

**JK PAPER LTD**  
Minutes of Meeting  
Investor Conference Call

Hosted by

**AUM Capital Pvt Ltd**  
(Institutional Equities)

**Management participants**

**JK PAPER LTD**

MR AS MEHTA – PRESIDENT & DIRECTOR

MR V KUMARASWAMY – CHIEF FINANCIAL OFFICER

& MR ASHOK GUPTA – VICE PRESIDENT, FINANCE & ACCOUNTS

Date: 6<sup>th</sup> November 2020

Vinay (AUM Capital)

On behalf of Aum capital, I welcome you all to the management meet of JK Paper. The management of JK Paper is represented by Mr AS Mehta – President & Director, Mr. V Kumaraswamy – Chief Financial Officer & Mr Ashok Gupta – Vice President, Finance & Accounts. We will begin this discussion with a quick presentation by the management on the company and performance for the recently concluded quarter. Post presentation, we will open the floor for Q&A. For asking a question, you may use the option of “raise hand” next to your name and unmute your device and ask a question when invited. For anyone unable to get the option of raise hand, you may type out your questions to me in the chat and we shall ask the questions on your behalf. For your information, this event is being recorded.

I will now request the management to kindly begin. Over to you sir.

JK Paper Ltd.

Without spending too much time. The presentation has been uploaded into our website. So probably you can have a look at it.

Mr Kumaraswamy took the audience through the presentation on website.

He also added that all raw materials now are sourced within a vicinity of 200-250 kilometres. Earlier it used to be over 500 kilometres which is now completely out of the picture. That is one of the sources of strength and has cut down RM costs significantly.

Archana Gude

Hi good afternoon. Thank you for the opportunity and a very good set of numbers.

Congratulations for the same. Two questions. Firstly, if you can just give us the, a breakup and, some detail information on the segmental performance and also some color on the realisation we had across quarter and quarter in packaging, both would be a big, thank you.

JK Paper Ltd.

The writing and printing that has a coated and uncoated paper, then the packaging boards. I would say that the uncoated paper, which is, part of the writing and printing has not done well during this post COVID period because the school college universities coaching centers are still not in operation. They are still shut. So, I would say that even today, the uncoated segment is say 60-65% of the pre COVID level. It has an impact on the pricing as well. The pricing I would say they're lower by something around a 5 to 15%; average may be close to 9 to 10%.

The price drop is because local market condition, as well as the global demand being lower. So the prices have come down drastically. This has also impacted the local uncoated paper prices. In the packaging board demand wise, we are back to the pre COVID level, in the month of September/October because of the packaging board consumption predominantly in the pharmaceutical, FMCG, the food grade. All those demands have come back except some luxury segment, but, this's a very small segment. The pre COVID level, it has already come back in the packaging board, but the prices are down. That is because of the global pulp and paper prices.

Archana Gude

Sure. So, there's one more question. If I can say. Can you just break up the capex for our new packaging board or next, let's say two years down the line, the total CapEx,

JK Paper Ltd.

The new project, which is being undertaken at Gujarat plant is a new machine for packaging board only. Then we have a pulp mill of 1.6 lac tonnes, so that this plant becomes fully integrated. We don't have to depend on the market pulp, but these will be, efficient, power and utilities. All put together, this project is Rs. 1950 crore. And, I think, post this expansion, I don't foresee any major CapEx for next 2-3 years, And this will be completely capitalized, let's say by the second quarter of next year.

Bhavin Chheda (ENAM)

Good afternoon, sir. So just an update on the world Industry. What has been the import scene right now, and I believe a certain import duties were applied on imports from certain countries. If we can update them.

JK Paper Ltd.

Okay, see one is that, the China Factor. Import from China has come down drastically, but that was only coated paper. The coated paper imports have come down, but there is import from Indonesia, Vietnam, and Thailand, also the South Korea. There is also a reduction in import from these countries. Indonesia & Thailand it was predominantly uncoated paper. So that has also come down. The import from the Western world was very small quantity, predominantly that is newsprint, but that continues, since the demand in all the categories is much lower. There's no additional duty immediate. The anti dumping was levied on copier paper and that was in 2018 which is still continue. Yes, there are restriction on the stock lot imports, those have been imposed. There is a reduction in the import of the stock lots, which were disturbing the market.

Bhavin Chheda (ENAM)

You want to mention how much percentage of demand is made by imports are a monthly import in lacs.

JK Paper Ltd.

See coated paper at one point of time it used to be 60% of the demand of the Domestic market. I would say that right now, it would be somewhere around, 10 - 12%. which has come down drastically.

Bhavin Chheda (ENAM)

Prices have been down 10 to 15%, right?

JK Paper Ltd.

Demand is down by 40 to 50% in the coated segment. The coated segment as a percentage of our sales is less than 10%. In our case, the coated is a small volume. This is the segment which has impacted more because of less marketing or that brochure or other things, and so uncoated wood free, which used to be somewhere around say something around 10% of the market at one point of time, it has come down to some around 5% or less than 5% even.

Bhavin Chheda (ENAM)

EBITDA was like Rs 250 cr a quarter, I think Rs. 267 cr. was the number from your presentation, which we just now recovered back to Rs. 150 cr. after quarter one which I'm not taking. You think you will be back to that, Rs. 250 cr., quarterly numbers, because as you also said, there is apart from the paper prices, there has been the operationally, a lot of costs have been cut. Your wood is now almost a hundred percent. There are certain benefits of in demand normalizes, what would be the, operational run rate per quarter one? When will you start the Sirpur plant and how much time it would take to ramp up, then

JK Paper Ltd.

It is difficult to say at this point. I don't think that is fair to answer at this stage. It will depend on the market pricing and the demand pickup, but it has to be a price pickup also. As far as Sirpur is concerned, as of date, it is shut and, we are evaluating when can we start? So we'll take a call next week.

Bhavin Chheda (ENAM)

They're not starting because of the demand or certain things need to be done before starting. Your readiness is there to start the plant. Right.

JK Paper Ltd.

No it is only the market demand.

Plant is there to start the production. We can start it in 3-4 days time, but we need to be very clear on the market demand side, because once we start, we don't want to stop it

Bhavin Chheda (ENAM)

Breakeven level for that, or how much money you would have to burn, before stabilizing.

JK Paper Ltd.

We can stabilize it in a week's time, but only thing is that there has to be a pickup in the market. There is a pickup in the market in some other categories, but not that much in writing & printing.

Amit Doshi

Yeah, so, from the presentation and, we can understand that there is a growth in the market share as well. I think it was 23% earlier to 25%. If you can just tell us as to how much market has been overall shrink because of this work from home and, so you reduce your corporate as well as schools, colleges, coaching centers, etc.

JK Paper Ltd.

See when we are talking about 25% market share, it is the office paper. The office paper, I would say it is somewhere around 75% now. With work from home, and schools, colleges or offices closed. Since market is down by 25% and we are down by 15% or 10%, our market shares have improved by 2-3%.

Amit Doshi

Okay. And do we also see any, you know, Like, because of this COVID thing, online sales have significantly improved. Do we see our sales being present in e-commerce segment and any significant jump there and what portion of our sales is on the e-commerce platform? Anything on that front, if you can share.

JK Paper Ltd.

On a small base on line sales show big jumps. But for the nature of the product like this, it does not make sense for people to buy online. You can buy that paper, cheaper than what you get online.

Amit Doshi

Oh okay. Okay. Fair enough. And what do you want to say that this, honestly, this Q2 numbers were really good in terms of top line. What do you want me to say that this is too, to some extent, or to a good extent because of restocking at dealers level, because, June quarter, everybody would have kind of stock out and, probably not stocking in because of schools, colleges being shut and, offices also. What do you want to that retail sales probably could be on the lower front compared to your sales, which is probably more to B2B or the wholesale front?

JK Paper Ltd.

No. I won't say that. In fact, what you see the topline is the true reflection of the sale to the end consumer, is not the stocking by the dealer or a distributor because they are not stocking. In fact, they are buying from us, whatever they are able to offload to the consumer or the market.

Amit Doshi

Okay. Okay. So, this Sirpur, you mentioned that you are, you will consider when in a week's time, depending on demand, et cetera, on the packaging side, you mentioned that, it is at COVID level. We understand that there is, around 30,000 / 31,000 ton machine at sirpur on the packaging side as well. There a possibility to run or startup part plant? I mean, would it make on the cost front, would it make sense to start? If there is something on basically packaging is doing on the margin front also good and on the demand side. Just wanted to understand that.

JK Paper Ltd.

See, paper being a continuous process plant, and it is an integrated plant. So it doesn't make sense to run a one machine because, if you run one machinewhere will you use the pulp coming out of the pulp mill?

Amit Doshi

Okay. Okay. And, so what about this, new capacity, new expansion at Gujarat. The CPM planned on the packaging front? I mean, of course our earlier target was Diwali this year. I mean, November, 2020, I think. So, any what kind of number?

JK Paper Ltd.

It was only an deadline given to people. In fact, our target was sometime April/May 2021 only. And, I would say that, because of COVID, there is a major impact because all the migrant labor and all those people left the site, and there was a ban on construction activities for practically two months. There is an impact. To some extent we are able to recover, I would still say that we are going to start the plant, sometime in May and, then the ramp up and other thing we'll do.

Amit Doshi

Okay. Okay. And, considering that packaging demand is very strong, do you believe that we will be able to utilize the most part of it in the first year of operation, et cetera? Of course, in the next year, may whenever we start, but the kind of demand that we already see in that segment.

JK Paper Ltd.

It is not possible to produce a hundred percent out of any new plant because it takes time for machine to stabilize. We need to be very careful about the quality, because it goes in pharmacy and food grade. Unless the product meets all the quality standards, we don't want to ramp up, so it takes time. The first year may reach 50-50%.

Amit Doshi

And Sirpur also, do we enjoy similar raw material procurement? Like we enjoy in the CPM, sourcing of raw material within. That, a range of, because we have developed over a period of time in CPM, so similar kind of advantage available on the raw material.

JK Paper Ltd.

Well I will say that the Sirpur paper mill is situated very close by to the plantation area. Because earlier has not done major plantation, but there are, the farm forestry and the farmer plantations available.

Amit Doshi

Okay. Okay. Anything on the export side, what do you want to share realization as well as exports?

JK Paper Ltd.

The demand in the domestic market is lower and the demand overseas is also lower. We are able to increase the volume in the export market, but the prices are lower. However since we have capacity and there is positive contribution, whatever volume we can export, we do.

Amit Doshi

Okay. Okay. Okay. On the buyback front, we have allocated around Rs 100 crore and of course we have already bought what was, I mean, as part of 130 rupees price, some 75, 76 lac shares, which I think we have already bought. Do you plan to use the balance funds to, acquire the balanced number of shares in the price market prices? Of course, lower than what the permissible.

JK Paper Ltd.

Today is the last day for the buyback. We have already acquired 87 lac shares.

Anurag Jain

A question. Yeah sure. Thanks for the opportunity. Most of the questions have been answered. Just, just one question on the packaging board, itself. So, because of e-commerce and all the demand is really shoot up and doing well, have you seen any price increase in this segment, particularly there was some news that you have raised prices in November. Can you confirm that any sense on the pricing outlook?

JK Paper Ltd.

yes. I would say that, the prices came down drastically because of the COVID scenario, because there was a pressure. We have already announced in the market the price increase. Let's see to what extent we are able to sustain it. Hopefully from the November it will be applicable.

Anurag Jain

Absolutely. Absolutely. So one question on really, so, First of all, you confirmed that there are no operational issues as such. It's just was a market that, the plant is shut and it can be started

anytime. Second Question was on the capacity there. So there are six lines. As of now, we are, we put four in working condition. What's your sense on the other two by when do we think

JK Paper Ltd.

In fact, there were not six. There were eight lines. We have already shut four of them, but the four which we have started have been refurbished. The capacity of these four lines will be more than the capacity of the erstwhile eight machines.

Anurag Jain

Okay. Okay. So, so the plan is to run, these four lines only, or at some Point in future, we would expand further Okay.

JK Paper Ltd.

No no. We already dismantled those four lines because they were totally inefficient machines. We are not going to run those four machines, those have already been discarded.

Anurag Jain

Understood. Understood. So thank you so much. That's all from my side. Thank you.

Vinay (AUM Capital)

Thanks that I have received a question on check from Mr. Jayant of Care PMS and. for Sirpur plant what is the total CapEx incurred. What about the workforce as the plant is shut down and what is the monthly fixed cost for the Sirpur plant.

JK Paper Ltd.

Ultimately capital cost will come in the range of Rs 550-600cr, for refurbishing and putting up the new Power plant, but, this is over and above what we have paid the banks in the erstwhile company.

Vinay (AUM Capital)

What is the monthly fixed cost for the plant?

JK Paper Ltd.

There's a monthly, fixed cost consisting of labor, Fixed costs and depreciation, et cetera. The proportion of other fixed expenses to the total manpower is somewhat relatively low in the case of, Sirpur and, again the manpower costs also consist of 2 elements. One is a contract labor. Next one is the permanent labour cost. Contract labour to some extent is going to be somewhat retractable. If the work is not happening in the factory, putting a precise number will be difficult, but we then take about seven to eight crores incl interest.

Vinay (AUM Capital)

Second question is whether writing and printing paper plant can be converted to packaging board plant.

JK Paper Ltd.

Okay. See, the conversion of a writing printing machine to the packaging machine is a major CapEx.

These are not interchangeable machine. You need to spend a quite a substantial amount in converting that machine. It is possible, but it needs a lot of Capex. If you're asking in the context of Sirpur, it is practically infeasible.

Vinay (AUM Capital)

This third question is to what extent do you see a dent in the overall. Market and demand assuming work from home culture and online education. Are you seeing any uptick in demand from rural areas

JK Paper Ltd.

One is the work from home. It may have some impact on the office paper, but we need to understand to what extent it is going to be a permanent culture from work from home. From that point of view, I would say that almost 80% is back to the work from office. Maybe 10-20% is still work from home. Once the situation improves to my mind, it will go back to 90-95%. And maybe 5%-10% may work from home. And, the paper consumption is less by 30% for work from home. So 30% of 10% can be impact of the paper. The assumption, that means somewhere around 2-3%, that can be the impact on paper consumption because of work from home. The effect of closure of schools and colleges etc has to be understood since there are health and hygiene issues also involved - they can't be staring on the laptop, computer, or at a smartphone all the time.

Aditya Singhanian's

Thank you. I'm sorry, if this has been asked or talked about, but can you update on the debt position? Currently both on standalone as well as, in the. Subsidiary. Thanks.

JK Paper Ltd.

The consolidated debt position is about Rs 2375 cr and this includes whatever loan we have taken for the packaging board project. And, somewhere Rs. 1900 Cr. in standalone. So Gross Debt is about Rs 2375 cr and Net Debt is about Rs 1,900-2000 cr.

Aditya Singhanian's

Thanks

Vinay (AUM Capital) (on behalf of Amar from Nippon Asset Management)  
Question on chat from Mr Amar from Nippon asset management. Yeah. This first question is, do you see.

Any non-tariff measures by government for domestic industry that can improve the domestic industry financial health? The second question is, do you see industry consolidation and M&A accelerating post COVID?

JK Paper Ltd.

There is a ban on the import of the stock lots. That is one non-tariff barrier support to the industry, that disturbs the pricing in the market. There is no other non-tariff barrier right now, but the government has taken some steps. I would say from January onward, the import of a copier paper will not be possible without the BIS Mark. So that is also going to be a non-tariff barrier.

Vinay (AUM Capital)

Do you see consolidation and many in the industry happening post COVID.

JK Paper Ltd.

See we need to understand what kind of companies or the manufacturing facilities are available in the country. Does it make sense for consolidation and at this stage, who are the players and what kind of targets are available? I don't foresee any major consolidation or M&A happening immediately.

Vinay (AUM Capital)

Okay. We'll take the next question from Urvija Shah

Urvija Shah

Yes, sir. Not sure if you answered this earlier, but I wanted to know more on your expansion on the packaging board. So who would be, Who would be our competitors in the market? And, it's also in the same, the product is same as what we are currently producing. That's my understanding, right?

And, say in the second year, if we are able to achieve 80 - 85% of capacity utilization, what are the revenues we would be generating given that part of the CapEx is for a packaging plant and the pulp plant. So, I wanted some color on that. And, secondly, it's a, how much of the debt is the foreign denominated? Given our interest costs are so low.

JK Paper Ltd.

All right. See the question on the packaging board, I would say that this machine in the second year should be 80-90%. And, the revenue coming from the new machine at 80% level, it would be close to Rs. 700 crore. Yeah. As far as the product is concerned, I would say by and large, the packaging board, Virgin board is the same, but the machine is fairly upgraded and, more automated and sophisticated machine. I would say that the quality of product and also the cost of the manufacturing would be lower. The quality would be better, and the cost would be low. I guess, to supplement Mr. Mehta, we have a plant east of Surat. If you look at the data, the belt between let's say Bombay to Ahmedabad, i.e the Western region consumes anywhere 40-41% of this product and we will be the cheapest cost supplier to the region because not only the logistics costs is very low, and this unit also enjoys some of the lowest cost in wood procurement.

And the Forex component will be around EUR 85 million once we take the entire loan and around 43% of the money that we are borrowing for the project.

Vinay (AUM Capital) (on behalf of Mr Uday)

How do you see the government bringing back the single use plastic ban, How do you see the paper industry benefiting because of that?

JK Paper Ltd.

There are a number of other issues because do we have the right kind of a replacement or substitution available? There are certain applications where you have to have, the plastic, but the paper industry will benefit to the extent of, all these cups stocks or food grade packing material will , be shifted. There is a good demand and good traction for the food grade cups or, the applications. Yes, it will be, but the country like India also please understand the enforcement of any legislation is so difficult.

Vinay (AUM Capital) (on behalf of Mr Jayant from Care PMS)

Questions sent by Mr. Jayant of Care PMs - to what extent are branded copier, paper fetches premium, or what are average premium? To what extent have, is, has it sale been impacted, in our overall scheme of things,

JK Paper Ltd.

Copier our mainstay is priced about Rs 2000 more than our Maplitho. The premiums over other competitors may be just 2%, sometime it is 6-7%, sometime it is 10% price difference. Right now the maplitho prices are very much lower. The price difference is something around 10-12%, but when the maplitho prices are better and when the printing season will be there, the price difference can come down.

Vinay (AUM Capital) (on behalf of AUM Capital)

And there is a question for Mr. Punit Kabra. What can be the potential impact on copier inputs from the BIS certification measures likely in. January?

JK Paper Ltd.

See, I would say that since there is anti-dumping duty on the copier paper already. The import is very small quantity right now also, and the domestic availability is more than adequate to the market demand. It maybe hardly 1- 2% of the total demand maybe impacted.

Anurag Jain

Yeah. Sure. Thank you so much for the opportunity. Just the quick question. What do you think, peak debt will be for the company when the CapEx for this new plant is fully done.



JK Paper Ltd.

Peak debt will be about Rs. 2600 cr net of cash consolidated with Sirpur.

Anurag Jain

Yeah. Got it. Got it. Thank you so much. Thanks. That's all the last, sorry. One question. If I may just squeeze in.

Other segment in paper which is doing well is the tissue papers. Any reason and any plans

JK Paper Ltd.

See, the tissue market is growing with a very healthy growth rate, but market base is very small in the country. Right now, there are three producers in the country, and in fact, they are not able to sell the entire quantity in the country. They will have to export and they are exporting almost 40% of their production. So market size is very small and, also the distribution issues are there, I mean, the product has to be sold in a different channel, different manner, rather than the selling the paper. We don't want to divert our energy and effort and our focus to some areas where the market is.

Anurag Jain

Okay. Okay. This is something where it will not be able to play it clear to us right now.

JK Paper Ltd.

Right now No,

Anurag Jain

Thank you so much. That's all from my side. Thank you.

Vinay (AUM Capital) (on behalf of Siddharth Mohta, Principal MF)

We'll take the last question from Mr. Siddharth Mohta Principal Mutual Fund. What's your view on global prices and new upcoming capacities and what's the likely improvement in absolute EBITDA from the Gujarat capex.

JK Paper Ltd.

One year back, it was a peak price point where the pulp prices globally, they were somewhere around \$750 to \$800 a ton. In last six months, it has come down to about \$450 level. Right now they are something around \$475 or \$500 band. The sustainable pulp prices globally is about \$550 a ton. Lower than that is not remunerative for the pulp manufacturers. So I would say long-term price, it can remain in the \$ 550-600 band, right now the \$ 475. Once there is a pick up in the demand of, and the pickup of, for demand of a tissue and other paper, the pulp prices may move up and can hover around \$500, \$550 a ton. Since in India, most of the A-grade players are integrated players barring some exceptions, the pulp prices do not impact in any major way to the local manufacturers, other than some players.

Okay. So, thank you everyone for joining on this.

Vinay (AUM Capital)

Thank you Sir. On behalf of AUM Capital we thank all participants for joining on the call. We also thank the management of JK Paper for giving us their valuable time and explaining the business in depth. Thank you everyone and you may disconnect now.

JK Paper Ltd.

Thank you everyone and thanks Vinay.