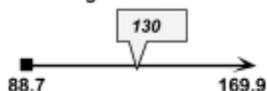

Inflection point circumstances, 1st Branded Paper Catering to mass population in form of printing paper, Highest Industry wide margin at 20%

OVERWEIGHT

NSE: JKPAPER
BSE: 532162
Price ~ 130

52 wk High/ Low



Target ~ Rs. 196 (51%)
Industry~ Paper & Paper Products

Growth Value Category
Moderately High Risk

Shareholding
Promoter ~ 49.17 %
Public ~ 50.83 %

Avg Industry
PE ~ 8.11x
OPM ~ 19.12%

Company
PE ~ 8.78x
OPM ~ 19.86%
ROE ~17.1%
ROCE ~17.47%
PEG ~0.14x
Borrowings ~ 1309 Cr

JK Paper Limited manufactures, sells, and exports papers and boards in India, the United States, the United Kingdom, Sri Lanka, Bangladesh, Singapore, Malaysia, Africa, the Middle East, and internationally. It offers a range of office documentation papers, such as photocopy and multi-purpose papers for use in desktop, inkjet and laser printers, fax machines, photocopiers, and multi-functional devices; and premium watermarked and laid-marked business stationery papers for corporate customers and individuals. The company was formerly known as Central Pulp Mills Ltd. and changed its name to JK Paper Limited in May 2002. JK Paper Limited was incorporated in 1960.

¹Company achieved gross sales of Rs 3,070 crore (March' 2018), the highest ever in its history, an EBITDA of Rs 639 crore, up 18.6% over the previous year. The PAT was Rs 260 crore as against Rs 163 crore last year, representing an increase of 60%. While the Indian paper industry has been growing at about 6-7%, there has been a sharp escalation in imports at a CAGR of 16-17% over the last 7-8 years. JK Paper strengthened the development and introduction of several quality products. The wide marketing network, comprising over 200 distributors and over 4,000 dealers, played a major role in improving our customer servicing metrics, positioning the Company as a one-stop shop for a wide range of products and services.

Key Investment Rationale

1. Attractive potential; per capita paper consumption is merely 13 kg compared to around 57 kg globally.
2. JK Paper has recently emerged as a leader in the copier paper segment, amongst the top two coated paper segment and a leader in the packaging board area.
3. Increased digitisation and E- Commerce is widening the market for paper. Branded paper should provide differentiation and a loyal customer base.
4. Increasing Margins, reducing interest cost and debt burden put JK Paper in an inflection point scenario.
5. Recent acquisitions and increased in production capacity along with increase in pulp capacity should provide synergistic benefits which we can't fully price in.
6. Deeper penetration in education and cheaper easier printing supplies should add momentum to the growth of printing paper market bridging the gap between per capita paper consumption in India (at 13% viz- 1/4th its global peers).

¹ Excerpts from the Annual Report '2018

Expected FY 2019

Rs. In Crores	FY- 2016	FY- 2017	FY- 2018	FY- 2019 (E) ²
Sales	2770	2881	3087	3635
EBITDA	395 (14.2%)	517 (17.95%)	618 (20%)	727 (20%)
Interest	195	187	143	131
PAT	55 (1.98%)	171 (5.94%)	260 (8.42%)	309 (8.5%)
EPS	3.77	11.02	14.85	17.65
Dividend /sh	0.5	0.75	2.5	2.91
Price /sh	47.5	103.3	143.95	176.5
Trailing PE	12.6x	9.37x	9.7x	10x

Peer Analysis

We attempt to describe how and why JK Paper is the best bet in the industry against its various peers (viz.~ Paper and Paper Products).

	TNPL	West Coast	BILT	JKPaper
Sales	3094	1710	2481	3087
OPM	13.06	21.2%	-43.10%	19.85%
Interest (%)³	61%	11.33%	Loss	19.9%
NET Margins	Loss	7.24%	Loss	8.43%
ROCE	15.26%	19.19%	-8.86%	17.47%
ROE	16.46%	22.24%	-53.92%	17.10%
PE	6.97x	8.21x	~	7.62x
EV/EBITDA	10.59	~	~	5.01

We strongly believe that JK Paper should trade at higher than industry average multiples. Also the paper industry trades at a cheaper multiple than the market, we believe a convergence is long due.

² FY 2019 Financials are based on expectations and proprietary calculations.

³Shown as percentage of Operating Profit,

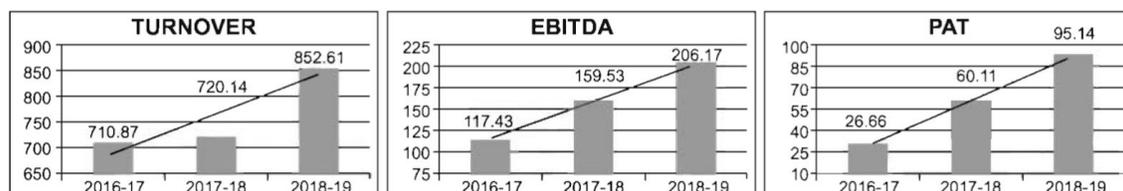
Valuation

	Average	Company	Estimated Price	%
PE	9.58x	7.62x	158.7/ sh	25.7%
OPM	18.46%	19.86%	Lower debt burden than ind.	
PEG	0.19x	0.12x ⁴	At PEG of 1~ 1,066 /sh	8.33x
EV/EBITDA	5.578x	5.01x	142.5 /sh	11.3%
Under a no growth environment JK Paper should trade at~ 208 /Sh. ⁵				

Our valuations show JK Paper being a strong value stock at current (100-120) levels, however given its future growth estimates and its sector being a Niche we strongly believe higher price multiples will be justified. JK Paper has currently a total capacity of 4,55,000 TPA and its products are sold through extensive distribution network of 188 wholesalers, 10 depots & 4 regional marketing offices, and covering nearly 4,000 dealers.

Excerpts from

Quarter Report June 2018,



Annual Report' 2018

Growth: Achieved highest-ever sales of 5.02 lac metric tonnes during the year under review (4.82 lac metric tonnes during FY2016-17); increased revenues from Rs 2,989 crore in FY 2016-17 to Rs 3,070 crore in FY 2017-18.

Profitability: Strengthened EBITDA margins from 19.5% during FY2016-

17 to 22.2% during FY2017-18; ROCE strengthened from 11.1% to 14.9%.

Sustainability: Reported a 23% decline in debt during FY2017-18; net worth strengthened from Rs 1,322 crore to Rs 1,646 crore, right-sizing the Balance Sheet.

Valuation (market capitalisation): Reported an increase in valuation to

Rs 2371 crore as on 31st March 2018, a 60% growth y-o-y.

Rating: Received A/positive rating and A1 rating on long-term and short-term debt respectively from CRISIL, strengthening its ability to mobilise low-cost financial resources if necessary.

⁴ Using future growth estimates using third party analyst polls.
⁵ Calculations have not been shown to keep the report brief.

OPPORTUNITY & THREATS⁶

Opportunities:

China was the largest market in terms of value while Brazil and India are forecast to report the fastest growth at CAGR s of 7.1% and 6.9%, respectively between 2017 and 2022. Over the last few years, the per capita paper consumption in India has grown from 11 kilograms in FY 2014-15 to 13 kilograms in FY 2017-18, an appreciable increase catalysed by a growth in income, literacy and aspiration levels. **During 2017-18, capacities close to 3 lac tonnes per annum were shut down in China due to lack of environmental compliance.** India seeks to improve its literacy rate from 70% to 90%, Demand from FMCG, electronics, pharmaceuticals and ready-to-eat foods sector are driving the use of paper, paperboards and packaging materials. Maintained a market share of around 23% in the copier paper segment.

Threats:

Imports account for over 20% of the paper consumption in India. The superior quality and lower prices of imported paper dent the competitiveness of domestic paper manufacturers. India is a fibre-deficient country as the Government of India does not permit industrial plantations in the country and inadequate raw material availability domestically is a major constraint for the paper industry. The recent steep increase in international pulp prices prevented cheaper materials from China and the ASEAN countries to undercut domestic prices and set a cap on paper prices.

Associated Risks⁷

The company in its nature is exposed to *financial risk* originating from Forex and customer credibility, *commodity risk* originating from the nature of its raw materials (viz~ Pulp and Hardwood), *interest rate risk* originating from the borrowings.

Risk Mitigation

1. **Credit Risk** : Company stops supply to customers in case outstanding crosses agreed limits, till repayment of dues.
2. **Commodity Risk**: The Company manages fluctuations in raw material price through hedging in the form of advance procurement when the prices are perceived to be low and also enters into advance buying contracts as strategic sourcing initiative in order to keep raw material and prices under check cost of material hedged to the extent possible.
3. **Market Risk**: The Company uses derivative financial instruments to reduce foreign exchange risk exposures and follows its risk management policies to mitigate the same. The Company's exposure to the risk of changes in market interest rates relates primarily to long term debt. The Company has entered into various interest rate swap contracts.

⁶ Excerpts from the Management Discussion & Analysis in the Annual Report 2018

⁷ All information relating to risk (Concerns and Mitigations) have been taken from the Annual Report' 2018

The exposure to risk as at 31st March' 2018 stood at

Forex (in Rs Crore)	USD	EUR	GBP
Financial Assets	Rs. 18.58	Rs 0.04	Rs 0.24
Financial Liabilities	Rs. 210.62	Rs. 257.52	-
Interest Rate	Rs. in Cr	% of Total	+/- 0.25%
Fixed Interest	Rs. 660.95	50.47%	-
Variable Interest	Rs. 648.58	49.53%	-/+ Rs 1.91

Customer Dependence

	2018	2017
Revenue from Top Customer	4.23%	4.3%
From top 5 Customer	18.88%	16.49%

Date of Issue ~ August 01 2018

Necessary caution shall be taken while investing in the stock markets. This stock investment might not suit you, please consult your financial advisor before making any decision, while the redistribution of this document is allowed "Mayank Mehra" shall not be liable for any losses incurred due to this document. All sources, calculations and necessary data to make this report is preserved with the author and you may feel free to get in touch.

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