

Results not so attractive

24 April 2007

REDUCE

Price Target Price

Rs 42 Rs 52

Sensex - 13,928

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	(7)	(11)	(32)
Rel. to Sensex	3	(5)	(20)	(42)

Source: Bloomberg

Stock Details

Sector	Paper
Reuters	JKPA.BO
Bloomberg	CPM@IN
Equity Capital (Rs mn)	782
Face Value (Rs)	10
52 Week H/L (Rs)	70/38
Market Cap (Rs bn)	3.3
Daily Avg Vol (No of shares)	36562
Daily Avg Turnover (US\$ mn)	0.04

Shareholding Pattern (%)

(31st Mar.'07)

Promoters	39.5
FII/NRI	9.9
Institutions	19.8
Private Corp	7.4
Public	23.5

Source: Capitaline

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JK Paper reported net revenues of Rs 1.88 bn +11.2% YoY / -7.8% QoQ and PAT of Rs 118 mn +36.4% YoY / -2.9% QoQ in Q3FY07. Results were lower than our expectation by approx 16% primarily on account below than expected revenues. During the quarter sales was affected due to 5-6 days shut down of plant for annual maintenance while capacity utilisation remained at 107%. EBITDA margins at 20.5% increased by 40 bps YoY / 30 bps QoQ. EPS on fully diluted equity works out Rs 1.5 as against 1.1 in Q3FY06. Company's new venture of 60,000 mt of packaging board is progressing as per schedule and is expected to commission during Q4FY07. We have concerns about the company's new project of getting into high-end packaging paper since we expect that the company may face some stiff competition from ITC who is the market leader in the packaging paper segment. We continue to maintain our 'REDUCE' rating on the stock since we believe that there is better investment opportunity in other companies in the sector.

Results Highlights – below expectations by approx 16%

- JK paper net sales for the quarter at Rs 1.88 bn was up by 11.2% YoY but down by 7.8% QoQ.
- Sales volumes at 55,000 mt (including 4,800 of outsourced paper) increased by 5.5% YoY but declined by 8% QoQ since company took annual maintenance in the quarter resulting in production loss for 4-5 days and also because of less number of working days in the quarter.
- EBITDA margins increased by 40 bps YoY / 30 bps QoQ on account of healthy realisation and better-cost control. Net average realisation at Rs 35,750 was higher by 5.4% YoY / 0.3% QoQ.
- PAT at Rs 118 mn was up by 36.4% YoY / -2.9% QoQ was below our expectation by approx 16%. EPS for the quarter was Rs 1.5 as against Rs 1.1 in Q3FY06.
- Company's new project of high-end packaging paper with capacity of 60,000 mtpa is expected to commission from Q4FY07.
- We expect company to post net revenues of Rs 7.6 bn and PAT of Rs 451 mn in FY07 and Rs 9.4 bn and PAT of Rs 534 mn in FY08E.
- In 9 month ended March 07 company's net sales was Rs 5.7 bn up by 19.1% YoY and PAT was Rs 337 mn up by 28.6% YoY. EPS for 9M is Rs 4.3.

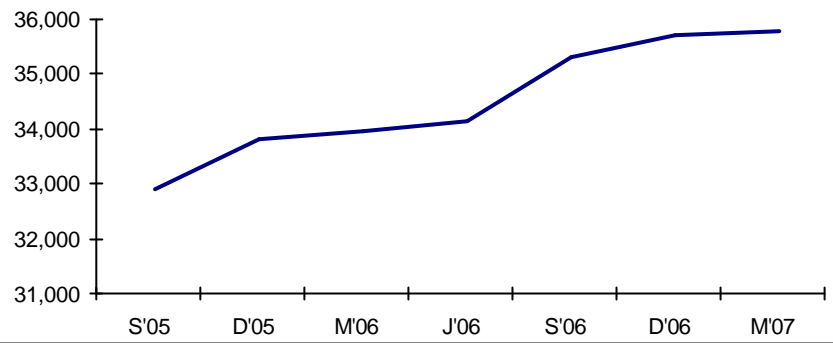
Recommendation – maintain REDUCE

We continue to maintain our REDUCE rating on the stock since we have concerns about the company's new venture of packaging paper where it may have stiff competition from ITC. We believe that there are better investment opportunities in the sector. At current price the stock trades at 7.7x of FY07E and 6.4x of FY08E estimated EPS.

	Net	EBITDA		AEPS	EV/		RoE	Div Yld		
YE-Mar	Sales	(Core)	(%)	APAT	(Rs)	EBITDA	P/BV	(%)	(%)	P/E
FY05	6335	1161	18.3	385	6.5	8.1	1.2	15.8	4.1	6.4
FY06	7296	1455	19.9	395	4.7	6.4	0.9	11.3	2.9	8.9
FY07E	7629	1593	20.9	451	5.4	6.8	0.8	9.6	2.9	7.7
FY08E	9442	1901	20.1	535	6.5	5.2	0.7	10.1	2.9	6.4

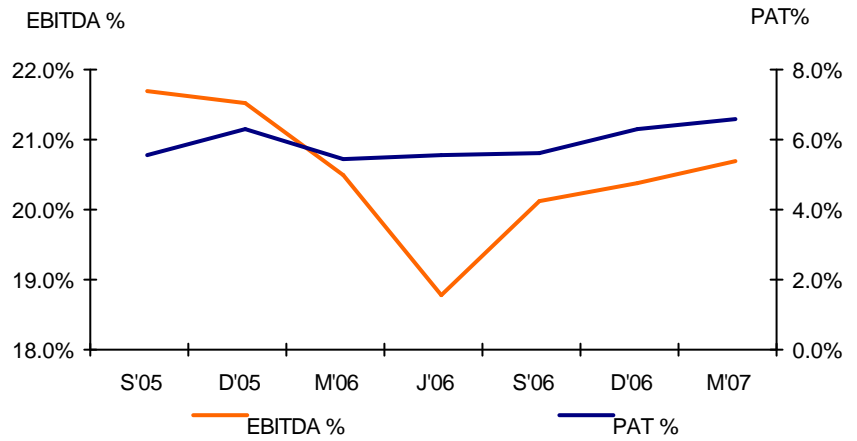
NSR Of Paper

Avg real (Rs / mt)



Source : Company Emkay Research

EBITDA & PAT Margins



Source : Company Emkay Research

Quarterly and annual results summary

Rs Mn

Y/E June	Q3FY06	Q3FY07	% YoY	Q2FY07	% QoQ	FY06	FY07E	FY08E
Net Sales	1,688	1,877	11.2	2,036	(7.8)	7,296	7,629	9,442
Raw Material	425	386	(9.0)	536	(27.9)	1,913	1,933	2,448
P&F	138	148	7.4	147	0.8	583	605	798
Staff Cost	204	227	11.1	238	(5.0)	798	829	979
Other Exp	222	281	26.7	254	10.9	1,077	1,110	1,335
Stores, spares & Chemicals	361	451	24.9	450	0.1	1,471	1,558	1,982
Total Exp	1,349	1,493	10.6	1,625	0.0	5,841	6,035	7,541
EBITDA	339	384	13.4	410	(6.4)	1,455	1,593	1,901
Depreciation	124	125	1.3	129	(2.9)	462	509	622
EBIT	215	259	20.3	282	(8.0)	992	1,084	1,279
Interest	93	78	(16.2)	92	(15.2)	446	450	517
Other Income	5	2	(64.6)	2	0.0	61	61	61
PBT	127	183	43.6	192	(4.5)	607	695	822
Tax	41	65	59.0	70	(7.4)	213	243	288
ETR (%)	31.9%	35.4%	0.0	36.5%	0.0	35.0%	35.0%	35.0%
APAT	87	118	36.4	122	(2.9)	395	451	535
AEPS	1.1	1.5	36.4	1.6	(2.9)	4.7	5.4	6.5
% of NS			(chng bps)		(chng bps)			
Raw Material	25.2	20.6	(457)	26.3	(575)	26.2	25.3	25.9
P&F	8.2	7.9	(28)	7.2	68	8.0	7.9	8.5
Staff Cost	12.1	12.1	(1)	11.7	36	10.9	10.9	10.4
Other Exp	13.1	15.0	184	12.5	253	14.8	14.5	14.1
EBITDA	20.1	20.5	39	20.2	30	19.9	20.9	20.1
EBIT	12.7	13.8	105	13.8	(3)	13.6	14.2	13.5
APAT	5.1	6.3	117	6.0	32	5.4	5.9	5.7

Income Statement

June end (Rs mn)	FY05	FY06E	FY07E	FY08E
Net Sales	6,335	7,296	7,629	9,442
Raw Material	1,713	1,913	1,933	2,448
% of Sales	27	26	25	26
Chemicals & Spares	1,186	1,471	1,558	1,982
% of Sales	19	20	20	21
Power & Fuel	537	583	605	798
% of Sales	8	8	8	8
Staff Cost	715	798	829	979
% of Sales	11	11	11	10
Selling & Other Exp	1,022	1,077	1,110	1,335
% of Sales	16	15	15	14
Total Exp	5,174	5,841	6,035	7,541
EBITDA	1,161	1,455	1,593	1,901
% of Sales	18	20	21	20
Depreciation	394	462	509	622
EBIT	768	992	1,084	1,279
Other Income	70	61	61	61
Interest	452	446	450	517
PBT	386	607	695	822
Tax	1	213	243	288
ETR (%)	0	35	35	35
A PAT	385	395	451	535
EO items	0	0	0	0
PAT	385	395	451	535

Source : Company, Emkay Research

Balance Sheet

June end (Rs mn)	FY05	FY06E	FY07E	FY08E
Equity Capital	551	781	781	781
Reserves & Surplus	1364	2942	3239	3620
Networth	1915	3724	4021	4401
Pref. Capital	550	550	550	550
Debts	6202	6044	6777	6447
Revaluation reserve	79	79	79	79
Net deferred lib	504	665	849	1067
Capital Employed	9250	11062	12276	12545
Gross Block	8900	9837	10837	13237
Less Depreciation	2851	3313	3823	4445
CWIP	937	1000	2400	50
Net Fixed Assets	6986	7523	9414	8842
Investments	195	195	195	195
Inventory	726	820	909	1074
Debtors	914	1048	1096	1356
Cash and Bank	46	1052	313	1016
Loans & Advances	1616	1678	1678	1678
Total Curr. Assets	3302	4598	3996	5125
Current Liabilities	945	1001	1038	1326
Provisions	361	327	364	364
Total Curr. Liabi. & Prov.	1306	1328	1401	1690
Net Current Assets	1997	3271	2595	3435
Misc. Assets	72	72	72	72
Total Assets	9250	11062	12276	12545

Source : Company, Emkay Research

Cash Flow

June end (Rs mn)	FY05	FY06E	FY07E	FY08E
PBT	386	607	695	822
Depreciation	394	462	509	622
Interest	393	446	450	517
Net Chg in WC	54	-233	-100	-137
Tax	-19	-52	-59	-70
Others	17	0	0	0
CFO	1226	1230	1495	1755
Chnge fixed assets	-828	-1000	-2400	-50
Chnge in Investments	151	0	0	0
Others	27	0	0	0
CFI	-651	-1000	-2400	-50
Change in Share capital	0	1531	0	0
Change in Debts	158	-158	733	-330
Interest & Fin. Charges	-438	-446	-450	-517
Div. & Div Tax	-57	-151	-117	-154
Others	-250	0	0	0
CFF	-587	776	166	-1001
Total Cash Generated	-12	1006	-739	704
Cash Opening Balance	58	46	1052	313
Cash Closing Balance	46	1052	313	1016

Source : Company, Emkay Research

Ratios

June end (Rs mn)	FY05	FY06E	FY07E	FY08E
EBITDA (Core) %	18.3	19.9	20.9	20.1
EBITDA %	19.4	20.8	21.7	20.8
EBIT%	13.2	14.4	15.0	14.2
NPM %	6.1	5.4	5.9	5.7
Adj ROCE (%)	9.1	10.4	9.8	10.8
Adj ROE (%)	15.8	11.3	9.6	10.1
Adj EPS	6.5	4.7	5.4	6.5
Cash EPS	9.8	13.0	14.6	17.6
Book Value	35	48	51	56
DPS	2.0	1.4	1.4	1.4
Payout (%)	33.4	23.2	28.4	24.0
Debtors days	52	52	52	52
Creditors days	93	93	93	93
Debt Equity (x)	2.7	1.9	1.5	1.4
PE (x)	6.4	8.9	7.7	6.4
Cash P/E (x)	3.0	2.3	2.0	1.7
P/BV (x)	1.2	0.9	0.8	0.7
EV/Sales (x)	1.5	1.3	1.4	1.0
EV/EBITDA Core (x)	8.1	6.4	6.8	5.2
Mcap / Sales (x)	0.4	0.5	0.5	0.4
Div Yield (%)	4.1	2.9	2.9	2.9

Source : Company, Emkay Research