

Indian Paper Industry

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Shareholding Pattern

Promoter	49.52%
Mutual Funds	1.05%
FPI	3.89%
AIF	1.47%
Public	44.07%

Market Cap (Rs. in crores)	4020
CMP	237
Outlook	Positive
52 Week High/Low	284.90/125.20

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Part I: Indian Paper Industry

The Paper Industry is classified into four segments:

1. Printing and Writing (30%)
 - Coated
 - Uncoated: Creamwove, Maplitho, Copier
2. Packaging and Paper Board (46%)
 - Duplex Boards (used in small packaging: FMCG)
 - Kraft Paper (used in packaging for transportation)
3. Speciality Papers(9%)
 - Tissue Paper
4. Newsprint (15%)

Characteristics of the Indian Paper Industry

1. Capital, Energy and Water Intensive
The paper factories in South India are facing issues in sourcing water, so one should be careful while choosing a company as the requirement of water is huge.
2. Fragmented
Small units account for ~60% of the Industry Size.

Paper can be produced by any of the following Raw Materials:

1. Wood Pulp (30-35% paper is made from wood pulp): Hardwood and Softwood
2. Waste Paper (45-50% paper is made from Waste Paper)
3. Agri Residue (20-22% paper is made from Agri Residue)

Raw Materials used in producing paper will help you in identifying which company to invest in based on the industry dynamics.

Recent Trends in the Paper Industry

1. High demand and scant supply in Europe driving increase in paper prices

- Restricted supply and high energy cost put upward pressure on prices

Against the background of an unprecedented rise in energy prices and other costs, paper producers have almost doubled prices for their products (fine paper grades) compared to January last year. Paper manufacturers explain that in some of their mills production costs have risen by several hundred euro per tonne of paper.



- Strike at UPM, Finland leading to supply issues

UPM supplies Europe with about 40 per cent of the backing sheets for labels.

- Russia-Ukraine War Impact

How much paper and board does the EU export to and import from Russia and Ukraine?

Pulp and paper trade between the EU and Ukraine goes mainly one way: about 440,000 t of paper and board are imported by Ukraine from the EU. Ukraine's exports are very limited.

When it comes to Russia, around 900,000 t of paper and board are imported by Russia from the EU, while Russia exports close to 700,000 t to the EU (accounting 50% of the Russia exports). Regarding pulp, EU-Russia trade is quite balanced with around 400,000 tonnes traded in total.

2. Rise in prices of Waste Paper/Kraft Paper, availability being an issue

- From February 1, the US waste paper rates have been increased to \$400 from \$300 a tonne.
- Ban on exports of waste paper from Europe to India likely to get resolved.
- The corrugated box manufacturer, recycled paper manufacturers are having a hard time in sourcing raw materials and maintaining margins. Viability is becoming an issue for

small players.

- Waste Paper isn't a high value item to afford such huge freight costs whereas pulp is a high value product. Hence, the high freight costs are still manageable comparatively.

3. Also, when the global wood prices are higher, Indian paper manufacturing companies tend to become competitive and are expected to perform well.

Under normal circumstances, Indian paper companies become globally competitive when the prices are beyond \$700/tonne. The reason is discussed in detail in the later part of the report.

4. Paper Demand is back to normal with higher demand on packaging side

Office paper demand is back to normalised levels. Also, with opening of schools, demand for paper is expected to resume to normalised levels.

Currently, the industry dynamics guide that wood-pulp based paper manufacturers are expected to do well. Also, keep in mind that vertically-integrated business model is a huge added advantage and should be given a preference.

Fun Fact

Many coffee/beverage brands have started using paper straws instead of plastic ones.

The paper straws tend to get soggy before the coffee/beverage finishes. Normally, I tend to use two paper straws until I finish my coffee.

Increased E-commerce penetration, anti-plastic sentiment, recycled feature of paper is leading to increased demand of paper.

5. Cost Pressure

Cost of production is increasing on all fronts, from raw material, chemicals to power and logistics.

Also, consider that paper industry is a cyclical industry. We prefer sticking to market leader who has been able to maintain its growth, margins and has already done capex.

6. Recent Price Trend

Types of Paper	Price	
	Mar-21	Mar-22
Writing, Printing Paper Maplitho	Rs. 39-46,000 MT	Rs. 60-75,000
Coated Paper	Rs. 60,000/MT	Rs. 1,00,000/MT
Craft Paper and Board	Rs. 31-37,000/MT	Rs.37-43,250/MT
News Print	Rs. 37,000 MT	Rs. 85,000/MT

The buoyancy in the prices continue due to issues in raw material availability, rise in chemical prices, logistics prices. Mondi, a leading packaging company in Europe highlighted in its conference call on 3rd March, 2022 that the prices are 20-25% higher than average of 2021. High-cost base remains amid favourable demand and tight supply scenario.

With hike in prices by recycled paper manufacturers, Wood Pulp based manufacturers also took a hike even when their raw material prices remained stable.

Vertically-Integrated Business Model is a huge added advantage and should be given a preference. When wood pulp prices are higher globally, Indian companies tend to become competitive.

Hardwood: Domestic secured supply

Softwood: India is import dependent

JK Paper Ltd.: Tactical Play on Paper Industry

About the Company

- Leading player in Office papers, Coated papers and Packaging boards
- It has a ~24% market share in the branded copier segment, 12% in coated paper segment and 13% in packaging board segment in India.
- robust distribution network of over 300 trade partners and 4000 dealers with 15 pan-India depots
- 14% revenue is derived from export markets
- Export Destination:

JK Exports	
UAE	25%
Sri Lanka	22%
Nepal	12%

Why JK Paper Ltd. ?

1. Industry Dynamics suggest wood-pulp based companies are expected to perform well.

It's a leading wood-pulp based paper manufacturer. As explained above, this is expected to perform well.

2. Capacity Expansion:

- **Packaging Board Plant Commenced in Jan 2022**

The company did an expansion by 170,000 TPA in packaging board segment at Songadh, Gujarat to take advantage of this growing segment in the paper industry. The company also set up a pulp mill to cater to the new expansion.

Production Capacity

	Current	After Expansion
Uncoated Paper	397000	397000
Coated Paper	54000	54000
Packaging Board	121000	291000
Saleable Pulp	19000	19000
Pulp	386000	546000

The packaging board commissioned in Jan,2022. The plant is operating at 80% C.U. and is expected to reach 90% in next 2-3 months. At peak capacity, it is expected around Rs. 1200-1600 crores of revenue ending on the price realisation. 10-15% of the revenue from this plant is expected to be derived from exports.

- **Plans to set up a corrugated packaging paper in Ludhiana**

Capex- Rs. 150 crores

Peak Revenue: Rs. 150-170 crores

Commencement: Q2 FY23

Revenue Target Guidance: ~Rs. 3500 crores in FY22

▪ **Acquisition of Sirpur Paper Mills**

In Aug-2018, JK Paper had announced acquisition of sick company Sirpur Paper Mills. It has integrated paper and pulp mill with capacity of 1,38,000 tonnes per annum. Currently, it is operating at 80% capacity utilisation and expected to reach 90% in Q1 FY23.

3. The company has been able to maintain sales growth and range-bound EBITDA margins

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	638	745	898	661	944	1,024
EBITDA Margins	18%	21%	25%	29%	23%	25%

4. Rise in demand for packaging :

▪ **Growth in E-Commerce**

This segment can lead to huge demand for paper boards. With fall in price of waste paper and rise in finished paper can lead to increase in turnover and profitability for companies making Duplex Board. For example: Smruti Kappa and Mondi are the leading Packaging companies who got benefitted due to e-commerce growth, improving European Industrial production.

▪ **Plastic Ban**

- Companies like Mc. Donalds have limited the use of plastic and encouraging more use of paper (shift to paper straws)
- Hotel Chains are now focussing to eliminate plastic and shifting to glass bottle and paper based products.

▪ **India is a growing country.**

The growth in paper industry is linked to the growth of the economy. More Industrial Production translates into more demand for packaging boxes.

Part II: Indian Paper Industry

Over years, Indian Paper Industry hasn't been able to compete with the international players on account of higher cost of production due to deficit in wood pulp availability, not enough availability of waste paper etc. According to IPMA, cost of domestic wood in India was higher by almost \$30-40 tonnes as compared to other Asian Countries. Due to this single factor, cost of paper production in India used to be higher by \$100 a tonne.

By FY2010, paper industry was facing supply deficit. Hence, the companies started expanding capacities. the industry saw significant capacity additions of 1.6 million MT during FY09 - FY11 (~15% of domestic paper capacity in FY09) particularly in the Printing and Writing Paper segment. This led to over-supply scenario, build-up of inventories together with pricing pressures. Moreover, there was also an issue in sourcing wood pulp. There wasn't enough availability of wood pulp domestically for the new capacities added. As a result, companies had to import higher expensive wood pulp. The companies were unable to pass on the higher prices to consumers and at the same time also faced stiff competition from cheap imports. Profits were severely impacted, especially for leveraged companies. After this, the industry along with government measures has taken steps to be self-sufficient in sourcing wood pulp locally.

Part III: How is it different from the global industry?

Indian paper industry is highly fragmented: the top 3 players account for only 9% market share unlike 68% in USA, 72% in Indonesia and 21% in China. The Indian Paper Industry should also consolidate gradually.

Indian Paper Companies: Classification Based on Raw Material Used

1. Wood-Pulp

i. JK Paper (Writing, Printing and Packaging Board)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	638	745	898	661	944	1,024
EBITDA Margins	18%	21%	25%	29%	23%	25%

ii. West Coast Paper Ltd. (Writing, Printing and Packaging Board)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	429	576	937	538	900	872
EBITDA Margins	5%	10%	17%	19%	16%	18%

iii. Seshasayee Papers Ltd. (Writing & Printing Paper)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	150.35	164.46	327.82	217.99	331.93	334.1
EBITDA Margins	18.63%	8.42%	10.45%	14.36%	12.02%	4.56%

iv. Orient Paper & Industries Ltd. (Writing, Printing and Speciality Paper)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	89.79	118.36	154.57	90.8	139.52	164.19
EBITDA Margins	-17.61%	-5.70%	3.44%	-10.24%	-9.65%	0.76%

v. Star Paper Mill Ltd. (Cultural Papers & Industrial Paper)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	54.52	65.79	86.74	47.61	76.83	93.19
EBITDA Margins	4.71%	15.63%	13.10%	9.89%	9.42%	10.77%

vi. ITC (Paper Board)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	1459	1478	1656	1583	1830	2046
EBIT Margins	23.00%	19.00%	20.00%	25.00%	22.00%	22.00%

vii. Andhra Paper (Wood Pulp and Recycled Fibres: Writing and Printing Paper)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	155	249	362	258	349	346
EBITDA Margins	-1%	7%	16%	16%	10%	18%

2. Waste Paper

i. South India Paper Mill (Paper Boards)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	57.51	63.6	71.04	69.42	74.64	84.79
EBITDA Margins	17.09%	15.80%	16.09%	16.61%	12.63%	11.04%

ii. Emami Paper Mills Ltd. (Newsprint, Printing & Writing Paper, Kraft Paper and Paper Board)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	285	314	411	429	441	519
EBITDA Margins	16%	14%	16%	19%	15%	14%

iii. N R Agarwal Industries Ltd. (Writing & Printing , Duplex Board)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	271.75	328.03	343.02	392.41	382.68	395.31
EBITDA Margins	14.04%	10.69%	6.78%	12.51%	6.10%	6.97%

iv. Astron Paper & Board Mill Ltd. (Kraft Paper)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	99.69	124.35	143.87	112.48	115.55	141.52
EBITDA Margins	0.06%	5.66%	8.97%	4.86%	6.27%	6.76%

v. Shree Ajit Pulp and Paper Mill Ltd. (Kraft Paper)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	65.56	80.96	92.35	87.01	101.61	106.79
EBITDA Margins	13.42%	19.36%	18.29%	16.99%	10.49%	9.22%

vi. Genus Paper & Boards Ltd. (Kraft Paper)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	80.11	80.68	93.57	84.82	114.71	111.99
EBITDA Margins	10.32%	11.58%	9.94%	10.21%	0.50%	4.15%

3. Agri Residue

i. Tamil Nadu Newsprint & Paper Ltd. (Paper & Paper Board)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	596.93	550.46	1,124.32	631.95	929.8	1,084.86
EBITDA Margins	14.06%	3.70%	7.40%	9.95%	10.02%	8.35%

ii. Ruchira Papers Ltd. (Kraft Paper & Writing & Printing Paper)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	98.9	117.05	141.34	125.87	148.1	148.35
EBITDA Margins	3.59%	4.55%	11.90%	8.71%	9.21%	8.73%

iii. Kuantum Papers Ltd. (Writing & Printing Paper)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	68.67	118.58	169.06	147.52	201.11	229.78
EBITDA Margins	-1.69%	10.75%	16.50%	10.50%	19.86%	13.26%

iv. Yash Pakka (Speciality Packaging Products)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Sales	40.45	52.17	58.87	60.6	70.47	78.47
EBITDA Margins	20.27%	13.88%	18.09%	30.66%	26.93%	20.34%

Financials

Rs. in crores	2017	2018	2019	2020	2021	9M 2022
Sales	2764.2	2877.49	3256.71	3060.19	2750.72	2628.74
Operating Profit	517.28	618.25	868.12	871.36	561.78	661.29
Margins	18.71%	21.49%	26.66%	28.47%	20.42%	25.16%
PBT	243.76	375.42	666.04	696.39	370.21	530.91
PAT	174.76	260.53	424.94	468.41	236.77	373.65
EPS	11.39	15.31	23.88	26.28	13.73	22.00

Power & Fuel Cost	212.38	245.59	258.67	295.27	323.72	
Employee	218.15	231.88	262.73	287.67	305.32	280.11
Other Exp	407.04	465.65	498.37	537.18	565.18	590.48

Common Size (as a % of sales)						
Total Cost	53.77%	53.12%	49.97%	44.57%	47.93%	41.73%
Employee	7.89%	8.06%	8.07%	9.40%	11.10%	10.66%
Other Exp	14.73%	16.18%	15.30%	17.55%	20.55%	22.46%
Power & Fuel Cost	7.68%	8.53%	7.94%	9.65%	11.77%	

Ratios	2017	2018	2019	2020	2021
ROE					
NP Margin	0.06	0.09	0.13	0.15	0.09
Asset Turnover	0.77	0.80	0.72	0.58	0.42
Leverage	4.71	2.43	2.42	2.37	2.68
ROE	22.91%	17.58%	22.77%	20.99%	9.68%
Working Capital Ratios					
Debtors Days		14.52	11.58	8.25	9.12
Payable Days		60.22	61.30	81.19	96.15
Inventory Days		96.16	85.73	104.44	108.72
Cash Conversion Cycle		50.46	36.01	31.50	21.68
Debt to Equity	1.20	0.76	0.80	0.85	1.22
EBITDA Margins	18.71%	21.49%	26.66%	28.47%	20.42%
CFO	564.70	560.30	878.86	557.73	475.25
FCFF	629.81	569.97	310.97	-77.75	-615.79
ROCE	14.27%	17.61%	20.11%	16.92%	7.16%

Outlook Interpretation –

Positive – Expected Return of 12%+ on annualized basis in the long term

Neutral – Expected return in the range of +/- 12%

Negative – Expected return in negative

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