

## **JK PAPER LIMITED**

BSE: 532162 | Sector: Paper

Position: **Close**

CMP : Rs. 59

Target Price: Rs. 78 (In next 12 mths)

### **BUSINESS BACKGROUND**

JKPL is led by Shri Hari Shankar Singhanian and is a part of JK Group. With six decade long operating history, JKPL is the market leader in the copier paper segment and amongst the top paper manufacturers in India. JKPL also leads the market position in its other product segments, i.e. coated paper and virgin fibre boards segments. With strong market position and significant backward integration into pulp and power capacities, JKPL is the most efficient player having an established portfolio of reputed brands.

With a portfolio of reputed brands, JKPL sells over 90% of its production under its own brands and recently JKPL also had an exclusive tie-up with Hewlett Packard (HP) for using the "ColorLok" technology. ColorLok papers provide better quality printing and reduce the maintenance cost for the printers. JKPL is the only company in the country and eleventh in the world to be certified by HP, which is an endorsement to its product quality

### **Strong Q1FY17 Performance –**

JK Paper reported revenues for Q1FY17 were at Rs 606.51 crs, against Rs 585.31 crs in Q1FY16, with Q1FY17 EBITDA placed at Rs 113.33 crs, as compared to Rs 100 crs in Q1FY16, and Profit after Tax (PAT) for Q1FY17 placed at Rs 27.11 crs, up 70% Y-o-Y.

For FY16 the company has recorded a topline of Rs 2460.78 crs from Rs 2160.11 crs, a EBIDTA of Rs 408.23 crs from Rs 258.39 crs while PAT is placed at Rs 73.1 crs from a net loss of Rs 18 crs last year.

### **JK Papers enjoys a strong presence in value added segments –**

JK Papers Ltd is one of India's largest paper producers having a total capacity of 4.55 lac tpa and present largely in the value added segment like copier segment, coated segment and packaging board segments.

JK Papers enjoys a market share of over 28% in the copier segments and almost 95% of its topline comes from the value added segment. To mitigate its raw material procurements it has already put a captive plantations facility which has taken care of its increased production.

The key game changer for JK Paper in FY16 was the commissioning of its new plant at Orissa which makes value added copier paper and wherein the company was able to achieve a record a capacity utilization of over 100% for its total capacity.

These product segments accounted for almost 95% of JKPL's total product mix in FY 16. Given the underlying demand drivers for these segments, they are expected to grow at a higher rate than overall industry average.

### **KEY DATA**

FACE VALUE	Rs	10.00
DIVD YIELD %		NA
52 WK HI/LOW		62/40
NSE CODE		JKPAPER
BSE CODE		JKPAPER
MARKET CAP	RS	876 CRS

PROMOTERS	-	58%
BANKS, MFs & DIIs	-	11%
FIIs	-	%
PUBLIC	-	31%

### **KEY FUNDAMENTALS**

YE	FY16	FY17	FY18
Rev Gr%	14	12	14
EBIDTA Gr%	58	19	41
PAT Gr%	76	10	
EPS Gr%	76	10	
Roe %	8.2	13	12
Roce %	9.0	11	12
EPS (Rs)	5	8.60	9.5
P/E (x)		7	6

## **JK Paper has adequate self-sufficiencies for major portion of its raw material and power requirements; and its ongoing expansion to improve its cost structure –**

JKPL's dependence on open market wood procurement has remained limited to around 25% of its total wood requirements and a majority of its requirement is met through its farm forestry sources and long term government contracts.

JKPL is also self-reliant for majority of its power requirements and sources almost 90% of its power from captive sources. Going forward, as a part of the ongoing expansion cum modernisation programme a major portion of the incremental power requirement of the expanded capacities will be met through liquor fired boilers, thereby limiting the increase in coal consumption of JKPM

## **JK Papers new Copier Plant is a Game Changer going ahead –**

The key game changer for JK Paper in FY16 was the commissioning of its new plant at Orissa which makes value added copier paper and wherein the company was able to achieve a record a capacity utilization of over 100% for its total capacity.

This is very important for the paper industry as paper is a highly fixed capital intensive business which is very much important to maintain and sustain profit margins. Also lower commodity prices have resulted in lower pulp prices, lower power costs have also helped improve margins and coupled with this the prices of value added paper have shown a smart increase in last 6 to 12 months.

## **Steady demand growth prospects for the paper industry to boost JK Papers prospects –**

The Indian paper industry has witnessed a Compounded Annual Growth Rate (CAGR) of around 9% over last four years which has been driven by a steady growth in per capita consumption by around 7.5% over this period. Given the low domestic per capita consumption at around 9.1 Kg, as against world average of around 58 Kg and other developing country like China of around 55 Kg; the demand growth potential is huge over medium to long term.

This is expected to be supported by increasing literacy levels, thrust on education sector and strong economic growth leading to increase in consumption from industrial and consumer goods.

## **JK Papers presence in high growth product segments of the paper industry to benefit it significantly –**

Within the overall paper industry, JK Paper is strong in value added segments such as copier paper, coated paper and industrial packaging boards made out of virgin fibre (Folding Box Board – FBB) which have grown at a CAGR higher than industry average. These products segments accounted for almost 95% of JKPL's total product mix in FY 16. Given the underlying demand drivers for these segments, they are expected to grow at a higher rate than overall industry average. While JKPL is a market leader in the copier paper segment, it is among the top two producers of coated paper and FBB segment.

JK Papers Ltd is one of India's largest paper producers having a total capacity of 4.55 lac tpa and is present largely in the value added segment like copier segment, coated segment and packaging board segments.

JK Papers enjoys a market share of over 28% in the copier segments and almost 95% of its topline comes from the value added segment. To mitigate its raw material procurements it has already put a captive plantations facility which has taken care of its increased production.

Also lower commodity prices have resulted in lower pulp prices, lower power costs have also helped improve margins and coupled with this the prices of value added paper have shown a smart increase in last 6 to 12 months. This is expected to continue as the demand for paper is growing steadily but supply side shortages across the entire industry are expected to continue till early FY18.

To augment capacity JK Papers has also bid for two plants of BILT which have been put up for sale. As per the terms if the initial offer JK Paper will be making a final offer by November 2016 after which a final decision will be taken. If this deal goes through JK Paper will get further incremental capacity to tune of 2 lac tonnes which can be put to good use going ahead.

## Solid financial performance – Revenue growth and margin expansion to continue –

We estimate JK Papers earnings to witness a CAGR of 19-20% over FY16-18E. This will be driven by steady revenue growth (10-13% CAGR over FY16-18E) and a steady EBITDA margin expansion over the same period.

We expect a significant improvement in both ROCE and ROE over the next 2 years as we expect the domestic market to grow at a healthy clip where there is good scope for margin improvement and revenue growth.

## Business Outlook & Stock Valuation –

On a rough cut basis, in FY17, Topline will see a steady rise wherein Topline is expected to touch Rs 2760 crs.

On the bottomline level we expect the company to record a PAT of Rs 128 crs in FY17E. Thus on a conservative basis, JK Paper should record a EPS of Rs around Rs 8.65 for FY17E. For FY18E our expectation is that earnings traction for JK Paper would continue to be strong wherein we expect a EPS of Rs 9.50 respectively.

We believe that with the new plant of JK Paper this will not only be aided by higher capacity expansion but will also result in structural improvement in JK Paper L's cost structure arising out of better plant efficiencies and better economies of scale. Consequently we expect JK Paper to improve its profitability and return indicators post implementation of its expansion programme. Moreover, the increased capacity coupled with strong market position arising from established sales & distribution network will also enable JK Paper to retain its leadership position in its key product segments. Considering the benefits of the ongoing expansion programme, we expect JK Papers earnings to increase substantially from FY 17 onwards and the EPS to improve, despite expanded a equity base

Hence looking at JK Papers financial track record, strong product domain and dominant market share and strong promoters we expect the stock to get re rated in future.

Hence we believe that the JK Paper stock should be purchased at the current price for a price target of around Rs 78 over the next 12 months.

## FINANCIALS

For the Year Ended March RsCrs	FY15A	FY16A	FY17E	FY18E
Net Sales	2160.11	2460.78	2760.01	3146.41
EBIDTA	258.39	408.23	485.94	690.00
EBIDTA %	11.96	16.59	17.61	20.57
Interest	205.35	199.77	190.00	235.00
Depreciation	115.76	109.83	116.00	134.00
Non Operational Other Income	8.96	11.25	13.00	13.00
Profit Before Tax	-59.58	109.88	192.31	210.54
Profit After Tax	-18.39	72.92	128.37	140.53
Diluted EPS (Rs)		4.91	8.64	9.46
Equity Capital	136.62	148.53	148.53	148.53
Reserves	609.97	711.17	839.43	980.00
Borrowings	1612.71	1449.87	1357.37	1500.00
GrossBlock	3077.94	3182.35	3257.35	3332.35
Investments	0.00	10.00	10.00	10.00

Source Company Estimates

## **KEY CONCERNS**

Any significant drop in core demand for paper especially from user related segments can impact the company negatively.

Sharp rise in raw material costs can also put pressure on margins of the company.