

May 24, 2010

HOLD

Price Rs 52	Target Price Rs 60
Sensex	16,446

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	15	34	96
Rel. to Sensex	2	15	39	63

Source: Bloomberg

Stock Details

Sector	Paper
Reuters	JKPA.BO
Bloomberg	CPM@IN
Equity Capital (Rs mn)	782
Face Value(Rs)	10
No of shares o/s (mn)	78
52 Week H/L	58/23
Market Cap (Rs bn/USD mn)	4/85
Daily Avg Volume (No of sh)	319301
Daily Avg Turnover (US\$m)	0.4

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	39.5	39.5	39.5
FII/NRI	7.0	6.5	6.4
Institutions	14.4	14.4	14.3
Private Corp	5.0	5.2	6.2
Public	34.0	34.3	33.6

Source: Capitaline

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JK Paper Q4FY10 results were operationally in line with estimates while PAT was higher due to lower tax. Net revenues were inline with estimates, +10% YoY, to Rs 2.95 bn driven by 11% volume growth. Increased focus on value added products and high end segment in the packaging board business and decline in outsourced sale volumes led to a sharp margin expansion of 430 bps YoY to 20.4% (we est 20%) resulting in 43% YoY growth in EBITDA to Rs 602 mn. Credit of deferred tax for Rs 82 mn in Q4FY10 due to higher provisioning in previous quarters resulted in lower tax rate of 10%. Driven by margin expansion and lower tax, PAT increased by 4.6x to Rs 271 mn resulting in EPS of Rs 3.5.

We are revising our FY11 estimates by 9.2% from Rs 10 to Rs 10.9 on account of favourable product mix. We are introducing FY12E EPS of Rs 11.7 and rolling over price target to FY12 estimates. We are revising our price target from Rs 50 to Rs 60 (based on 5x FY12E EPS) and maintain HOLD. We believe that earnings growth is likely to remain muted for FY10-12E due to lack of any volume growth and margin expansion while its aggressive expansion plans of Rs 15 bn is likely to put pressure on return ratios in the medium term.

Operational results in line with estimates

Net revenues increased by 10% YoY to Rs 2.95 bn (we est Rs 2.8 bn) mainly due to 11% increase in sales volumes to 71 thousand MT as the company reported capacity utilization of 114%. Realisations declined marginally by 1% YoY to Rs 41,566 / MT. Captive sales volumes increased by 16.5% YoY to 69,042 MT while outsourcing declined by 60.5% YoY to 1,860 MT. Lower production through outsourcing and increased sale of value added products in the packaging board business led to improvement in margins which increased by an impressive 470bps YoY to 20.4% inline with our est of 20%. Resulting EBITDA increased by 43% YoY to Rs 602 mn

PAT up due to lower tax

With interest and depreciation, in line with estimates, PBT increased sharply by 233% to Rs 301 mn which was in line with our est of Rs 283 mn. However during the quarter, the company took credit of deferred tax of Rs 82 mn due to higher tax provisioning in previous quarters, as a result of which effective tax rate came down to mere 10% in Q4FY10. Consequently APAT increased by 4.6x to Rs 271 mn and was higher than our estimates of Rs 189 mn. AEPS stood at Rs 3.5 in Q4FY10 over Rs 0.6 last year.

Price target revised but earnings growth remain muted, maintain HOLD

For FY10, the company reported a marginal increase of 2% in the topline at Rs 11.1 bn. EBITDA was inline with estimates at Rs 2.45 bn while APAT at Rs 910 mn was higher than estimates due to lower tax rate for the full year. The company reported AEPS of Rs 11.6 over Rs 4.9 in FY09. Due to continued focus on high end segment and value added products for the packaging board business, we are upgrading our estimates for FY11 by 9.2% to Rs 10.9 and introducing our FY12E estimates. For FY12E we expect the company to report an AEPS of Rs 11.7. Consequently we are also rolling our price target to FY12E and revise our price target from Rs 50 to Rs 60 (based on 5x FY12 estimated EPS). We maintain our HOLD rating due to lack of earnings growth in FY10-12E.

Financial Snapshot

Rs Mn

YE-Mar	Net Sales	EBITDA (Core)	(%)	APAT	AEPS (Rs)	EV/ EBITDA	Div Yld P/BV	(%)	RoE (%)	P/E
FY2009	10,821	1,822	16.8	385	4.9	6.2	1.0	3.8	7.8	10.6
FY2010	11,065	2,451	22.1	910	11.6	4.0	0.8	3.8	16.6	4.5
FY2011E	11,277	2,312	20.5	852	10.9	4.3	0.7	3.8	13.8	4.8
FY2012E	11,844	2,428	20.5	915	11.7	3.5	0.6	3.8	13.3	4.4

Revision Table

(Rs mn)	FY11			FY12
	Old Estimates	New Estimates	% Change	Introducing
Net Sales	11277	11277	0.0%	11844
EBITDA	2227	2312	3.8%	2428
PBT	1163	1272	9.4%	1366
PAT	779	852	9.4%	915
EPS (Rs)	10.0	10.9	9.2%	11.7

Aggressive capex plans of Rs 15 bn

The company has chalked out aggressive capex plans of Rs 15 bn for setting up a new pulp mill of 0.2 mn MTPA and paper capacity of 0.15 mn MTPA under its expansion at Rayagada, Orissa. Funding of this capex is likely through debt and equity both in the ratio of 2:1. The plant is likely to be commissioned in the 2nd half of 2012 (FY 2012-13). We estimate revenues of Rs ~ 7 bn from this capex while it will also have surplus pulp of approx ~70,000 MT which will help the company replace imported pulp and thus boosting its margins.

Quarterly and Annual Results

Y/E Mar	Rs Mn							
	Q4FY09	Q3FY10	Q4FY10	% YoY	% QoQ	FY10	FY11E	FY12E
Net Sales	2,682	2,655	2,947	9.9	11.0	11,065	11,277	11,844
Raw Material	972	752	1,023	5.2	36.0	3,397	-	-
Staff Cost	222	302	307	38.5	1.8	1,197	-	-
Power, Oil & Fuel	282	309	279	(1.1)	(9.8)	1,185	-	-
Other Exp	785	686	736	(6.2)	7.4	2,835	-	-
Total Exp	2,261	2,048	2,345	3.7	14.5	8,614	8,965	9,416
EBITDA	421	607	602	43.0	(0.7)	2,451	2,312	2,428
Dep & Amm	181	179	170	(6.0)	(5.3)	700	680	700
EBIT	241	427	433	79.8	1.3	1,750	1,632	1,728
Interest + Forex	150	120	132	(12.1)	9.6	485	360	362
Other Income	-	1	1		(20.0)	4	-	-
PBT	91	308	301	232.7	(2.0)	1,269	1,272	1,366
Tax	42	104	30	(27.8)	(70.8)	359	420	451
ETR (%)	46.5%	33.9%	10.1%	(78.3)	(70.2)	28.3%	33.0%	33.0%
APAT	49	204	271	458.8	33.2	910	852	915
EO	(102)	-	-			-	-	-
RPAT	151	204	271	79.7	33.2	910	852	915
AEPS	0.6	2.6	3.5	458.8	33.2	11.6	10.9	11.7
% of NS				(chg bps)	(chg bps)			
Raw Material	36.3	28.3	34.7	(155)	638	30.7	-	-
Staff Cost	8.3	11.4	10.4	215	(95)	10.8	-	-
Power, Oil & Fuel	10.5	11.6	9.4	(105)	(218)	10.7	-	-
Other Exp	29.3	25.8	25.0	(428)	(84)	25.6	-	-
EBITDA	15.7	22.8	20.4	473	(241)	22.1	20.5	20.5
EBIT	9.0	16.1	14.7	570	(141)	15.8	14.5	14.6
APAT	1.8	7.7	9.2	739	153	8.2	7.6	7.7

Key Financials

Income Statement					Balance Sheet				
Rs Mn					Rs Mn				
Y/E Mar	FY09	FY10	FY11E	FY12E	Y/E Mar	FY09	FY10	FY11E	FY12E
Net Sales	10,821	11,065	11,277	11,844	Equity Capital	781	781	781	781
Total Exp	8,999	8,614	8,965	9,416	Reserves & Surplus	3389	4115	4783	5513
EBITDA	1,822	2,451	2,312	2,428	Net worth	4170	4897	5564	6295
% of Sales	17%	22%	21%	21%	Pref. Capital	8	8	8	8
Depreciation	697	700	680	700	Debts	7213	7213	7213	7213
EBIT	1,125	1,750	1,632	1,728	Revaluation reserve	65	65	65	65
Other Income	1	4	0	0	Net deferred lib	943	943	943	943
Interest	580	485	360	362	Capital Employed	12399	13126	13793	14524
Interest	580	485	360	362	Gross Block	13838	13888	13938	13988
PBT	545	1,269	1,272	1,366	Less Depreciation	4878	5578	6258	6958
Tax	161	359	420	451	CWIP	50	50	50	50
ETR (%)	29%	28%	33%	33%	Net Fixed Assets	9010	8360	7730	7080
A PAT	385	910	852	915	Investments	27	27	27	27
EO items	0	0	0	0	Inventory	1896	1898	1999	1964
PAT	385	910	852	915	Debtors	1945	1989	2027	2129
					Cash and Bank	76	1439	1434	2761
					Loans & Advances	1317	1317	1317	1317
					Other Current Assets	417	417	417	417
					Total Current Assets	5651	7060	7195	8588
					Current Liabilities	2043	2075	912	926
					Provisions	273	273	273	273
					Total Current Liabi. & Prov.	2317	2348	1186	1199
					Net Current Assets	3335	4712	6009	7389
					Misc. Assets	27	27	27	27
					Total Assets	12399	13126	13793	14524

Cash Flow Statement					Ratios				
Rs Mn									
Y/E Mar	FY09	FY10	FY11E	FY12E	Y/E Mar	FY09	FY10	FY11E	FY12E
PBT	545	1269	1272	1366	EBITDA (Core) %	16.8	22.1	20.5	20.5
Depreciation	697	700	680	700	EBITDA %	16.8	22.2	20.5	20.5
Interest	580	485	360	362	EBIT%	10.4	15.9	14.5	14.6
Net Chg in WC	-923	-14	-1302	-53	NPM %	3.6	8.2	7.6	7.7
Tax	-161	-359	-420	-451	Adj ROCE (%)	9.2	13.7	12.1	12.2
Others	0	0	0	0	Adj ROE (%)	7.8	16.6	13.8	13.3
CFO	739	2082	590	1924	Adj EPS	4.9	11.6	10.9	11.7
Change fixed assets	-50	-50	-50	-50	Cash EPS	13.8	20.6	19.6	20.7
Change in Investments	0	0	0	0	Book Value	53	63	71	81
Others	0	0	0	0	DPS	2.0	2.0	2.0	2.0
CFI	-50	-50	-50	-50	Payout (%)	47.8	20.2	21.6	20.1
Change in Share capital	0	0	0	0	Debtors days	66	66	66	66
Change in Debts	0	0	0	0	Creditors days	93	93	93	93
Interest & Fin. Charges	-580	-485	-360	-362	Debt Equity (x)	1.5	1.3	1.2	1.1
Div. & Div Tax	-184	-184	-185	-185	PE (x)	11.0	4.6	5.0	4.6
Others	0	0	0	0	Cash P/E (x)	3.9	2.6	2.8	2.6
CFF	-764	-669	-545	-547	P/BV (x)	1.0	0.9	0.8	0.7
Total Cash Generated	-75	1363	-5	1327	EV/Sales (x)	1.1	0.9	0.9	0.7
Cash Opening Balance	35	76	1439	1434	EV/EBITDA Core (x)	6.2	4.1	4.3	3.6
Cash Closing Balance	-40	1439	1434	2761	Mcap / Sales (x)	0.4	0.4	0.4	0.4
					Div Yield (%)	3.7	3.7	3.7	3.7

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