

JK Paper

ACCUMULATE

Volume driven sales growth, NSR yet to show revival

Summary

JK Paper Ltd.'s Q3FY21 result was in-line with our estimates on net sales and EBITDA front, while higher than anticipated interest cost led net profit below our forecast. Net sales declined by 9.6% YoY to Rs7,423mn, while EBITDA came in at Rs1,552mn, down by 32.7% YoY. The company reported net profit of Rs646mn, lower by 51% over Q3FY21. The management attributed net sales decline to sharp degrowth in net sales realization (NSR) on account of subdued demand for PWP in Q3FY21. On a positive note, higher global pulp prices and demand revival in the domestic market from beginning of Q4FY21 has led to increase in NSR. Sirpur plant is now operational and should contribute to net sales in next quarter. We maintain our positive outlook on company given its dominance in copier paper, extensive distribution network and backward integrated operations. We have marginally revised our net sales and PAT estimates upwards to factor in revised growth guidance by the management. The stock had a sharp run up recently, which caps its upside from current level. We downgrade the stock to ACCUMULATE (from BUY) with a revised TP of Rs142 (earlier Rs135) assigning 4x EV/EBITDA to FY23E.

Key Highlights and Investment Rationale

- Sales volume rebounded, decline in NSR weighed on net sales**
 The company maintained a good traction in sales volume despite PWP demand being subdued in Q3FY21. JK reported total sales volume of 139,221MT, a growth of 1.4% YoY/ 20% QoQ. However, NSR further decline by 10.5% YoY/3% QoQ to Rs53,500/MT. The management was optimistic on demand recovery as schools and colleges are expected to open in next academic session, which would drive demand for PWP. The company has taken price hike of 3%-8% across paper segments in January, 2021, which will support improvement in NSR in Q4FY21.
- Benign raw material prices led to QoQ margin expansion**
 The company benefited from softened raw material prices and cost cutting initiatives taken by the management to sail through the crisis. Though EBITDA margin is yet to get back to pre-Covid level, it has improved by 270bps QoQ to 20.8%. The management has indicated that EBITDA margin will further improve as operating leverage plays out in FY22E.
- Limited upside from current level, downgrade to ACCUMULATE with a TP of Rs142**
 We like JK Paper owing to its strong brand recall, extensive distribution reach and backward integrated operations and capacity expansion in packaging segment. However, it has limited upside from current level. ACCUMULATE with a TP of Rs142.

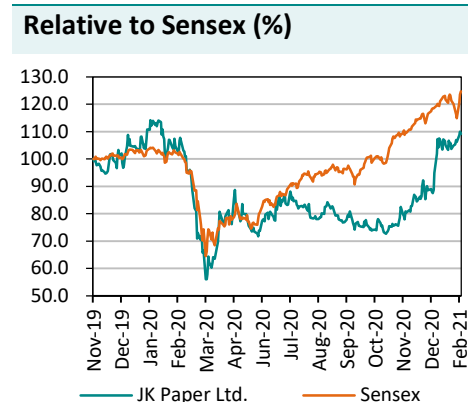
TP	Rs 142
CMP	Rs 134
Potential upside / downside	+6%
Previous Rating	BUY

V/s Consensus			
EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	13.0	24.2	33.5
Consensus	-	-	-
% difference	-	-	-

Shareholding Pattern (%)	
Promoters	51.4
FII	4.7
DII	0.3
Public	43.6

Price Performance (%)			
	-1m	-3m	-12m
Absolute	9.3	51.7	8.2
Rel to Sensex	4.0	26.8	(16.2)

Key Stock Data	
Bloomberg/Reuters	JKPAPER IN/JKPA.BO
Sector	Paper
Shares o/s (mn)	169
Market cap. (Rs mn)	22,642
Market cap. (US\$ mn)	310
3-m daily avg Trd value (Rs mn)	141.9
52-week high / low	Rs136 / 62
Nifty / Sensex	50,732 / 14,924



Financial snapshot						(Rs mn)
Year	FY19	FY20	FY21E	FY22E	FY23E	
Revenue	32,567	30,602	27,076	35,575	40,503	
EBITDA	8,681	8,714	5,482	8,312	10,204	
EBITDA (%)	26.7	28.5	20.2	23.4	25.2	
Adj. PAT	4,249	4,684	2,321	4,318	5,971	
EPS (Rs)	23.8	26.3	13.0	24.2	33.5	
EPS Growth (%)	60.6	10.2	(50.4)	86.0	38.3	
PE (x)	5.7	5.1	10.4	5.6	4.0	
Dividend Yield (%)	2.6	3.0	1.5	2.2	3.0	
EV/EBITDA (x)	4.2	4.5	8.1	5.4	3.9	
RoE (%)	23.1	21.2	9.4	15.7	18.7	
RoCE (%)	22.7	18.1	7.7	11.4	13.9	

Source: Company; IDBI Capital Research

Exhibit 1: Financial snapshot

Particulars (Rs mn)	Q3FY21	Q2FY21	QoQ (%)	Q3FY20	YoY (%)
Total revenues	7,449	6,384	16.7	8,207	(9.2)
Total expenditure	5,897	5,228	12.8	5,900	(0.1)
EBIDTA	1,552	1,156	34.2	2,307	(32.7)
<i>EBIDTA margin (%)</i>	20.8	18.1	270bps	28.1	(730)bps
Depreciation	443	445	(0.5)	396	12.0
Interest cost	334	318	5.1	313	6.7
Other income	256	215	18.7	286	(10.6)
PBT	1,030	608	69.4	1,884	(45.3)
Tax	384	274	40.2	565	(32.0)
Adj. net profit	646	334	93.4	1,319	(51.0)
Adj. EPS (INR)	3.8	2.0	93.4	7.4	(51.0)

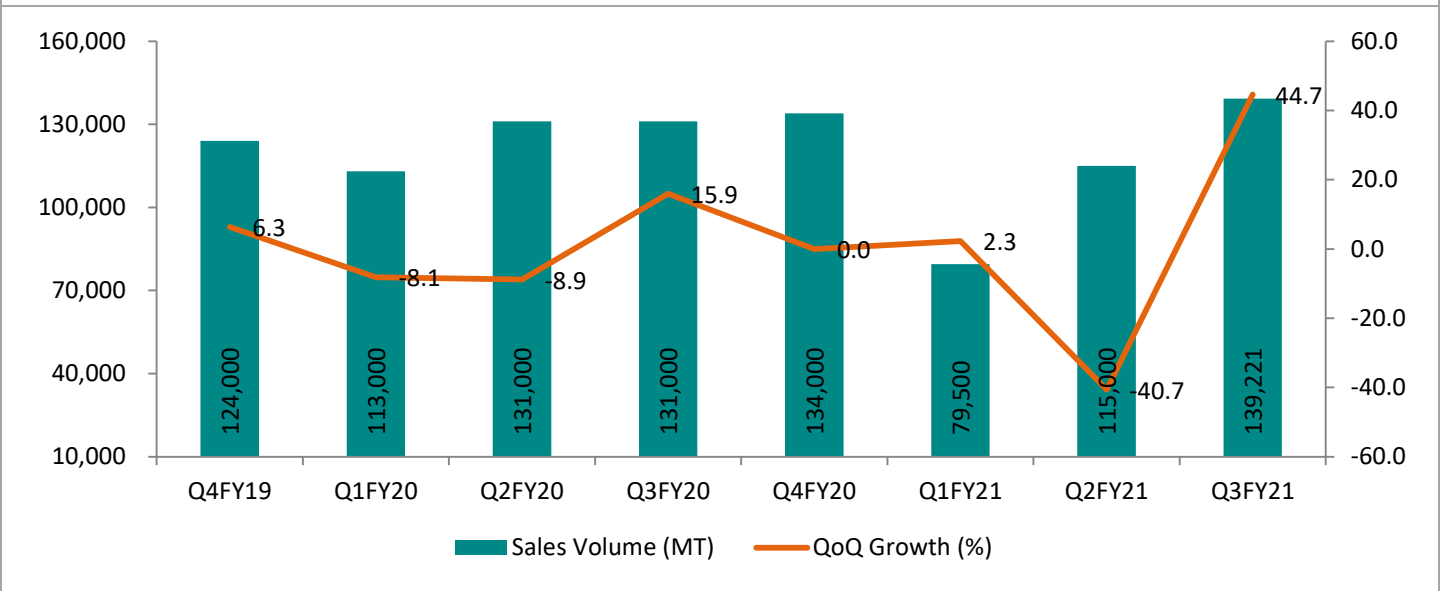
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Particulars (Rs mn)	Q3FY21A	Q3FY21E	Variance (%)
Net Sales	7,449	7,246	2.8
EBITDA	1,552	1,666	(6.8)
<i>EBITDA Margin (%)</i>	20.8	23.0	(220)bps
Net Profit	646	775	(16.7)
EPS, Rs	3.8	4.6	(16.7)

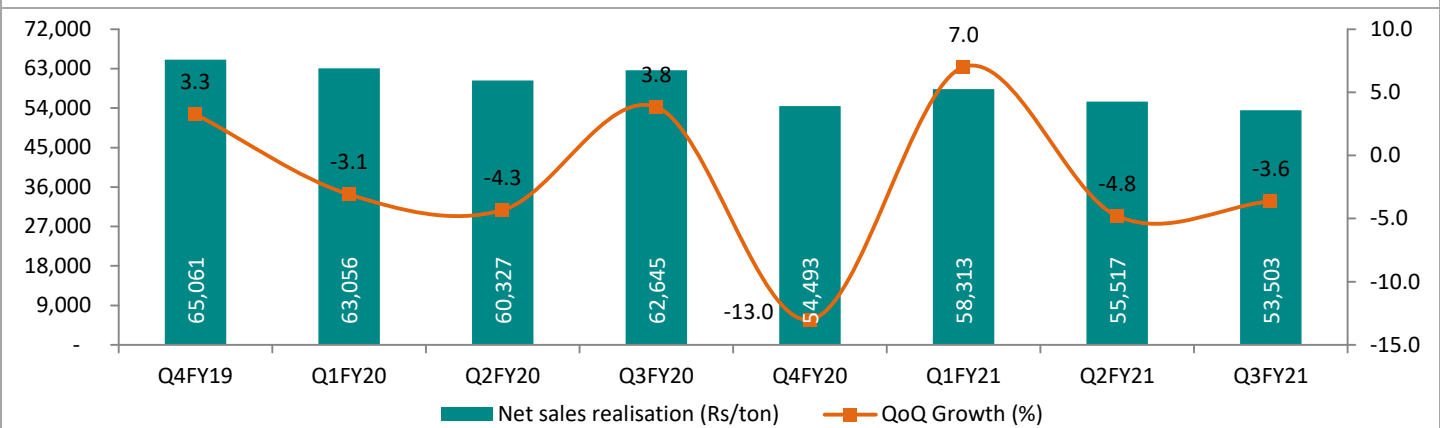
Source: Company; IDBI Capital Research

Exhibit 3: Sales volume analysis



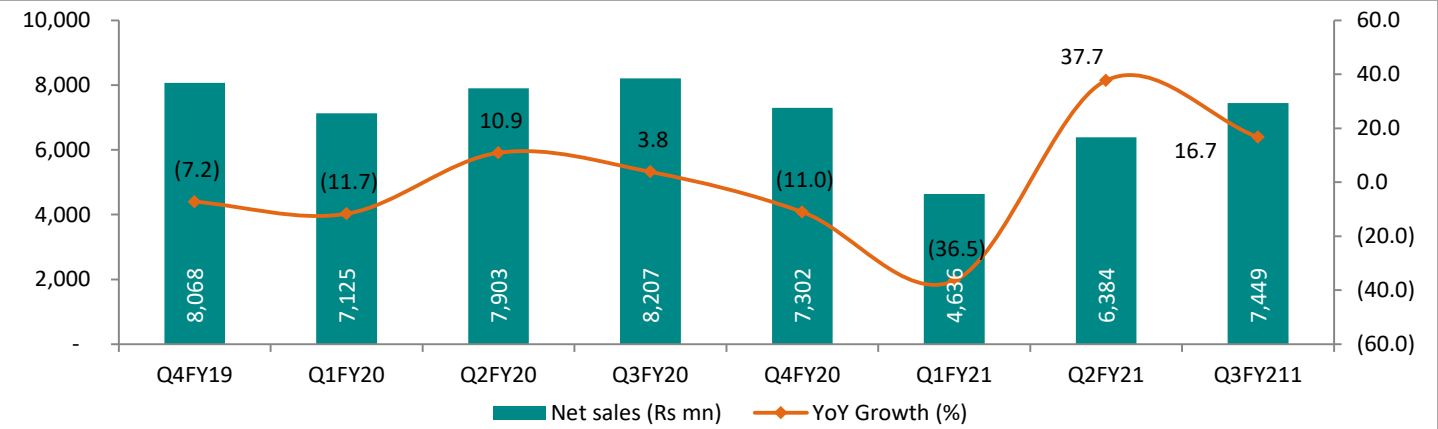
Source: Company; IDBI Capital Research

Exhibit 4: Net sales realization trend



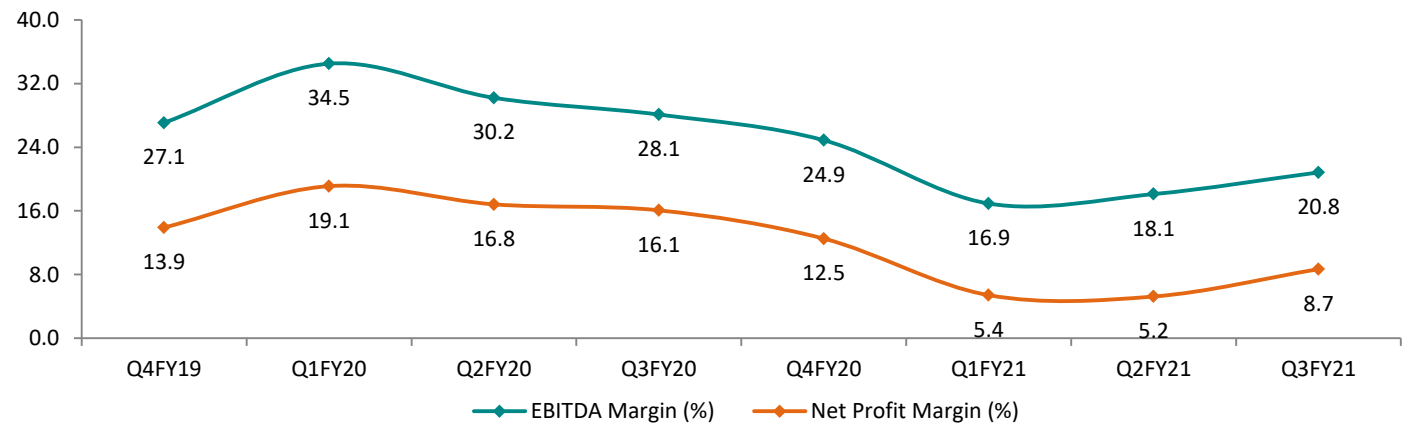
Source: Company; IDBI Capital Research

Exhibit 5: Net sales trend



Source: Company; IDBI Capital Research

Exhibit 6: Margins analysis



Source: Company; IDBI Capital Research

Exhibit 7: Change in estimates

Particulars (Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Net sales	27,076	25,174	7.6	35,575	34,240	3.9	40,503	38,307.0	5.7
EBITDA	5,482	5,708	-4.0	8,312	8,196	1.4	10,204	9,829.0	3.8
EBITDA Margin (%)	20.2	22.7	(50)bps	23.4	23.8	(40)bps	25.2	25.7	(50)bps
PAT	2,321	2,317	0.2	4,318	4,030	7.1	5,971	5565	7.3
EPS (Rs)	13.0	13.0	0.2	24.2	22.6	7.1	33.5	31.2	7.4

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net sales	30,602	27,076	35,575	40,503
<i>Growth (%)</i>	<i>(6.0)</i>	<i>(11.5)</i>	<i>31.4</i>	<i>13.9</i>
Operating expenses	(21,888)	(21,593)	(27,263)	(30,298)
EBITDA	8,714	5,482	8,312	10,204
<i>Growth (%)</i>	<i>0.4</i>	<i>-37.1</i>	<i>51.6</i>	<i>22.8</i>
Depreciation	(1,495)	(1,823)	(2,151)	(2,231)
EBIT	7,219	3,659	6,161	7,973
Interest paid	(1,293)	(1,406)	(1,453)	(1,162)
Other income	1,038	850	1,063	1,169
Pre-tax profit	6,964	3,103	5,771	7,980
Tax	(2,280)	(782)	(1,452)	(2,008)
<i>Effective tax rate (%)</i>	<i>32.7</i>	<i>25.2</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-
Net profit	4,684	2,321	4,318	5,971
Exceptional items	-	-	-	-
Adjusted net profit	4,684	2,321	4,318	5,971
<i>Growth (%)</i>	<i>10.2</i>	<i>(50.4)</i>	<i>86.0</i>	<i>38.3</i>
<i>Shares o/s (mn nos)</i>	<i>178</i>	<i>178</i>	<i>178</i>	<i>178</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	6,964	3,103	5,771	7,980
Depreciation	1,495	1,823	2,151	2,231
Tax paid	(2,014)	(610)	(995)	(1,322)
Chg in working capital	(1,211)	166	(17)	127
Other operating activities	-	-	-	-
Cash flow from operations (a)	5,234	4,482	6,910	9,015
Capital expenditure	(6,463)	(10,080)	(7,622)	(2,210)
Chg in investments	2,627	957	1,435	(717)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(3,836)	(9,123)	(6,187)	(2,927)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	2,394	6,185	723	(4,471)
Dividend (incl. tax)	(856)	(428)	(642)	(856)
Chg in minorities	-	-	-	-
Other financing activities	(2,783)	(226)	(204)	(261)
Cash flow from financing (c)	(1,245)	5,531	(123)	(5,587)
Net chg in cash (a+b+c)	153	890	599	501

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	34,539	42,795	48,267	48,245
Investments	4,364	3,408	1,973	2,690
Other non-curr assets	3,562	3,883	4,172	4,481
Current assets	10,440	11,932	13,299	14,761
Inventories	4,982	5,331	5,757	6,333
Sundry Debtors	738	797	861	930
Cash and Bank	420	1,310	1,889	2,345
Marketable Securities	-	-	-	-
Loans and advances	2,303	2,418	2,611	2,820
Total assets	52,905	62,019	67,710	70,178
Shareholders' funds	23,735	25,628	29,304	34,420
Share capital	1,782	1,782	1,782	1,782
Reserves & surplus	21,953	23,846	27,522	32,638
Total Debt	15,448	21,632	22,355	17,884
Secured loans	14,251	19,238	20,200	16,160
Unsecured loans	1,197	2,394	2,154	1,724
Other liabilities	4,114	4,461	5,087	5,929
Curr Liab & prov	9,609	10,297	10,964	11,944
Current liabilities	8,957	9,621	10,263	11,217
Provisions	651	676	701	727
Total liabilities	29,170	36,391	38,405	35,757
Total equity & liabilities	52,905	62,019	67,710	70,178
Book Value (Rs)	131	141	162	191

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	26.3	13.0	24.2	33.5
Adj. EPS growth (%)	10.2	(50.4)	86.0	38.3
EBITDA margin (%)	28.5	20.2	23.4	25.2
Pre-tax margin (%)	22.8	11.5	16.2	19.7
ROE (%)	21.2	9.4	15.7	18.7
ROCE (%)	18.1	7.7	11.4	13.9
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.6	0.5	0.5	0.6
Leverage factor (x)	2.2	2.3	2.4	2.2
Net margin (%)	15.3	8.6	12.1	14.7
Net Debt/Equity (x)	0.6	0.8	0.7	0.5
Working Capital & Liquidity ratio				
Inventory days	59	72	59	57
Receivable days	9	11	9	8
Payable days	64	72	63	64

Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	5.1	10.4	5.6	4.0
Price / Book value (x)	1.0	1.0	0.8	0.7
PCE (x)	3.9	5.8	3.7	2.9
EV / Net sales (x)	1.3	1.6	1.3	1.0
EV / EBITDA (x)	4.5	8.1	5.4	3.9
Dividend Yield (%)	3.0	1.5	2.2	3.0



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
---------	-------------------	-------------------------

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% 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

Disclaimer

This report has been published by IDBI Capital Markets & Securities Ltd. (herein after referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

I, Archana Gude, hereby certify that the views expressed in this report accurately reflect my personal views about the subject companies and / or securities. I also certify that no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, I will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosures

IDBI Capital Markets & Securities Ltd. (herein after referred to as "IDBI Capital") was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail), Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economicstimes.indiatimes.com/markets/stocks/stock-quotes.