JK Paper Ltd. Q2 FY18 Result Analysis

November 17, 2017

CMP (INR): (Nov 17, 2017)	115.00
Target (INR)	173.00
Upside(%)	50.00
Recommendation :	**Strong Buy**

BSE Code	532162
NSE Code	JKPAPER
Reuters Ticker	JKPA.NS
Bloomberg Ticker	JKPAPER IN

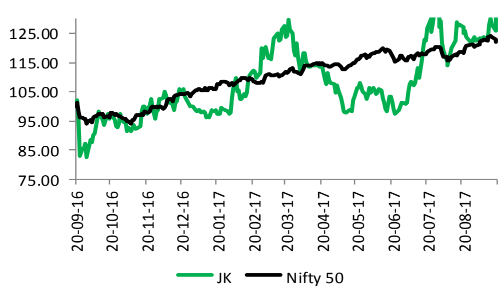
Stock Scan

Market cap (INR Cr.)	1971.59
Outstanding Shares (Cr.)	16.89
Face Value (INR)	10
Dividend Yield(%)	1.30
P/E (x)	12.16
Industry P/E (x)	14.12
Debt/Equity	1.28
Beta vs. Sensex	1.24
52 Week High/ Low (INR)	129.20/75.20
Avg. Daily Vol (NSE)/1 year	699588

Shareholding Pattern (%)

	Sept-2017	June-2017	Mar-2017
Promoters	51.10%	50.78%	54.99%
Institutions	14.26%	19.46%	15.22%
Non-institutions	34.64%	29.76%	29.79%

JK Paper vs. Nifty (Relative returns)



Source: NSE

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Company Overview

JK Paper is one of India's largest producers of office, printing, writing and specialty paper, and packaging boards, with two fully integrated manufacturing facilities. It is the market leader in the writing and printing segment and among the top players in packaging & paperboard segment. It has 24% market share in the copier paper segment (B2C) which is primarily due to its strong distribution network and brand recall.

Q2 FY2018 results: Key highlights

- JK Paper's Q2 FY18 revenues declined 2% YoY to INR671.49 crore however, the top-line is not strictly comparable to Q2 FY2017 as the revenue for current quarter is reported net of GST (the management guided that in rupee terms the revenue decline was 0.8% YoY).
- Its EBITDA grew 3.30% YoY to INR138.83 crore, its EBITDA margin expanded by 106 bps YoY to 20.67%.
- Its net profit grew 29% YoY to INR56.63 crore, it's net profit margin expanded 201 bps YoY to 8.43%.
- Its finance cost declined 33% YoY, the company declared that the reduction in finance cost was primarily an outcome of continued deleveraging, lower rate of interest and better working capital management.
- The management guided that the Indian paper industry expected to grow well with increased demand absorbing surplus capacities.
- The Company informed that it is enhancing forestry programme, planting more trees than it uses, making it wood positive.

Financial Performance at a glance

Particulars (INR Cr)	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E
Revenue from operations	2158.83	2437.35	2628.61	2878.33	3166.16
Growth (%)	*24.22%*	*12.90%*	*7.85%*	*9.50%*	*10.00%*
EBITDA (Excl. OI)	254.34	391.26	512.43	590.06	680.72
EBITDA Margins (%)	*11.78%*	*16.05%*	*19.49%*	*20.50%*	*21.50%*
Net Profit	-12.74	60.97	162.83	237.95	327.81
Net Profit Margins (%)	*-0.59%*	*2.50%*	*6.19%*	*8.27%*	*10.35%*
Diluted EPS	*-0.93*	*4.01*	*9.45*	*13.71*	*18.40*
BVPS	72.56	78.93	95.21	105.32	127.72
P/E	*N/A*	*11.26*	*9.08*	*8.75*	*6.52*
P/BV	0.58	0.57	1.26	1.14	0.94
EV/EBITDA	*8.12*	*5.31*	*5.46*	*5.12*	*4.0*
ROE (%)	-1.27%	5.49%	12.32%	14.97%	16.83%

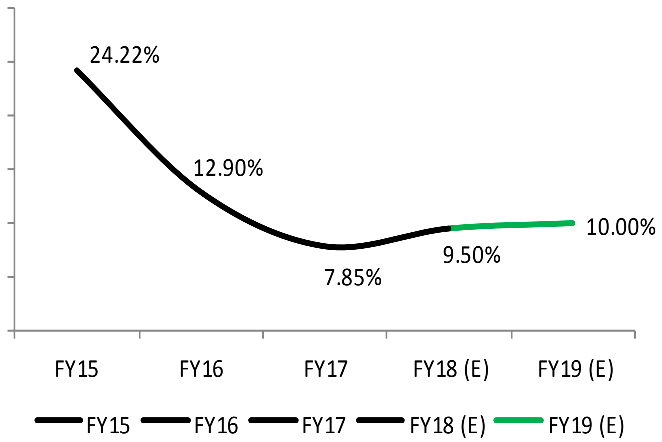
Source: Company data, Smifs Research

Financial Results for the quarter ending Sep 30, 2017

Particulars (in INR Crore)	Quarter Ended					Half year ended		
	Q2 FY18	Q2 FY17	YoY %	Q1 FY18	QoQ %	H1 FY18	H1 FY17	YoY
Net sales	671.49	685.24	-2.01%	632.07	6.24%	1303.56	1291.75	0.91%
Other operating income	-	-	-	-	-	-	-	-
Total operating income	**671.49**	**685.24**	**-2.01%**	**632.07**	**6.24%**	**1,303.56**	**1291.75**	**0.91%**
Cost of materials consumed	306.63	327.40	-6.34%	316.92	-3.25%	623.55	642.08	-2.89%
Purchase of stock-in trade	108.01	50.75	112.83%	59.13	82.67%	167.14	118.26	41.33%
(Increase)/decrease in inventories	-55.83	22.54	-347.69%	-63.35	-11.87%	-119.18	-14.62	715.18%
Employee benefit expense	59.56	53.19	11.98%	53.79	10.73%	113.35	101.38	11.81%
Power, Fuel and water	60.78	52.64	15.46%	57.82	5.12%	118.6	104.37	13.63%
Other expenses	53.51	44.32	20.74%	54.71	-2.19%	108.22	91.82	17.86%
Total Expenses	532.66	550.84	-3.30%	479.02	11.20%	1011.68	1043.29	-3.03%
EBITDA	**138.83**	**134.40**	**3.30%**	**153.05**	**-9.29%**	**291.88**	**248.46**	**17.48%**
EBITDA margin (%)	20.67%	19.61%	106 bps	24.21%	-354 bps	22.39%	19.23%	316 bps
Other income	6.37	7.47	-14.73%	6.48	-1.70%	12.85	10.84	18.54%
Depreciation & amortization	30.38	30.20	0.60%	29.64	2.50%	60.02	60.02	0.00%
EBIT	114.82	111.67	2.82%	129.89	-11.60%	244.71	199.28	22.80%
EBIT Margin (%)	17.10%	16.30%	80 bps	20.55%	-345 bps	18.77%	15.43%	334 bps
Interest cost	33.34	49.54	-32.70%	39.70	-16.02%	73.04	98.33	-25.72%
Profit before tax	81.48	62.13	31.14%	90.19	-9.66%	171.67	100.95	70.05%
PBT margin (%)	12.13%	9.07%	306 bps	14.27%	-214 bps	13.17%	7.81%	536 bps
Tax	24.85	18.17	36.76%	30.08	-17.39%	54.93	30.33	81.11%
Profit after tax	**56.63**	**43.96**	**28.82%**	**60.11**	**-5.79%**	**116.74**	**70.62**	**65.31%**
PAT margin (%)	8.43%	6.42%	201 bps	9.51%	-108 bps	8.96%	5.47%	349 bps
Other comprehensive income	-2.42	1.41	-271.63%	-0.14	-1629%	-2.56	1.86	-238%
Total Comprehensive income	54.21	45.37	19.48%	59.97	-9.60%	114.18	72.48	57.53%
EPS	**3.35**	**2.96**	**13.18%**	**3.70**	**-9.46%**	**7.05**	**4.75**	**48.42%**
EPS (Diluted)	**3.19**	**2.59**	**23.17%**	**3.40**	**-6.18%**	**6.59**	**4.22**	**56.16%**

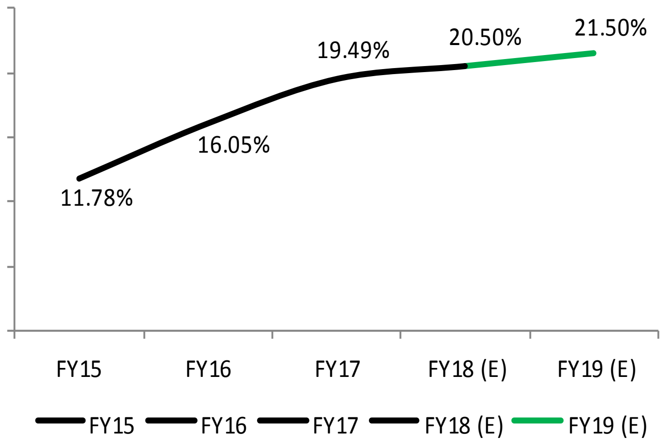
Story through graphs

Revenue Trend



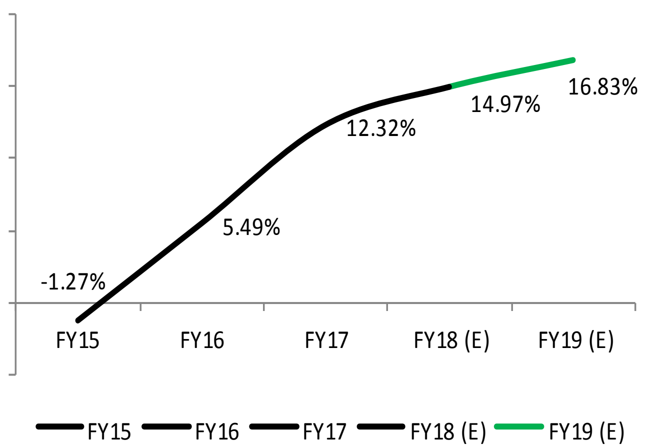
Source: Company data

EBITDA Margin



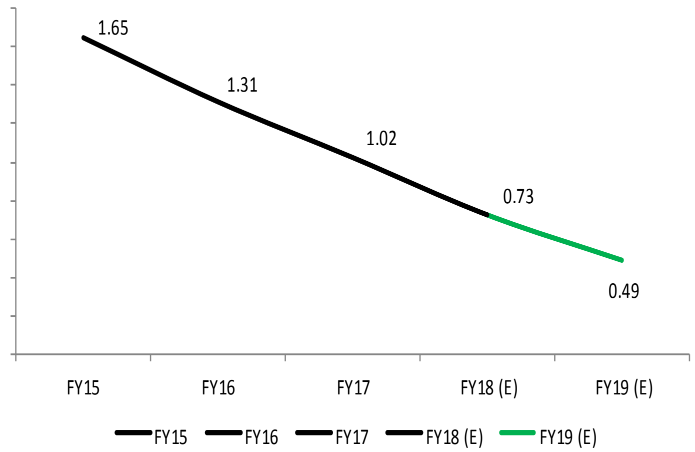
Source: Company data

ROE is showing an impressive trend



Source: Company data

Net Debt to Equity has fallen over the past two years



Source: Company data

Wheat among the chaff

Focus on value added products to drive margins

Out of the total output, only 8-10% is constituted by value-added products. The management has set a target to increase the proportion of value-added products to up to 15% over the period of two years. Margins on the normative product is 20% compared to about 35%-40% on the value added products.

No major capex plans in near future

The Company plans to operate at 110-115% of nameplate capacity over the next two years. The management has no plans to go for a major capacity expansion in the near future. However, it plans to undertake debottlenecking & modernization exercise which would increase the capacity by about 5-10% over the next two years.

GST to benefit organized players

Following the implementation of GST and regulations such as strict pollution norms, unorganized and marginal players will find it difficult to comply with regulations. Such players will have to increase the prices to recoup additional cost, this bode well for existing organised players.

Robust Industry outlook

The Indian paper market is growing at 6-7%, in contrast to subdued growth in demand for printing and writing paper globally. The demand for paper is expected to remain buoyant primarily due to India's unique position as *an oasis of economic growth in the third world desert* coupled with enablers like organized retail, rising preferences for ready-to-eat foods by the Millennial generation, demand for quality packaging and host of other preferences that come with rapidly changing lifestyles of a young population.

Debt reduction on the cards

JK paper's long-term debt currently stands at INR1400 Crores, the management has an aggressive debt reduction plan on the cards. It plans to repay about INR250 Crores of debt every year over the next five years. On top of debt-reduction, the management is also re-negotiating the current interest rates as it has received multiple credit rating upgrades from credit rating agencies such as CRISIL and India ratings. In 2011, JK Paper has raised close to INR225 crore through the foreign currency convertible bonds (FCCB) route on a private placement basis to three investors. The Company started conversion of its FCCBs into Equity Shares. INR60 Crore of FCCB is yet to be converted. It will be converted in two tranches; Nov 2017 and May 2018.

Q2 FY18 Conference call highlights and valuation

Q2 FY18 Conference call highlights

- JK Paper's total production in Q2 FY18 was 1,15,000 tonnes Vs 121000 tonnes in Q2 FY17.
- Production was impacted by factory shit-down (3 days).
- The decline in revenue in rupee terms was 0.8% YoY. JK Paper's stock in trade has increased 113% YoY . This is positive as coated paper prices have increased.
- The Coal supply from Coal India Ltd. Was disrupted and the company had to purchase coal from the open market.
- The management guided that although the pulp prices have shot up post clamp-down on illegal paper manufacturers by the Chinese government. But the management expects its to normalize gradually.
- The management expects to spent INR30-40 crores as incremental capex for debottlenecking purposes.
- Emami paper has set up new capacities in Tamil Nadu in packaging board segment.
- On FCCB conversion: 56 lac shares have been converted, 27 lacs shares are pending. The total outstanding shares currently stand at 17.55 Crore.

Valuation:

Market leadership in branded copier paper, focus on value added products, improving profitability, implementation of GST, and robust outlook for the Indian paper industry bodes well for the company. We value the company at 10x its FY19 (E) diluted EPS and maintain our target price of INR173.

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

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