



Farsight

## MORNING FARSIGHT

Wednesday, November 14, 2018

**JK PAPER**

**CMP:RS 183**

**TRGT:RS 220**

**TIME HORIZON: 1 YEAR**

JK Paper has delivered good earnings for Q2FY19 on QoQ and YoY basis as well, while it has multiple company specific growth levers for the coming quarters, including acquisition of Sirpur Paper Mills, capacity expansion through de-bottlenecking and completely integrated nature of operations, with virtually no reliance on imported pulp and lower power / water consumption compared to peers. For Q2FY19, JK Paper has reported EBITDA of Rs 215 cr against Rs 206 cr QoQ and Rs 145 cr YoY, a growth of 4% QoQ and 48% YoY, coupled with better EBITDA margin of 27% against 25.7% QoQ and 21.4% YoY, reflecting EBITDA margin expansion of 130bps QoQ and 560 bps YoY. We must highlight that JK Papers Q2FY19 EBITDA margin of 27% and H1FY19 EBITDA margin of 26.4% is highest and way ahead of its peers like Seshasayee Paper (H1FY19 EBITDA margin 22.3%), International Paper (24.4%) and smaller players like Ruchira Papers (17.7%), NR Agarwal Industries (16.5%). For Q2FY19, JK Papers PAT is placed at Rs 110cr against Rs 95 cr QoQ and Rs 57 cr YoY, a growth of 16% QoQ and 93% YoY, leading to an EPS of Rs 6.15 for Q2 and Rs 11.52 for H1FY19. On an estimated EPS of Rs 24 for FY19, stock is trading at PE of 7.5x, which we find attractive, as company is set to deliver better volume growth compared to most of the peers from Q4FY19 onwards, when sales from Sirpur Paper Mills will start kicking in. JK Paper has recently increased its paper capacity from 436,000 TPA to 471,000 TPA and has also acquired Sirpur Paper Mills having nameplate capacity of 138,300 TPA, majorly in the writing printing segment) and plans to start production in 4QFY19 after completing the necessary refurbishments. Including modernization capex and benefit of capital subsidy, the SPM acquisition cost comes at Rs 671 cr (i.e. 371 cr cost of acquisition +300 cr refurbishment expenses) which is significantly below the Greenfield capex cost of Rs 1,400 cr for a similar size facility. Further, as part of the deal, the Telangana government has assured to provide raw-wood of certain quantity below the market rate for the first 10 years, which can take care of the requirement of peak utilization of 55-60%. The government has also assured to provide degraded forest land for wood plantation under farm forestry program. India Ratings expects SPM to add around Rs 500 to Rs 600 cr of revenue to JKPL's annual consolidated revenue from FY20 i.e. more than 20% of current annual revenue. Further, the government of India has initiated an investigation of imposition of anti-dumping duty (ADD) on imported coated & uncoated paper from South-east Asian countries. In FY18 Annual Report, JKP has mentioned that the government has found prima facie evidence of dumping of uncoated paper from Indonesia, Thailand and Singapore. As JK Paper is one of the largest players in both coated and uncoated paper segments, it would be the major beneficiary of any favourable outcome of the investigation, but we have not factored this into our estimates. Generally, 112 is considered a seasonally stronger period for paper industry, as orders rises for printing of new books for start of new school syllabus in April-May and demand supply environment is set to remain favourable. JK Paper has strong market presence with an installed capacity of pulp (276,000 TPA), P&W paper (381,000 TPA), paperboard (90,000 TPA) and power (77 MW) at two locations: Songadh, Gujarat and Rayagadh, Odisha. Company is the market leader in the copier segment with a market share of 23%, second largest manufacturers of coated paper (market share of 12%), the 5th largest in packaging board segment with 11% market share and is among the top three players in the Indian paper industry in terms of capacity. Share ruling at Rs 183 can move to Rs 220 in 1 year. Buy as an investor only.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s) - No. • Firm interest of the stock / Instrument (s) - No.