY17 while net profit margin of company has shown huge increase of more than 65 % from 5.35 % in Q3FY17 to 8.83 % in Q3FY18.



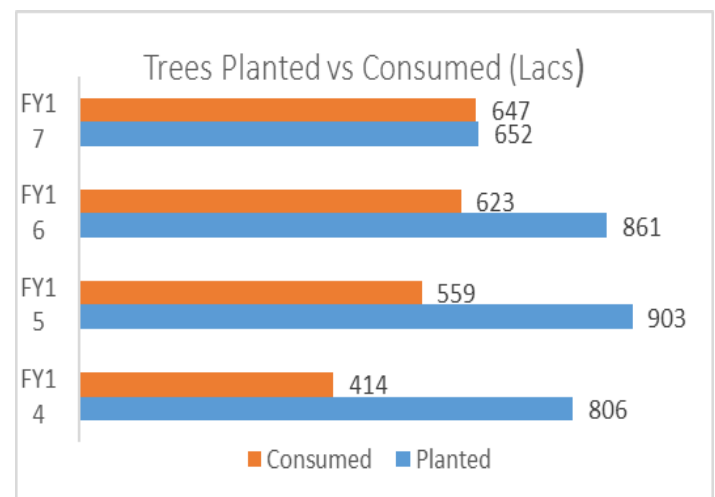
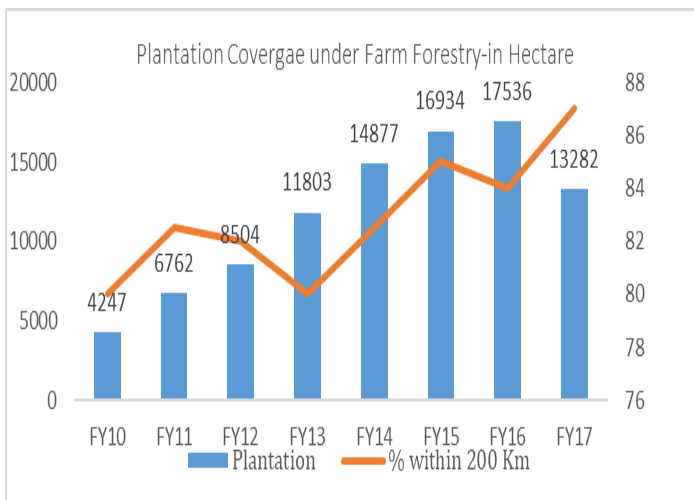


Increasing cost efficiencies

By sourcing the bulk of the raw materials from areas near the factory, the company gradually decreased raw material costs significantly. At the Unit CPM in Gujarat, self-sufficiency was achieved in terms of raw material sourcing from within a 200 kilometre-radius. In order to ensure long-term raw material availability, the company made a concerted effort to acquire hardwood from farm forestry projects within a 200 kilometre-radius of its mills. Most areas were planted with Eucalyptus, Subabul and Casuarina. The Company's efforts cumulatively resulted in the plantation of over 1.5 lac hectares in Gujarat, Maharashtra, Chattisgarh, Odisha and Andhra Pradesh. As per the Global Forest Study, the Company raised the share of industry-induced social farm forestry output in India by ~11%. Co is doing R&D to develop short rotation clones (2-3 years) for improvement of plantation yield. These activities allowed the inhouse clonal sapling production level to increase to 72.4 million. Field trials of Casuarina equisetifolia and Lucaenea leucocephala commenced in September 2014 under a cess-approved IPMA project in collaboration with IFGTB, Coimbatore. One of the eucalyptus clones CPM-U283 reported promising growth by achieving maturity within three years of planting. Work commenced with Subabul clones enjoying higher yields and offering better farmer returns.

Strong Sectoral Outlook

Despite having a capacity to produce approx 13 million tonnes per annum and a turnover of approx. Rs. 50,000 crore, the Indian paper industry accounts for a mere 3% of the global aggregate. This sector provides direct employment to more than 5 lac people, and indirectly to 15 lac people. The Indian paper industry is highly fragmented with over 750 paper mills. However, only 50 of these mills have a capacity of 50,000 metric tonnes per annum or more. approx 70% of the total installed capacity is spread across the states of Gujarat, West Bengal, Odisha, Andhra Pradesh, Karnataka and Maharashtra. The market for writing and printing paper is expected to grow by about 6% annually over the next five years. As a result, market for printing and writing paper will expand from the current 4.8 million tonnes in 2015-16 to about 5.8 million tonnes per year by 2018-19. The organised sector in FY2015-16 was running at capacity utilisation of 90%. An increase in consumption by just 1 kilogram per capita could lead to an increase in demand by 1.25 million tonnes per annum. In the last five years, between Rs. 20,000 crore and Rs. 25,000 crore was invested in the Indian paper sector towards capacity enhancement & technology upgradation. This capacity expansion is already being absorbed due to the rising demand for paper in India. Nonetheless, there is room for a million tonnes of integrated pulp, paper and paperboard capacity to be created every year to meet the growing demand. This investment could result in a gross capital formation of Rs. 8,500 crore per annum and provide direct employment to an additional 15,000 people per year. The per capita paper consumption in India is only 11.5 kilograms as opposed to a global average of 58 kilograms, highlighting ample room for growth. Moreover, with India reinforcing its status as one of the fastest-growing major economies as well as the fastest growing paper market (approx. 6% per annum), it is expected that paper consumption could grow over 50% to ~20 million tonnes by 2020 and to ~23.5 million tonnes by 2024-25.



Consolidated P& L Statement

Rs Crore

Particulars	FY15	FY16	FY17	FY18E	FY19E
Total Revenue	2160.11	2437.25	2628.61	2786.33	2953.51
Growth(%)	---	12.83	7.85	6.00	6.00
Expenditure	1901.72	2048.12	2111.94	2159.40	2274.20
EBITDA	258.39	389.13	516.67	626.93	679.31
Growth (%)	----	50.60	32.78	21.34	8.35
EBITDA Margin(%)	11.96	15.97	19.66	22.50	23.00
Other income	8.96	13.18	35.15	41.79	44.30
Depreciation & Amortization	115.76	118.29	120.68	127.92	135.60
EBIT	151.59	284.02	431.14	540.80	588.01
EBIT Margin(%)	7.02	11.65	16.40	19.41	19.91
Interest	205.35	195.23	187.64	191.28	202.75
Exceptional Item	0.00	0.00	0.00	0.00	0.00
PBT	-53.76	88.79	243.50	349.52	385.26
Tax	-41.16	28.05	69.04	97.87	107.87
PAT	-12.60	60.74	174.46	251.65	277.39
Min Int & Ass Share	-5.79	-4.81	-2.67	-2.67	-2.67
Consolidated PAT	-18.39	55.93	171.79	248.98	274.72
Growth (%)	---	----	207.15	44.93	10.34
NPM (%)	-0.85	2.29	6.54	8.94	9.30

Ratios

Particulars	FY15	FY16	FY17	FY18E	FY19E
EPS	-1.05	3.19	9.79	14.19	15.65
Return on Equity (%)	-2.37	5.07	13.00	15.92	15.16
Return On Capital Employed (%)	5.76	10.73	15.69	17.53	17.11
Book value per share	44.20	42.80	75.28	89.09	103.26
Debt/Equity	2.40	1.40	1.08	0.97	0.90

Consolidated Balance Sheet

Rs. Crore

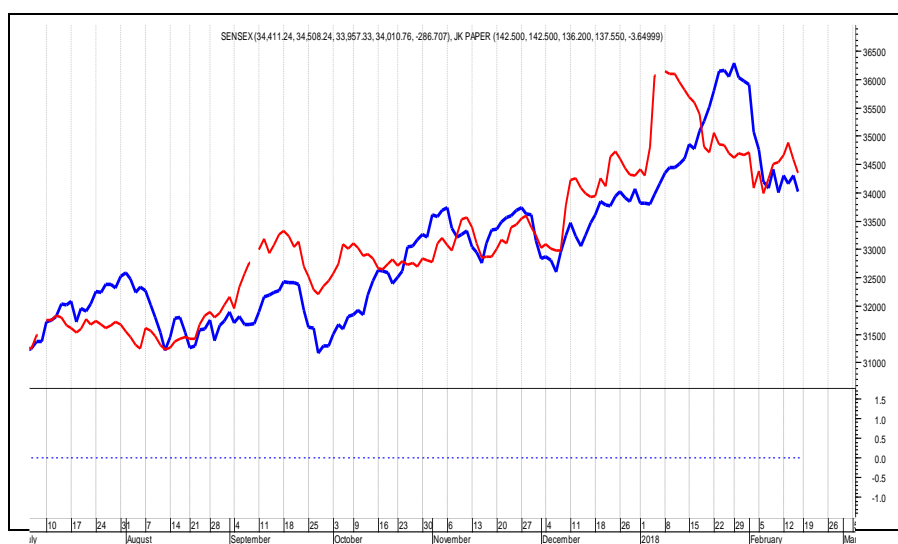
Particulars	FY15	FY16	FY17	FY18E	FY19E
Share Capital	136.62	148.53	155.96	175.56	175.56
Reserves & Surplus	638.99	953.57	1165.29	1387.95	1636.67
Sh App/Warrants	0.02	0.02	0.00	0.00	0.00
Total Debt (Long Term+ Short Term Borrowings)	1857.92	1543.68	1426.80	1521.20	1623.76
Other Long Term Liabilities & provisions	41.33	47.60	55.53	64.64	72.22
Net Deferred tax Liability	33.19	79.42	99.56	112.47	125.94
Sources of funds	2708.07	2772.82	2903.14	3261.82	3634.15
Net Fixed Assets	2397.39	2771.95	2652.00	2964.08	3293.96
Non-Current Investments	3.86	60.04	67.67	85.74	98.00
Misc Expenses	26.75	0.00	0.00	0.00	0.00
Other Non-Current Assets	57.73	16.94	31.90	36.86	42.11
Inventories	374.35	334.71	382.94	442.50	505.51
Sundry debtors	146.25	139.18	110.81	128.05	146.28
Cash and bank balance	17.83	15.78	30.10	34.78	39.73
Other current assets	231.90	60.83	31.25	36.11	41.25
Loans and advances	72.09	69.00	46.37	53.58	61.21
Current Investment	0.00	10.01	242.59	280.32	320.24
Total current assets	842.42	629.51	844.06	975.34	1114.23
Current liabilities and provisions	620.08	705.62	692.49	800.20	914.14
Net current assets (Ex Cash)	204.51	-91.89	121.47	140.36	160.35
Uses of Fund	2708.07	2772.82	2903.14	3261.82	3634.16

Standalone Quarterly Financial Highlights

Rs. Crore

Particulars	Q3FY18	Q3FY17	Q2FY18	YoY%	QoQ%
Revenues	790.81	670.89	671.49	17.87	17.77
Expenditures	636.94	549.49	532.66	15.91	19.58
Operating Profit	153.87	121.40	138.83	26.75	10.83
Net Profit	69.81	35.89	56.63	94.51	23.27
PBIDTM% (ex OI)	19.46	18.10	20.67	7.53	-5.85
NPM %	8.83	5.35	8.43	65.01	4.74
EPS*	4.02	2.38	3.35	68.91	20.00

Past Price movement of the stock





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Disclosure of Interest Statement

1. Analyst Ownership of the Stocks	No
2. Hem & its Group Company Ownership of the Stock	No
3. Hem & its Group Company Director Ownership of the Stock	No
4. Broking relationship with Company covered	No

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