

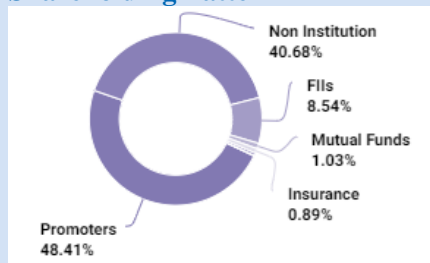
Company Details

CMP:	Rs.150.5
Face value:	Rs.10
Market cap:	Rs.2717.32 Crs.
TTM EPS	Rs.19.73
52 week high:	Rs.193.95
52 week low:	Rs.97.85
BSE Code:	532162
Sector	Paper & Paper Products

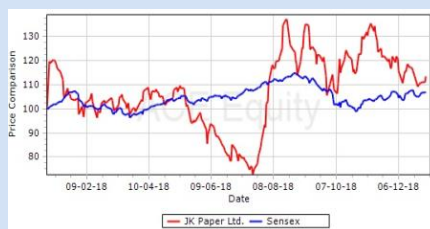
Financial Highlights (YoY)

Rs. in crores			
	H1FY19	H1FY18	% Var
Net Sales	1580.05	1336.78	18.2%
Total Expendit	1175.87	1044.90	12.5%
PBDIT	404.18	291.88	38.5%
Op.Profit	421.38	304.73	38.3%
OPM (%)	26.7%	22.8%	17.0%
PBT	303.15	171.67	76.6%
PAT	204.71	116.74	75.4%
EPS (Rs.)	11.49	6.91	66.1%
Equity	178.24	168.87	5.5%

Shareholding Pattern



Price Vs Sensex Chart



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Company Background

JK Paper Ltd., a Gujarat based pulp & paper company incorporated in 1960, is engaged in manufacture and sale of branded & fine papers, and packaging boards. The company had two large integrated paper manufacturing units- JK Paper Mills, Rayagada, Odisha and Central pulp Mills, Songadh, Gujarat with combined capacity of 4,55,000 TPA which is the largest for any paper manufacturing company in India. India's consumption of paper percapita is 13 kg as against global average of 57kgs. This offer scope for sustained demand for products manufacturing by the company. Further, It is the market leader in Branded Copier paper segment and among the top two players in coated paper and high-end packaging boards. It provides various office documentation papers, including photocopy and multipurpose papers for use in fax machines, photocopies The company has been continuously paying dividend since FY06, except for FY 13 & FY14., and multi-functional devices, as well as desktop, inkjet, and laser printer; and premium watermarked and laid marked business stationery papers for corporate and individual customers. The company exports its products to 54 countries. It has got 16 warehouses, 208 wholesalers and 4800 dealers across the country.

Financial Performance

The company had reported Net sales of Rs. 1580.05 crore for H1FY19 higher by 18.2% against Rs. 1336.78 crore for H1FY18 despite the lockout of Odisha facility for 9 days, while **Operating profit was at Rs.421.38 crore in H1FY19 up by 38.3% against that of Rs.304.73 crore in H1 of the last year.** The operating profit margin has improved to 26.7% in H1FY19, as compared to 22.8% in the corresponding half year of previous year, an increase of 390bps. **The EPS has significantly improved to Rs 11.49 in H1FY19 as against Rs. 6.91 in H1 FY18. The rise in the revenues as well as margins is mainly due to higher realization for the products sold by the company, containment of raw material costs and improvement in operational efficiency.**

Investment Rationale

- The paper industry has taken overall Price hike of 2-3% in Oct-Nov 2018 in this expectation and of stable raw material prices the profitability of the company is expected to increase the over and the next two quarters over a strong base.
- There is a proposal to Imposition of Antidumping duty; If the recommendation of minimum import price of \$855/t gets implemented on imports of uncoated paper, it would enable the company to maintain current level of operating margin over the next 2-3 years.
- The Sirpur paper mill acquired by the company is expected to be operational from Q1 FY20 with the production target of 120,000 MT for FY20 and going forward with current level of realization it is expected to contribute to the topline as well as bottom line of the company.
- The company has increased the use of renewable energy to 55% of total energy and reduced the water consumption by 50% in the last 4 years.
- Its credit rating for long term credit has been upgraded by the credit rating agency in FY18 to A/positive against BBB+ and A/stable for FY16 and FY17 respectively.
- The Return on capital employed for FY18 works out to 14.9% and its debt coverage ratio has improved from 0.94 in FY16 to 1.79 for FY18. The company has been continuously paying dividend since FY06, except for FY 13 & FY14.
- The company has been concentrating on value added products and income from outsourced products to strengthen its margin.
- As on Sep 30th, 2018, the promoters hold 48.4% equity of the company, whereas FIIs and DIIs own 8.54% and 1.92% respectively, and the balance 40.7% shares are held by the public.

Concerns

Competition from unorganized players and volatility in raw material prices are the main concerns.

Valuation

The share of the Company is trading at an attractive **TTM P/E of only 7.7x against that of industry at 10x.** Keeping the improving financials of the company, improvement in margins, expansion plans and ability to scale the top-line, we expect the company to report **EPS of about Rs. 25 for FY19 and based on PE of 8x,** we estimate the price of the scrip to appreciate to about Rs. 200 over the next 6-12 months.



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