

POSITIONAL CALL - JK PAPER LTD

CMP 150

TARGET 180

Dated : 04th January 2019

| BUY | |
|--------------|----------------------|
| Price ₹ | 150 |
| Target Price | 180 |
| Upside | 20% |
| Div Yield | 1.67% |
| Sensex | 35695.10 |
| Nifty | 10728.30 |
| Group/Index | B / S&P BSE SmallCap |

| Stock Details | |
|------------------|----------------|
| M.cap (₹ in cr) | 2674 |
| Equity (₹ In cr) | 178.24 |
| 52 wk H/L ₹ | 193.95/97.85 |
| Face Value ₹ | 10.00 |
| NSE code | JKPAPER |
| BSE code | 532162 |

| Results Update | | | |
|----------------|-------------|-------------|----------|
| Particulars | Q2 FY 19 | Q2 FY 18 | % Change |
| Revenue(Gross) | 837.53 | 709.83 | 17.99 |
| EBITDA | 215.21 | 145.20 | 48.22 |
| PBT | 155.98 | 81.48 | 91.43 |
| PAT | 109.57 | 56.63 | 93.48 |
| EPS(diluted) | 6.15 | 3.19 | 92.71 |

IN ₹ Crores

| Half Year Highlights | | | |
|----------------------|--------------|-------------|----------|
| Particulars | 30.09.2018 | 30.09.2017 | % Change |
| Revenue(Gross) | 1690.14 | 1429.97 | 18.19 |
| EBITDA | 421.38 | 304.73 | 38.28 |
| PBT | 303.15 | 171.67 | 76.59 |
| PAT | 204.71 | 116.74 | 75.36 |
| EPS(diluted) | 11.43 | 6.59 | 73.44 |

IN ₹ Crores

Investment Rationale

Capacity expansion to drive JK paper volume ahead

As operating at full capacity, the management plans to increase capacity to achieve meaningful volume growth. It announced a brownfield investment of **₹1,450 crore** for setting up additional packaging board capacity of **1.5lakhMT**. Though commercialisation of new capacity addition is likely to take more than 24-30 months, acquisition of Sirpur Paper Mills is a near term positive. So from **4.5 lakh tons capacity** Sirpur acquisition will make up capacity to **6-lakhs**. Therefore, in two years time, capacity will move up from **4.55-lakh to 7.5-lakhs tons** and will become the **number two paper company** in the country.

JK Paper acquired Telengana-based Sirpur Paper Mill at **₹ 371cr** through NCLT insolvency process. This consists of a cash payment of **₹166cr** and issue of equity shares of **₹43cr** and preference shares of **₹162 cr**. Also, would help increase capacity at a total investment of around **₹ 671 cr**, including incremental capex towards modernisation. The capex, for both the planned organic and inorganic expansion, would lead to an increase in leverage, especially over FY20-21. However, the staggered nature of the capex, with favorable industry fundamentals, mitigates the risk to some extent.

*To address the concerns regarding rising imports at predatory prices from surplus countries & given the positive demand-supply outlook, DGAD recommended imposition of **anti-dumping duty**, difference between the landed value and **\$855 per tonne**, on imports of uncoated paper from **Indonesia, Thailand and Singapore** for a period of three years from date of notification. This move is set to protect domestic players by supporting margins. Although, a final notification is awaited.*

Key Financial Highlights - Q2FY19

Company generated nearly **two-fold jump** in its standalone net profit to **₹109.57cr** mainly driven by volume growth and sales realisation. It had posted a net profit of **₹56.63cr**. Total income rose 17.47% to **₹795.46cr** as against **₹677.11 cr** in the same period previous fiscal. Margin improved further to 26.1% in Q2 (FY18 21%) on the back of **improving realizations, reducing raw material costs and improving operating efficiencies**. During the quarter, JK Paper took possession of the Sirpur Paper Mills and refurbishment and overhaul of plant and machinery is underway. Revenue remained flat on a sequential basis as production was impacted due to **plant shutdown in Rayagada, Odisha** following a strike by workers.

Management is confident of market to continue remain strong with growth in volume and sales realisation. Adding to this, better operating efficiencies and lower finance cost due to deleveraging has also contributed to improved performance on quarter to quarter basis. while global pulp prices have been on a rising trajectory in the past years, lower dependence on import, agroforestry initiatives and usage of captive wood has resulted in JK Paper being not affected by rising prices.

Volume growth, higher realizations coupled with improved operating parameters and abridged finance cost resulted uptick in profitability for the quarter. Having current capacity at 4.55lakh tones, JK paper is all set to commence the additional capacity of 1.38 lakh tones from Sirpur plant in Telangana, to help venture into color paper segment, the very first time by April, 2019. Likewise, will further increase its capacity by adding 1.5 lakh tonnes in the next two years from Gujarat plant stemmed to focus on the packaging board vertical. Both would help to grow revenues at 15% CAGR over next 5 years.

Shave of paper production in China as a result of environmental concerns, levy of anti-dumping duty on uncoated copier paper imports from Indonesia, Thailand and Singapore, is expected to stem in a call for paper. we estimate P/E of FY19E at around 8x, share price turns around to be ₹ 180.



Share price Chart has been taken for a period of past 1year. There is a strong support at the levels of ₹135 & resistance of ₹189 in medium term.

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