

JK Paper

HOLD

Weathering the challenges

Summary

JK Paper Ltd.'s (JK Paper) Q1FY25 was disappointing, particularly on the margins front. Healthy sales volume growth of 16% aided net sales improvement, however, subdued NSR coupled with increase in raw material prices dented margins. We believe the company's initiatives on price hike in board and eventual price increase in W&P should drive NSR improvement in upcoming quarters. Raw material prices have increased by 23% YoY along with 40% YoY increase in other expenses (due to acquisition) in Q1FY25. We take JK's Q1FY25 result aberration and gradual improvement should be expected on both NSR and margins front. We have broadly maintained our earnings estimates for FY25E/FY26E. Post sharp increase in stock prices, 1 year forward EV/EBITDA average for 5 year stands at 7x. As potential upside is capped from current level, we recommend HOLD with a revised TP of Rs582, assigning 5.5x EV/EBITDA (20% discount to 5 year average) on FY26E.

Key Highlights and Investment Rationale

- **Sales volume growth supported net sales, NSR remained under pressure:** JK Paper reported 16% YoY growth in sales volume at 204,657MT. Net sales came in at Rs17bn, up by 8.1% YoY, while EBITDA for the quarter was at Rs2.8bn, down by 41.3% YoY over Q1FY24. Increase in raw material cost, higher employee cost and other expenses dented EBITDA margin by 1376bps YoY to 16.4%. The company reported net profit of Rs1.4bn, down by 55% YoY.
- **Recovery in margins to be watched, HOLD with a TP of Rs582:** JK Paper has been our preferred pick amongst the organized paper manufacturers in the domestic market given its scale of operations, superior operating margin compared to peers and healthy market share in key paper segments. We would be watchful of margins revival in upcoming quarters. HOLD with a TP of Rs582.

TP **Rs582**CMP **Rs518**

Potential upside/downside 12%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.4)	36.1	60.0
Rel to Sensex	(7.4)	27.1	37.0

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	66.3	73.1
Consensus	67.5	76.7
% difference	(1.8)	(4.7)

Key Stock Data

Bloomberg / Reuters	JKPAPER IN/JKPA.BO
Sector	Paper
Shares o/s (mn)	169
Market cap. (Rs mn)	87,708
3-m daily avg Trd value (Rs mn)	58.7
52-week high / low	Rs639 / 319
Sensex / Nifty	81,356 / 24,836

Shareholding Pattern (%)

Promoters	49.6
FII	12.1
DII	4.5
Public	33.8

Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	39,686	64,368	66,592	72,620	75,382
Change (yoy, %)	44	62	3	9	4
EBITDA	9,973	20,118	16,157	16,932	18,060
Change (yoy, %)	78	102	(20)	5	7
EBITDA Margin(%)	25.1	31.3	24.3	23.3	24.0
Adj.PAT	5,438	12,419	11,332	11,236	12,384
EPS (Rs)	32.1	73.3	66.9	66.3	73.1
Change (yoy, %)	129.7	128.4	(8.7)	(0.8)	10.2
PE(x)	16.1	7.1	7.7	7.8	7.1
Dividend Yield (%)	1.2	1.5	1.0	1.5	1.9
EV/EBITDA (x)	11.8	5.7	6.7	5.8	4.9
RoE (%)	19.7	35.3	24.9	20.2	18.9
RoCE (%)	13.1	23.5	16.1	16.5	16.7

Source: IDBI Capital Research

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Exhibit 1: Financial snapshot

Particulars (Rs mn)	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
Total revenues	17,137	17,186	(0.3)	15,844	8.2
Total expenditure	14,333	13,597	5.4	11,072	29.5
EBIDTA	2,803	3,590	(21.9)	4,772	(41.3)
<i>EBIDTA margin (%)</i>	<i>16.4</i>	<i>20.9</i>	<i>-453bps</i>	<i>30.1</i>	<i>-1376bps</i>
Depreciation	803	634	26.8	799	0.5
Interest cost	356	346	2.8	513	(30.6)
Other income	290	575	(49.6)	548	(47.1)
PBT	1,934	3,185	(39.3)	4,009	(51.7)
Tax	527	399	32.0	883	(40.4)
Adj. net profit	1,408	2,786	(49.5)	3,126	(55.0)
Adj. EPS (INR)	8.3	16.4	(49.5)	18.5	(55.0)

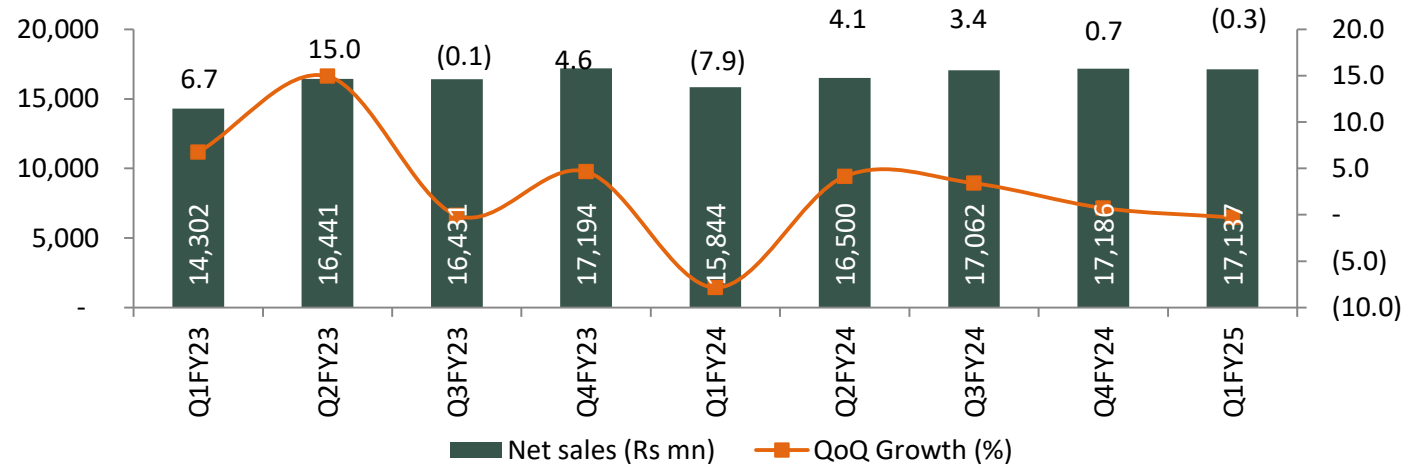
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Particulars (Rs mn)	Q1FY25A	Q1FY25E	Variance (%)
Net Sales	17,137	15,924	7.6
EBITDA	2,803	3,527	(20.5)
<i>EBITDA Margin (%)</i>	<i>16.4</i>	<i>22.2</i>	<i>-579bps</i>
Net Profit	1,408	2,273	(38.1)
EPS, Rs	8.3	13.4	(38.1)

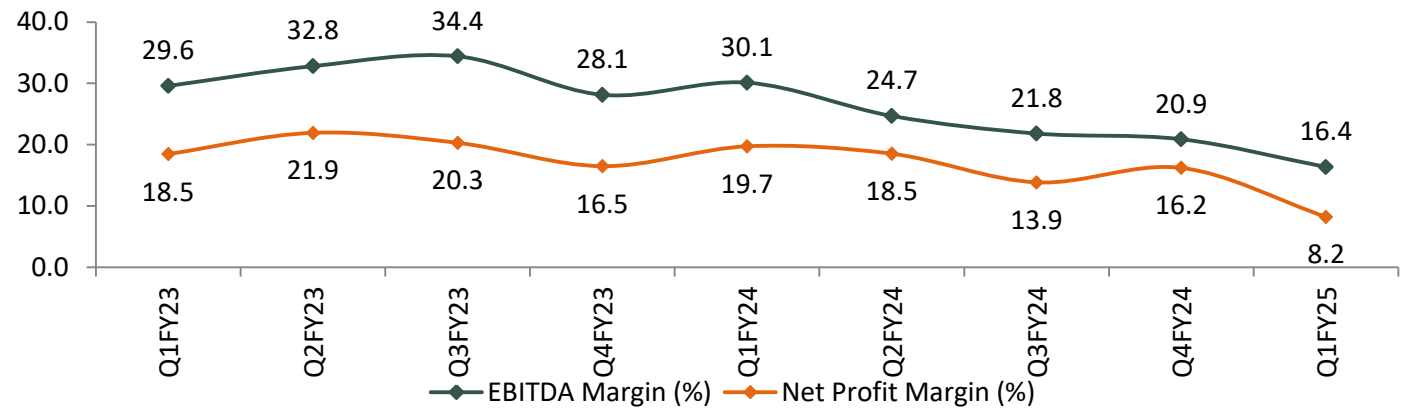
Source: Company; IDBI Capital Research

Exhibit 3: Net sales trend



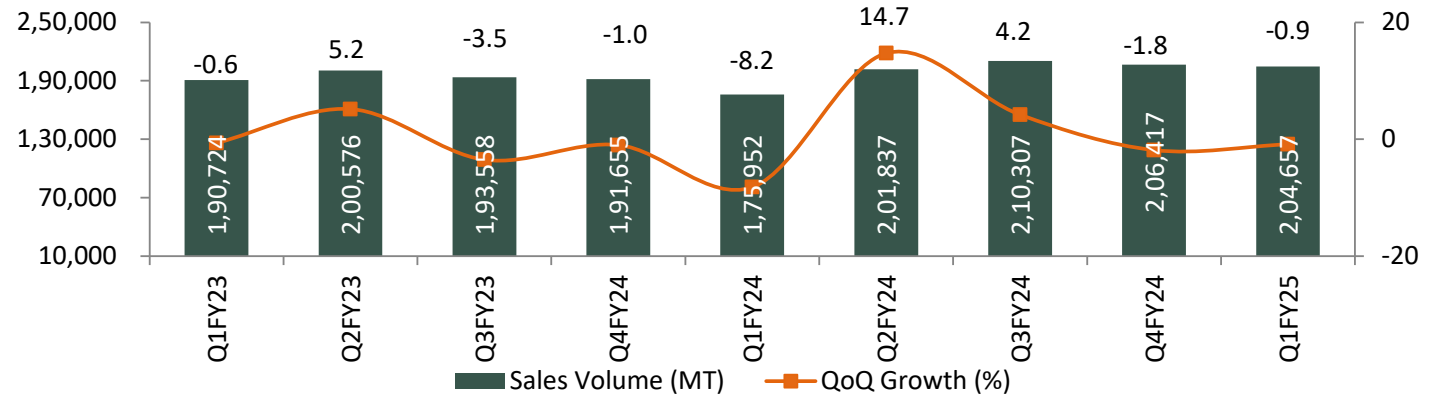
Source: Company; IDBI Capital Research

Exhibit 4: Margins analysis



Source: Company; IDBI Capital Research

Exhibit 5: Sales volume analysis



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	27,507	39,686	64,368	66,592	72,620	75,382
<i>Change (yoy, %)</i>	<i>(10.1)</i>	<i>44</i>	<i>62</i>	<i>3</i>	<i>9</i>	<i>4</i>
Operating expenses	(21,889)	(29,713)	(44,250)	(50,436)	(55,688)	(57,322)
EBITDA	5,618	9,973	20,118	16,157	16,932	18,060
<i>Change (yoy, %)</i>	<i>-35.5</i>	<i>78</i>	<i>102</i>	<i>(20)</i>	<i>5</i>	<i>7</i>
<i>Margin (%)</i>	<i>20.4</i>	<i>25.1</i>	<i>31.3</i>	<i>24.3</i>	<i>23.3</i>	<i>24.0</i>
Depreciation	(1,743)	(1,931)	(2,819)	(3,101)	(2,914)	(2,979)
EBIT	3,875	8,042	17,300	13,056	14,018	15,081
Interest paid	(1,286)	(1,319)	(2,225)	(2,081)	(1,389)	(1,037)
Other income	1,113	1,244	1,727	2,272	2,386	2,505
Pre-tax profit	3,702	7,967	16,465	13,247	15,015	16,549
Tax	(1,335)	(2,529)	(4,383)	(1,915)	(3,779)	(4,165)
<i>Effective tax rate (%)</i>	<i>36.1</i>	<i>31.7</i>	<i>26.6</i>	<i>14.5</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-	-	-
Net profit	2,367	5,438	12,082	11,332	11,236	12,384
Exceptional items	-	-	(336)	-	-	-
Adjusted net profit	2,367	5,438	12,419	11,332	11,236	12,384
<i>Change (yoy, %)</i>	<i>(49.5)</i>	<i>130</i>	<i>128</i>	<i>(9)</i>	<i>(1)</i>	<i>10</i>
EPS	14.0	32.1	73.3	66.9	66.3	73.1
Dividend per sh	4.0	6.0	8.0	5.0	8.0	10.0
<i>Dividend Payout (%)</i>	<i>34.3</i>	<i>22.4</i>	<i>13.1</i>	<i>9</i>	<i>14</i>	<i>16</i>

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	25,161	29,960	40,340	50,695	60,304	70,655
Share capital	1,694	1,694	1,694	1,694	1,694	1,694
Reserves & surplus	23,467	28,266	38,646	49,001	58,610	68,961
Total Debt	25,399	30,675	27,385	21,253	13,887	10,367
Other liabilities	4,739	7,035	10,317	9,953	10,837	11,806
Curr Liab & prov	10,201	8,513	9,849	9,953	10,452	10,976
Current liabilities	9,568	8,389	9,605	9,683	10,167	10,675
Provisions	634	124	245	270	285	301
Total liabilities	40,340	46,223	47,551	41,159	35,177	33,149
Total equity & liabilities	65,549	76,245	89,199	93,278	96,905	1,05,228
Net fixed assets	46,464	52,201	54,473	54,982	54,690	53,358
Investments	5,816	6,731	8,674	10,219	9,249	7,940
Other non-curr assets	2,396	3,242	7,216	7,289	8,100	9,097
Current assets	10,873	14,071	18,835	20,789	24,866	34,833
Inventories	3,830	5,192	8,193	9,416	10,358	11,497
Sundry Debtors	791	2,172	3,495	3,613	4,155	4,861
Cash and Bank	195	222	517	735	2,626	9,590
Loans and advances	6,057	6,484	6,630	7,025	7,727	8,885
Total assets	65,549	76,245	89,199	93,278	96,905	1,05,228

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	3,702	7,967	16,465	13,247	15,015	16,549
Depreciation	1,743	1,931	2,819	3,101	2,914	2,979
Tax paid	(958)	(27)	(1,700)	(2,394)	(3,081)	(3,402)
Chg in working capital	1,029	(1,885)	(2,735)	(1,087)	(985)	(1,323)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	5,515	7,985	14,848	12,867	13,862	14,803
Capital expenditure	(13,668)	(7,667)	(5,091)	(3,609)	(2,623)	(1,647)
Chg in investments	(1,451)	(916)	(1,943)	(1,545)	970	1,309
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(15,119)	(8,583)	(7,033)	(5,154)	(1,653)	(338)
Equity raised/(repaid)	(88)	-	-	-	-	-
Debt raised/(repaid)	9,952	5,276	(3,290)	(6,132)	(7,366)	(3,520)
Dividend (incl. tax)	(813)	(1,220)	(1,626)	(1,016)	(1,626)	(2,033)
Chg in minorities	(32)	14	1,246	117	-	-
Other financing activities	361	(3,445)	(4,522)	(464)	(1,325)	(1,949)
Cash flow from financing (c)	9,379	625	(8,193)	(7,496)	(10,317)	(7,502)
Net chg in cash (a+b+c)	(225)	27	(378)	217	1,892	6,963

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	146.0	174	236	297	353	415
Adj EPS (Rs)	14.0	32.1	73.3	66.9	66.3	73.1
Adj EPS growth (%)	-46.8	130	128	-9	-1	10
EBITDA margin (%)	20.4	25.1	31.3	24.3	23.3	24.0
Pre-tax margin (%)	13.5	20.1	25.6	19.9	20.7	22.0
Net Debt/Equity (x)	1.0	1.0	0.7	0.4	0.2	0.0
ROCE (%)	7.9	13	24	16	17	17
ROE (%)	9.7	20	35	25	20	19

DuPont Analysis

Asset turnover (x)	0.5	0.6	0.8	0.7	0.8	0.7
Leverage factor (x)	2.4	2.6	2.4	2.0	1.7	1.5
Net margin (%)	8.6	13.7	19.3	17.0	15.5	16.4

Working Capital & Liquidity ratio

Inventory days	51	48	46	52	52	56
Receivable days	10	20	20	20	21	24
Payable days	66	65	54	49	47	48

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	37.0	16.1	7.1	7.7	7.8	7.1
Price/Book value (x)	3.5	3.0	2.2	1.7	1.5	1.2
EV/Net sales (x)	4.1	3.0	1.8	1.6	1.4	1.2
EV/EBITDA (x)	20.1	11.8	5.7	6.7	5.8	4.9
Dividend Yield (%)	0.8	1.2	1.5	1.0	1.5	1.9

Source: Company; IDBI Capital Research



Notes

Dealing

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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**

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