

JK Paper

BUY

In-line quarter, promising outlook

Summary

JK Paper Ltd.'s (JK Paper) Q3FY22 result was in-line with our estimates on key parameters. Healthy demand and price hike supported net sales growth, while prudent cost control aided operating margin expansion. Net sales increased by 37.4% YoY to Rs10,236mn, while EBITDA came in at Rs2,513mn, up by 61.9% YoY. EBITDA margin improved by 380bps YoY to 24.6%. It reported net profit of Rs1,511mn compared to net profit of R646mn in Q3FY21. The management guided that demand was marginally subdued in January'22, however, it is expected to improve in subsequent months. The company's packaging board plant has started production and should contribute to net sales from FY23E. We have broadly maintained our FY23E/FY24E estimates and maintain BUY with a TP of Rs307, assigning 5x EV/EBITDA on FY24E.

Key Highlights and Investment Rationale

- **Another quarter of all-round performance:** JK paper reported another quarter of improved results led by recovery in paper segment which aided higher sales volume. Further, the company took price hike in October'21 to pass on higher raw material prices, which resulted in higher NSR in Q3FY22. We believe the company is poised to benefit from robust demand in packaging board as capacity utilization at new plant ramps up in FY23E. Further, incremental sales volume from Sirpur paper bodes well for earnings growth in future.
- **Multiple levers to growth, BUY with a TP of Rs307:** JK Paper remains our preferred pick amongst the domestic listed paper players given its scale of operations, extensive distribution reach and backward integrated operations and its leadership position in cut-size office paper. The company's newly added packaging board plant will further strengthen the earnings trajectory in future. BUY with a TP of Rs307.

TP	Rs307
CMP	Rs218
Potential upside/downside	41%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(3.1)	3.1	56.0
Rel to Sensex	(0.2)	5.1	40.8

V/s Consensus			
EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	37	39	47
Consensus	31	44	59
% difference	19.7	(10.4)	(20.1)

Key Stock Data

Bloomberg / Reuters	JKPAPER IN/JKPA.BO
Sector	Paper
Shares o/s (mn)	169
Market cap. (Rs mn)	36,921
3-m daily avg Trd value (Rs mn)	46.4
52-week high / low	Rs285 / 124
Sensex / Nifty	57,301 / 17,092

Shareholding Pattern (%)

Promoters	49.5
FII	3.9
DII	1.1
Public	45.5

Financial snapshot

	(Rs mn)				
Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	30,602	27,507	37,138	44,105	48,658
Change (yoy, %)	(6)	(10)	35	19	10
EBITDA	8,714	5,618	10,802	11,199	12,873
Change (yoy, %)	0	(36)	92	4	15
EBITDA Margin(%)	28.5	20.4	29.1	25.4	26.5
Adj.PAT	4,684	2,367	6,294	6,678	8,025
EPS (Rs)	26.3	14	37	39	47
Change (yoy, %)	10.2	(46.8)	165.9	6.1	20.2
PE(x)	8.5	16.0	6.0	5.7	4.7
Dividend Yield (%)	1.8	1.8	2.7	3.6	4.9
EV/EBITDA (x)	6.3	11.2	5.6	5.0	3.8
RoE (%)	21.3	9.7	22.7	20.4	21.0
RoCE (%)	18.1	7.9	15.0	14.2	16.0

Source: IDBI Capital Research

Archana Gude

archana.gude@idbicapital.com
+91-22-2217 1938

Jyoti Amonkar

jyoti.amonkar@idbicapital.com
+91-22- 2217 1840

Exhibit 1: Financial snapshot

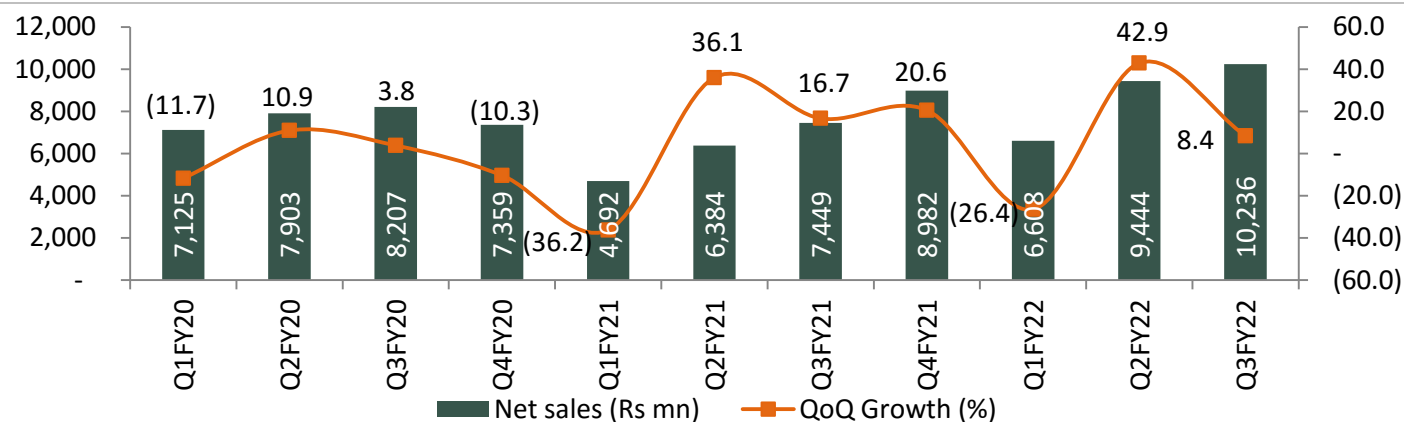
Particulars (Rs mn)	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY (%)
Total revenues	10,236	9,444	8.4	7,449	37.4
Total expenditure	7,723	7,247	6.6	5,897	31.0
EBIDTA	2,513	2,197	14.4	1,552	61.9
<i>EBIDTA margin(%)</i>	<i>24.6</i>	<i>23.3</i>	<i>130bps</i>	<i>20.8</i>	<i>380bps</i>
Depreciation	447	450	(0.7)	443	0.8
Interest cost	294	374	(21.4)	334	(12.0)
Other income	328	354	(7.3)	256	28.2
PBT	2,100	1,726	21.6	1,030	103.9
Tax	603	574	4.9	384	56.9
Adj. net profit	1,511	1,184	27.6	646	133.7
Adj. EPS (INR)	8.9	7.0	27.6	3.8	133.7

Source: Company; IDBI Capital Research

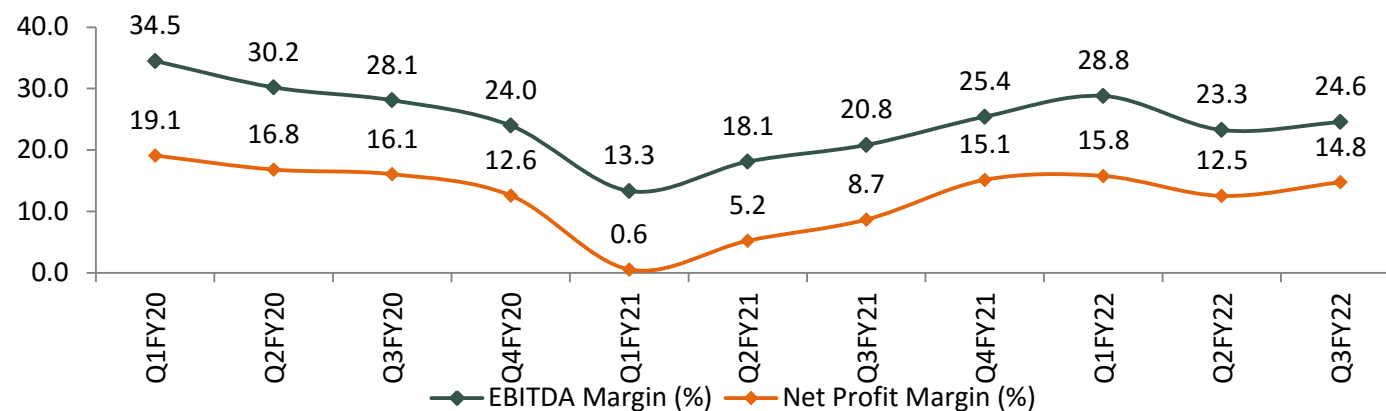
Exhibit 2: Actual vs. estimates

Particulars (Rs mn)	Q2FY22A	Q2FY22E	Variance (%)
Net Sales	10,236	10,719	(4.5)
EBITDA	2,513	2,519	(0.2)
<i>EBITDA Margin (%)</i>	<i>24.6</i>	<i>23.5</i>	<i>110bps</i>
Net Profit	1,511	1,529	(1.2)
EPS, Rs	8.9	9.0	(1.2)

Source: Company; IDBI Capital Research

Exhibit 3: Net sales trend

Source: Company; IDBI Capital Research

Exhibit 4: Margins analysis

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	32,567	30,602	27,507	37,138	44,105	48,658
<i>Change (yoy, %)</i>	14.5	(6.0)	(10.1)	35.0	18.8	10.3
Operating expenses	(23,886)	(21,888)	(21,889)	(26,337)	(32,905)	(35,784)
EBITDA	8,681	8,714	5,618	10,802	11,199	12,873
<i>Change (yoy, %)</i>	40.4	0.4	-35.5	92.3	3.7	14.9
<i>Margin (%)</i>	26.7	28.5	20.4	29.1	25.4	26.5
Depreciation	(1,277)	(1,495)	(1,743)	(1,987)	(2,266)	(2,406)
EBIT	7,404	7,219	3,875	8,814	8,934	10,467
Interest paid	(1,244)	(1,293)	(1,286)	(1,739)	(1,478)	(1,359)
Other income	500	1,038	1,113	1,335	1,469	1,616
Pre-tax profit	6,660	6,964	3,702	8,410	8,924	10,724
Tax	(2,411)	(2,280)	(1,335)	(2,117)	(2,246)	(2,699)
<i>Effective tax rate (%)</i>	36.2	32.7	36.1	25.2	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	4,249	4,684	2,367	6,294	6,678	8,025
Exceptional items	-	-	-	-	-	-
Adjusted net profit	4,249	4,684	2,367	6,294	6,678	8,025
<i>Change (yoy, %)</i>	63.1	10.2	(49.5)	165.9	6.1	20.2
EPS	23.8	26.3	14.0	37.2	39.4	47.4
Dividend per sh	3.5	4.0	4.0	6.0	8.0	11.0
<i>Dividend Payout %</i>	17.8	18.3	34.3	19.4	24.4	27.9

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' funds	20,381	23,655	25,161	30,235	35,286	41,075
Share capital	1,782	1,782	1,694	1,694	1,694	1,694
Reserves & surplus	18,599	21,873	23,467	28,541	33,592	39,381
Total Debt	13,054	15,448	25,399	26,760	22,746	19,419
Other liabilities	2,979	4,114	4,739	5,209	5,700	6,284
Curr Liab & prov	8,807	9,609	10,201	10,846	11,802	12,891
Current liabilities	8,109	8,957	9,568	10,189	11,120	12,170
Provisions	698	651	634	657	682	721
Total liabilities	24,839	29,170	40,340	42,815	40,248	38,593
Total equity & liabilities	45,220	52,905	65,549	73,098	75,583	79,716
Net fixed assets	29,571	34,539	46,464	48,988	48,599	47,929
Investments	6,992	4,364	5,816	5,921	6,190	6,472
Other non-curr assets	1,116	3,562	2,396	2,592	2,793	3,052
Current assets	7,541	10,440	10,873	15,598	18,002	22,264
Inventories	3,463	4,982	3,830	4,213	4,550	4,777
Sundry Debtors	735	738	791	854	914	978
Cash and Bank	267	420	195	3,928	5,271	8,549
Loans and advances	1,813	2,303	2,966	3,203	3,460	3,771
Total assets	45,220	52,905	65,549	73,098	75,583	79,716

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	6,660	6,964	3,702	8,410	8,924	10,724
Depreciation	1,277	1,495	1,743	1,987	2,266	2,406
Tax paid	(1,513)	(2,014)	(958)	(1,819)	(1,916)	(2,305)
Chg in working capital	688	(1,211)	1,029	(39)	303	485
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	7,112	5,234	5,515	8,539	9,577	11,310
Capital expenditure	(4,471)	(6,463)	(13,668)	(4,511)	(1,876)	(1,736)
Chg in investments	(5,216)	2,627	(1,451)	(105)	(269)	(282)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(9,687)	(3,836)	(15,119)	(4,616)	(2,145)	(2,018)
Equity raised/(repaid)	-	-	(88)	-	-	-
Debt raised/(repaid)	2,579	2,394	9,952	1,361	(4,014)	(3,327)
Dividend (incl. tax)	(755)	(856)	(813)	(1,220)	(1,626)	(2,236)
Chg in minorities	-	80	(32)	-	-	-
Other financing activities	(215)	(2,864)	361	(332)	(449)	(451)
Cash flow from financing (c)	1,609	(1,246)	9,379	(191)	(6,089)	(6,014)
Net chg in cash (a+b+c)	(966)	152	(225)	3,733	1,343	3,278

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	112.2	130.3	146.0	176.0	205.8	240.0
Adj EPS (Rs)	23.8	26.3	14.0	37.2	39.4	47.4
Adj EPS growth (%)	60.6	10.2	-46.8	165.9	6.1	20.2
EBITDA margin (%)	26.7	28.5	20.4	29.1	25.4	26.5
Pre-tax margin (%)	20.5	22.8	13.5	22.6	20.2	22.0
Net Debt/Equity (x)	0.6	0.6	1.0	0.8	0.5	0.3
ROCE (%)	22.7	18.1	7.9	15.0	14.2	16.0
ROE (%)	23.1	21.3	9.7	22.7	20.4	21.0

DuPont Analysis

Asset turnover (x)	0.8	0.6	0.5	0.5	0.6	0.6
Leverage factor (x)	2.2	2.2	2.4	2.5	2.3	2.0
Net margin (%)	13.0	15.3	8.6	16.9	15.1	16.5

Working Capital & Liquidity ratio

Inventory days	38.8	59	51	41	38	36
Receivable days	8.2	9	10	8	8	7
Payable days	41.9	64	66	61	54	55

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	9.4	8.5	16.0	6.0	5.7	4.7
Price/Book value (x)	2.0	1.7	1.5	1.3	1.1	0.9
EV/Net sales (x)	1.6	1.8	2.3	1.6	1.3	1.0
EV/EBITDA (x)	6.1	6.3	11.2	5.6	5.0	3.8
Dividend Yield (%)	1.6	1.8	1.8	2.7	3.6	4.9

Source: Company; IDBI Capital Research



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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