

JK Paper Ltd.
Conference Call

Transcript of Analysts/Investors Conference Call
organised by Ambit Capital Private Limited
on 10th June 2021

– **V. Kumaraswamy – CFO, JK Paper Limited**

- I see about 67 participants there. It is good to see so much of interest in our stocks and story. What we will do is, we have put up the presentation on the website yesterday and all of you can take a look at it. But what we will do is, we will go through only three-four slides which present the incremental information for the quarter and the year as a whole. About the company's history, its plants and capacities, etc. we aren't going to run through again and again with each call. So we will skip them all.
- See these are some performance highlights which you know captures the key significant things that have happened during this year primarily. The capacity utilization, despite the COVID interruptions was about 103% and for quarter 4 was almost about 117% or so. The company focused on reducing costs and rejigging the product mix and in terms of even the service mix, etc. thereby trying to make up for any cost losses or even NSR drops. Our thrust on plantation activities continue and we continue to source nearly 100% of our raw materials from the local area. How it helps is that it drastically cuts down the logistics costs which we pay on input raw materials coming in. Total plantation during the year was about 4.38 crores. Last year it was / previous year it was about 4.76 crores. And about 13000 odd hectares got planted. And the company maintained its long-term credit rating of AA -/Stable with CRISIL and Indian rating upgraded it from A+/Stable to AA-/Stable. It was in September 2020. This is despite the unprecedented situation that post-COVID situation present there, plus the ongoing large project at Unit CPM which is for the expansion of packaging board.
- Unit JKPM received a lot of awards but we have just listed only one. The “Energy Efficient Unit” at 21st National Award for Excellence in Energy Management organized by CII. Of course company also got FICCI's Quality System Award for Industry in 2020. And more of such this ones etc. you will find in the annual report when it is published.
- And next page please. Here we have given the key quantitative details of the fourth quarter and the 12 months. And sales volume as you can see between the fourth quarter, was affected, I mean in the March there was an impact in the previous year and vis-à-vis that we were up by around 26.4%. But if you take the 12 months of 2021 vis-à-vis 2019-20, we were down by about 2.1%. And we have given the grade-wise quantities. Coated paper at the year as a whole we were down by about 28.4%. But

otherwise okay. In terms of gross revenues in Q4, we were Rs. 979 cr. vis-à-vis Rs. 801 cr. in corresponding quarter, upward movement or around 22.2%. But for 12 months vis-à-vis last full year it is about 9.2% down. Net revenues on similar grounds. EBITDA for quarter four was about Rs. 245 cr. against Rs. 200 cr. in corresponding quarter. Nearly scraping the peak levels that we have hit ever. And for a year as a whole it was down by about 29%. And if you look at the PAT, Rs. 129 cr. in Q4 vis-à-vis Rs. 91 cr. in corresponding quarter, and for the year as a whole Rs. 322 cr. vis-à-vis Rs. 493 cr., down by around 35%. This is for the standalone financial of JK Paper. EBITDA margin again inched up slowly throughout the year and Q4 was 27.2% instead of 27.4% in corresponding quarter. But for the year as a whole there was about 6.7% drop.

- Profitability we have given the quarter wise movements for both 2019-20 and 2020-21, as well as the 12 months of 2018-19. So as you can see profitability in 2018-19 was about Rs. 437 cr., I am on line number 9, and which moved to about Rs. 493 cr. in 2019-20 and dropped to about Rs. 322 cr. in this current year that is FY2021. And the lowest quarterly profits touched in the April-June 2020 which is Rs. 25 crores. After that it significantly picked up, Rs. 68 cr., Rs. 100 cr. and Rs. 129 cr. We are not back to our peak levels of Rs. 136 cr. in a quarter but I think slowly as the volume picks up, we will be there. Obviously every crisis teaches its own lessons. So we have also learnt a lot in terms of in plant efficiencies as well as the cost efficiencies, procurement efficiencies, processing, payments, work from home etiquette and how to do it and all. And product mix changes. And we are also embarking on so many other ways to cut costs, cut process time etc. So it has not been without its lessons. So hopefully going forward once the economy returns to its normal levels of operations, we will make use of all these lessons in our operations. In terms of material cost percentages to net sales in 2018-19 we were 50 %. We have brought it down to about 45% in 2019-20 and went up to 52.6%. It is a percentage of net sales. As you know there were some significant drop in NSR. More in the first two quarters and less so in the next two quarters, quarter 3 and 4 of last year, because of which the percentage is looking a little skewed. But I am sure we will drop below that as we pick up volumes. Staff costs, a similar kind of story. And we didn't chuck out anybody. We fully supported all the families. So the staff costs are looking a little stiff. EBITDA I have already told you.
- Now one concern of everybody is how we got over-leveraged and has Covid affected us, big project etc. And as you can see the levels, the net debt and equity are plotted. Equity has been going up and net debt came down up to March 2019 but after that for the project's sake we have borrowed and so it is standing at around Rs. 1767 cr. as of March'21. In terms of net debt to equity ratio, it was about 2.03x in April 2015. It was down to about 0.34x. It has gone up now. It will go up a little more also before the EBITDA from the new project starts kicking in. after that these ratios will correct themselves. The same applies to the other two graphs as well. In terms of the credit rating etc. are given there which you can see for yourself.

- So this is what we wanted to cover by way of the focus on the year and the quarter four. Balance is all same kind of permanent information I should say about the group, about its business etc. So that is where it stands. Yeah.
- Now I think we can throw it open. Any of my colleagues want to add anything? Ashok Gupta, Anil Jatana, Sudipta, anybody?
- **Anil Jatana - Deputy General Manager Finance, JK Paper Limited**
- That's all sir. I think let's throw for the questions. Maybe a lot of things will be covered there itself.
- **V. Kumaraswamy – CFO, JK Paper Limited**
- Okay.
- **Moderator**
- Sir we have first question from the line of...
- **Sreemant Dudhoria – Unifi Capital**
- Sure. So congrats on a good performance in the quarter and especially the break even and the operating level at the Sirpur plant.
- **V. Kumaraswamy – CFO, JK Paper Limited**
- Yeah.
- **Sreemant Dudhoria – Unifi Capital**
- So the first question is what is the way forward now at the Sirpur now that we have broken even at the EBITDA. How does the things progress from here onwards?
- **V. Kumaraswamy – CFO, JK Paper Limited**
- Okay. See the manufacturing company obviously the way forward is to first reach 100%. And Sirpur has been touching as you know, as we have declared about 70% during this quarter 4. And we have started operating 80% or so before this second wave started in full fury. Obviously the immediate goal is to reach 100% capacity utilization which we are confident. In each of our plants we operate at that kind of capacity. Meanwhile all the lessons of the other two plants are also being slowly injected into Sirpur which would significantly improve the operating efficiencies. And thirdly the new power boiler which we have put up will also increase the efficiency significantly by bringing down the volume of coal as well as the steam power losses etc. which take place. So slowly our aim is to as far as the quality is concerned, it is already more or less on par with our

Gujarat plant. And slowly obviously we will spruce it up even further. Next journey will be to reach better levels of efficiency and profitability as well as in the environment etc. EHS area where there are some significant gaps. We will try to plug them. We will also try to propagate growth of trees in the nearby areas. And thus trying to get a control over the costs of wood and raw materials.

– **Sreemant Dudhoria – Unifi Capital**

– So the volume ramp up that happened in Sirpur in quarter 4, was it one off because the education text books or do you see the momentum continuing? Right now there may be short term players but do you see the momentum continuing at the Sirpur plant? The utilization levels sustaining at these levels?

– **V. Kumaraswamy – CFO, JK Paper Limited**

– See it is not a one trip pony. We have a bouquet of products to offer from Sirpur. It is also manufacturing color copier as well as normal copier, as well as the text book printing material. On top of it, it is also maintaining I mean manufacturing cup stocks etc. So to a certain degree that is the amount of interplay of these things also. So it is not one off to answer you.

– **Sreemant Dudhoria – Unifi Capital**

– Sure sir. So our total gross block in Sirpur would be...

– **V. Kumaraswamy – CFO, JK Paper Limited**

– Mr. Mehta has also joined and he will also be taking some of the questions as we go along. Yeah you continue.

– **Sreemant Dudhoria – Unifi Capital**

– Yeah so...

– **AS Mehta – President & Director, JK Paper Limited**

– Good afternoon everybody. Sorry for delay my apology.

– **Sreemant Dudhoria – Unifi Capital**

– Yeah hello sir. So I was asking what is the gross block in Sirpur right now. Last time you had mentioned that you are making investment to improve efficiencies. One was the boiler plant. Has all these investments been done at Sirpur? Is it complete?

– **V. Kumaraswamy – CFO, JK Paper Limited**

- See I think it is more or less complete. There is no significant additional in the current projects which have been announced. But if we identify any major cost I mean areas where cost reduction is possible, or any significant returns are there, we will continue to invest.
- **Sreemant Dudhoria – Unifi Capital**
- What is the gross block...
- **V. Kumaraswamy – CFO, JK Paper Limited**
- All the project costs have already been done.
- **Sreemant Dudhoria – Unifi Capital**
- What is the gross block number in Sirpur now?
- **V. Kumaraswamy – CFO, JK Paper Limited**
- Around a Rs. 700 crores.
- **Sreemant Dudhoria – Unifi Capital**
- So usually our historically gross block turnover has been 1:1. Should that similar be the trend, similar trend should be seen in Sirpur as well?
- **V. Kumaraswamy – CFO, JK Paper Limited**
- Historically the numbers are not 1:1. It is 0.7 or 0.8:1. Sirpur also will definitely be there.
- **Sreemant Dudhoria – Unifi Capital**
- Sure sir. And the one on the highlight in the Sirpur operation I think that is the incentives and the other income which you received. This can you give a flavor of these incentives how should we look at it and what is sustainable what is not sustainable?
- **V. Kumaraswamy – CFO, JK Paper Limited**
- Mr. Mehta I can take the question. You can correct me if I am wrong.
- **AS Mehta – President & Director, JK Paper Limited**
- Sure, sure. Please do that.
- **V. Kumaraswamy – CFO, JK Paper Limited**

- Actually we have processed all our applications for claiming this incentives. Capital incentives have been approved and so are many of the classes of revenue incentives as well. And applications are filed at the end of every three months or six months as has been prescribed under the policy as well as the letter dated 21st March – I mean the circular dated 21st of March 2018. And most of them have been approved. Some of them are under process etc. But we are confident that they all will be approved. Cash flows will obviously depend on the financial strength of the state and there is some considerable lag we were told from the other people who are also in the queue for getting the incentives. But I don't want to give any committed date on when the cash flows will start coming in for – we don't have a total handle on that. But our aim is to make the unit viable, cash flow positive as well as this one on its own merit. That's the journey we are on. Mr. Mehta you want to add anything?
- **AS Mehta – President & Director, JK Paper Limited**
- Absolutely Kumar you are absolutely right. See it is very difficult to estimate when the government will finally release this. These the incentives and the benefits what Kumar has said, they are all the eligible incentives and verified incentives. So it is a question of time because any due from the government yes there would be delay. But certain you will get it. So it is a question of time.
- **Sreemant Dudhoria – Unifi Capital**
- Yeah so the Rs. 22 crores of other income that we received at the Sirpur plant in the quarter gone by, so that is given. And based on our pending application this number should only increase. Is the understanding right?
- **AS Mehta – President & Director, JK Paper Limited**
- Once it is a quarterly amount so more or less it will hover around the same amount. I mean slightly the amount with the volume proportionate increase can be there. But otherwise that should be the amount.
- **Sreemant Dudhoria – Unifi Capital**
- So finally just wanted to know how is the COVID-2 impacting our business? How has been the utilization and realization in the month of April and May? Thank you.
- **AS Mehta – President & Director, JK Paper Limited**
- See the wave two of COVID has impacted the business badly I must say. But not as bad as it was in the Q1 of last year. Because all these states sponsored curfews, lockdown. Of course there was no national lockdown but effectively there were lockdown. The markets are closed. Institutions are closed, offices are closed. So the paper consumption has been badly hit. But I would only say that compared to the other players we did much better. So that is it for April and May. April, May they were bad. I would say that

once now the gradual easing is happening, relaxation is being given, we see a good beginning in the first 10 days of June. So let's see that from 15th or 14th of June again there is going to be some more relaxation particularly in the southern states. And then there will be a good improvement in the market.

– **V. Kumaraswamy – CFO, JK Paper Limited**

– First four pages I have gone through.

– **AS Mehta – President & Director, JK Paper Limited**

– Sorry?

– **V. Kumaraswamy – CFO, JK Paper Limited**

– First four pages I have gone through what is significant for this quarter and annum. After that you joined. So you please carry on. I have to leave now.

– **AS Mehta – President & Director, JK Paper Limited**

– Sure, sure, sure.

– **V. Kumaraswamy – CFO, JK Paper Limited**

– Okay.

– **AS Mehta – President & Director, JK Paper Limited**

– So the presentation who is sharing the screen?

– **V. Kumaraswamy – CFO, JK Paper Limited**

– Anil is.

– **AS Mehta – President & Director, JK Paper Limited**

– Alright, alright.

– **V. Kumaraswamy – CFO, JK Paper Limited**

– Can I leave now? I hope it doesn't create a problem.

– **Nishat – Ambit Capital**

– No sir

– **V. Kumaraswamy – CFO, JK Paper Limited**

- Okay. I am leaving.
- **Moderator**
- Next question is from Mr. Nagraj Chandrasekar.
- **Nagraj Chandrasekar – Laburnum Capital**
- Hi thank you. Just a small follow up on Sreemant's question the Rs. 22 crore other income we recognized, is that being paid out in cash by the state government or are we just accruing it through the P&L and recognizing it as receivable every quarter? Hello?
- **AS Mehta – President & Director, JK Paper Limited**
- Yes sorry. I was not clear on the question.
- **Nagraj Chandrasekar – Laburnum Capital**
- Sorry Nagraj here from Laburnum. I just asked the Rs. 22 crores you mentioned in other income from Govt. benefits has that come to us from the government or is that just receivable recognizing every quarter till we get the amounts from the government.
- **AS Mehta – President & Director, JK Paper Limited**
- Of course your voice was breaking and not clear but what I could understand from the question is that Rs. 22 crores as miscellaneous income of Sirpur the major amount is yes the accrued incentive. But there are some other items also because we have a normal operative miscellaneous income of the business as well. But yes the major amount is the incentive which is accrued and verifiable.
- **Nagraj Chandrasekar – Laburnum Capital**
- And just the Sirpur not having plantations nearby, when we ramp it up to say 90-95%, what sort of disadvantage on EBITDA per ton versus our overall business of 15-16 thousand per ton does Sirpur have just because of this issue? And how long will it take to fix the plantation?
- **AS Mehta – President & Director, JK Paper Limited**
- See I would say Sirpur is in close proximity of the planting areas. It is not that – I mean yes our plantation is not there because from last 5 years the unit was shut and thereafter we have just started and last year we started our plantations operations. And hopefully this year there will be a good amount of acreage plantation our team will do. But the availability of raw material as well as the assurance by the government to make the raw material available from the Telangana Forest Corporation so it will not be disadvantageous for Sirpur as far as the raw material is concerned even if we move to

95% or 100% of our capacity utilization. So that is not a major disadvantage issue. But once we have plantation, our own plantation gives advantage partly is the logistics cost advantage but the major advantage when we have our own plantation, then the quality of material and also the aging of material we can control. So your productivity, your yield goes up and that gives an advantage. So no disadvantage. But once our plantation starts and we start getting wood from our own plantation, it will give us advantage in our raw material cost.

– **Nagraj Chandrasekar – Laburnum Capital**

– Understood. And just overall cost of raw materials, we are hearing from paper companies about the cost of chemicals and the cost of obviously energy coal. Coal prices are also going up. Is that what is taking up the raw material cost to revenues? And are the NSRs also hovering around that 54 per kilo range for A4 paper that they were before the lockdown or have we seen a leg down or have we seen a leg up and what does that mean for the raw material to sort of revenue number going forward?

– **AS Mehta – President & Director, JK Paper Limited**

– Hopefully this question is not Sirpur? It is a general question.

– **Nagraj Chandrasekar – Laburnum Capital**

– It is a general question.

– **AS Mehta – President & Director, JK Paper Limited**

– See the NSR before lockdown of a copy paper and after the lockdown of a copy paper so there is a slightly some minor correction in some markets. So yes there is some price drop. But again once we have slightly the opening up of the market, so the price should be stable. I mean I would say the prices of copy paper should be stable. Normally what happens is that the drop happens only in case of a maplitho which is a printing paper. Because there are desperation by some smaller mills and also the printing the demand during the lockdown drastically comes down. And when it picks up, again the prices they pick up. So as last time also, in fact the prices of maplitho paper dropped by 18 to 20%. But when it started moving up, it moved up close to again 16-17, 18%. So yes there is a price drop in maplitho. But hopefully when we see the August-September normal markets, there will be a price correction again.

– **Moderator**

– Next question is from

– **Nagraj Chandrasekar – Laburnum Capital**

- Understood. And just a final version on the status of the new packaging plant. Where are we on?
- **AS Mehta – President & Director, JK Paper Limited**
- See on the project of our packaging at Gujarat...
- **Nagraj Chandrasekar – Laburnum Capital**
- Hello?
- **AS Mehta – President & Director, JK Paper Limited**
- Is your question on....
- **Nagraj Chandrasekar – Laburnum Capital**
- Sir one question on...
- **AS Mehta – President & Director, JK Paper Limited**
- ...at Gujarat?
- **Nagraj Chandrasekar – Laburnum Capital**
- Yes, yes.
- **AS Mehta – President & Director, JK Paper Limited**
- Okay. So as far as the project is concerned, yes because of the lockdown there were again the impact because some of the people were impacted because of they were impacted by COVID. And when there are some cases of COVID, naturally I mean you do the vaccination, you do the isolation, you do the quarantine of other people also. So there were some impact. And I would say that also the restriction on travel has created some issue because the stage is right now the commissioning. And for commissioning you need specific people, qualified people, trained people, and they could not travel because of the travel restriction. Some of the experts they were supposed to come, they also could not come. Of course we have done all the arrangement for the virtual commissioning. But yes it is taking time because it makes a difference of a virtual commissioning and a physical commissioning. But hopeful that in the Q2 by end of Q2 we should be able to have paper from our new project. Hope that clarifies?
- **Nagraj Chandrasekar – Laburnum Capital**
- Thank you.
- **AS Mehta – President & Director, JK Paper Limited**

- Yes thank you.
- **Archana - IDBI**
- Hello? Hi sir this is Archana this side from IDBI. Sir I had two questions. Firstly on the debt part. Sir before that let me congratulate to you and the team for a very good set of numbers despite every challenging times.
- **AS Mehta – President & Director, JK Paper Limited**
- Thank you.
- **Archana - IDBI**
- JK has always stood above our expectation in terms of numbers. Sir coming to my questions, firstly on the debt part. Kumaraswamy sir also mentioned this that you know maybe this is not the peak and we may see some uptake from this level onwards. Sir what debt we should look at in absolute number for FY22, and what is the debt repayment plan for us?
- **AS Mehta – President & Director, JK Paper Limited**
- Okay. The second question?
- **Archana - IDBI**
- Sir my second question is on packaging board. You just now said that maybe by Q2 end we should see that plant to be operational. If I consider let's say the plant will be on a good part, if it is operational for 90 plus capacity for FY23, then what kind of revenue it should generate at the consol level? And the kind of margins we should look at for the packaging board.
- **AS Mehta – President & Director, JK Paper Limited**
- Okay thank you. As far as the debt I think Kumar must have responded that by end of 2022 hopefully our net debt would be close to Rs. 2700 cr. Anil am I right?
- **Anil Jatana – Deputy General Manager Finance, JK Paper Limited**
- Correct sir, correct sir.
- **AS Mehta – President & Director, JK Paper Limited**
- So 2022 we should have the net debt of Rs. 2700 cr. and thereafter it should start coming down. Because thereafter I don't think there is any need, further need of any additional debt. Then the repayment will start and we will have a lower debt. FY23 if you are asking, I think the debt should come down by somewhere around 200-300 at

least. So the peak I would say that 2700-2800 crore would be the peak debt. So this is on the debt part. As far as the packaging board your question is that yes Q2 of this fiscal we should start. But this is a very, I would say the high quality product because this is a virgin packaging board and majority of the volume is with pharmaceutical and food grade so we need to be very, very strict on the quality standard and the quality of the material. So the ramp up maybe a bit slow. But in the FY23, I would say FY22-23 when we hit the 90%, I would say that we should be close to – it should add somewhere around Rs. 1000 crore turnover. Around Rs. 1000 crore. And should give additional EBITDA of close to Rs. 200 crores. Anil?

– **Archana - IDBI**

– Sure sir.

– **AS Mehta – President & Director, JK Paper Limited**

– Anil?

– **Anil Jatana – Deputy General Manager Finance, JK Paper Limited**

– Yes sir. Next year it will be around that. Yes.

– **AS Mehta – President & Director, JK Paper Limited**

– Okay. Yeah, yeah, this is what 2022-23.

– **Anil Jatana – Deputy General Manager Finance, JK Paper Limited**

– Yes sir, yes sir.

– **Archana - IDBI**

– Sure sir. Sir that was very helpful. I will just squeeze in just my small question. Sir last time when we had a conversation you spoke about maybe two price hikes, first in Jan and second in March. Sir when I just do the numbers, maybe on QoQ the NSR has increased by 3.8% to be very precise. So does that reflect our both the price hike or have we taken a halt for March hike and maybe we will do it later?

– **AS Mehta – President & Director, JK Paper Limited**

– No, I would say that there were price hikes in between and in fact I would say that is what the price hikes. But what happens is that when we do the price hikes there are the pending orders at the old price, those we need to honor those commitments. So effectively whenever we do a price correction, it takes in some product category a month's time in some products two months' time to effectively realize the entire price increase. So whatever price increase we did, some impact we have seen in the month of

April also. And then in some product category there is a price drop also in May month. So effectively I would say that in the month of June whatever price correction we have done, that will be reflected.

– **Archana - IDBI**

– Sure sir.

– **AS Mehta – President & Director, JK Paper Limited**

– Because it is a very complex. Because when we do –booking in some product category is 2 months’ booking, some product category it is one month booking. It is only the copier where the price is when we announced the date effective date, it becomes effective. But the other product categories it takes time.

– **Archana - IDBI**

– Sure sir, sir that was very helpful. Thank you and all the best sir.

– **AS Mehta – President & Director, JK Paper Limited**

– Thank you.

– **Moderator**

– Next question is from Piyush Sharma. Piyush please go ahead.

– **Piyush Sharma**

– Yeah hi, good afternoon. I just had a couple on the CPM. Were the new 100000 ton BCTMP pulp, you wouldn’t need to import BCTMP any longer correct?

– **AS Mehta – President & Director, JK Paper Limited**

– Sorry, sorry?

– **Piyush Sharma**

– I am saying after you put in the new BCTMP pulp mill at CPM, you wouldn’t need to import BCTMP any longer post expansion, correct?

– **AS Mehta – President & Director, JK Paper Limited**

– You are right. But the BCTMP pulp mill is not part of right now this expansion project.

– **Piyush Sharma**

- Okay, okay it is not.
- **AS Mehta – President & Director, JK Paper Limited**
- See we took the environment clearance, yes we took the environmental clearance to put up a BTCMP pulp mill, but it is phase 2, it is not part of this phase.
- **Piyush Sharma**
- When do you expect that phase 2 to...
- **AS Mehta – President & Director, JK Paper Limited**
- We are still, I mean evaluating it. So our thought process is once we stabilize this, the chemical pulp mill and our board machine, and thereafter we may start working on that project, phase 2.
- **Piyush Sharma**
- Okay. And the new larger recovery boiler, is that in place? Is that part of phase 1?
- **AS Mehta – President & Director, JK Paper Limited**
- Yes, yes that is part of this one.
- **Piyush Sharma**
- Okay a question on that. Despite putting the larger recovery boiler, your coal requirement apparently is still going up. Which is a bit different from what happened in Rayagada several years ago. Again this may not be apples for apples. But if you could quantify how your coal requirement maybe per ton of board production at Songadh changes post expansion versus today, that will be helpful.
- **AS Mehta – President & Director, JK Paper Limited**
- See it makes a difference of a recovery boiler because see please understand the capacity of CPM it is going to be something around I would say 3,40,000 tons, after the full capacity of packaging board, paper as well as the old packaging board. So it is likely to be 3,40,000 ton whereas the pulp it is 1,60,000 ton only. So the recovery boiler has a link with the pulp mill. So the biomass is generated in the pulp mill is lower at CPM compared to Rayagada. Because in Rayagada right now the pulp mill is 2,20,000 ton pulp mill. So we have more biomass for the recovery boiler. So to the extent of the biomass at CPM, we will need additional coal. So that is the only difference.
- **Piyush Sharma**

- Okay and just couple more there. Now you would also be relocating a bleached chemical wood pulp mill from JKPM. That is part of phase 1?
- **AS Mehta – President & Director, JK Paper Limited**
- Yes, yes. This is the only 1,60,000 ton pulp mill what we are putting up here, it is refurbished pulp mill coming from Rayagada. But there are a lot of other – I mean the improvement and upgradation of the pulp mill is happening.
- **Piyush Sharma**
- Okay. So you would retire the old 60,000 ton pulp mill and the net incremental will be 100000 ton correct?
- **AS Mehta – President & Director, JK Paper Limited**
- Yes, yes.
- **Piyush Sharma**
- Okay. And so how would you be replacing that at Rayagada then? Or you don't have to....
- **AS Mehta – President & Director, JK Paper Limited**
- No Rayagada we have already replaced it.
- **Piyush Sharma**
- Okay you have, okay. And if I can just...
- **AS Mehta – President & Director, JK Paper Limited**
- And we have put up a larger pulp mill in Rayagada so that has already been placed.
- **Piyush Sharma**
- Alright perfect. And also if you could give some ideas that I asked about the coal requirement per ton of paper production post this expansion versus today, any quantification around that?
- **AS Mehta – President & Director, JK Paper Limited**
- See I don't remember now. I mean exactly I don't remember. But I would say that certainly I mean it would be a far more efficient board production in the new machine because it will consume less steam. Also the new pulp mill there also slightly it is a lower pulping consumption. So it should be far more efficient than what we have had right

now in the Gujarat plant. But yes the incremental volume will certainly need the pro rata increase in coal production. But per ton certainly the consumption of coal will come down.

– **Piyush Sharma**

– Okay and just finally, any idea anecdotally how much of paper board in India gets recycled today?

– **AS Mehta – President & Director, JK Paper Limited**

– See the paper board, the packaging board, I don't have any idea how much it is recycled. But my gut feel is that 70-80% should be going back in the recycling because the virgin board we produce is a virgin and it is recyclable 100%.

– **Piyush Sharma**

– Any idea about the pricing differential between virgin board and recycled board as it stands today roughly?

– **AS Mehta – President & Director, JK Paper Limited**

– See the price difference between the virgin and the recycled, I would say when you benchmark it if the virgin is 100, I would say the recycled would be close to 70. 65-70 depending on the quality of recycle. Because it also depends on who is producing the recycled board. The different machine, different quality, different grade, so it makes a difference. But generally it should be 65-70% of the virgin board.

– **Piyush Sharma**

– Is it fair to say that when it comes to food grade recycling is very low there? Or recycled paper board usage is very low within food grade?

– **AS Mehta – President & Director, JK Paper Limited**

– In India it is still there but it should not be. Because the recycled is not right board for a food grade packaging. For any food grade it should be the virgin.

– **Piyush Sharma**

– Thank you so much. Much appreciated.

– **AS Mehta – President & Director, JK Paper Limited**

– Thank you.

– **Moderator**

- Our next question is from Nishith Shah. Please unmute your line and ask your question.
- **Nishith Shah**
- Yes sir. Sir I wanted to understand, Is there any other packaging board capacity coming in which will change the demand supply scenario for the industry apart from you?
- **AS Mehta – President & Director, JK Paper Limited**
- See the packaging board capacity, ours is the only capacity right now where it is fructifying. There is no other publicly announced capacity expansion that anybody is working on as of today.
- **Nishith Shah**
- Okay.
- **AS Mehta – President & Director, JK Paper Limited**
- On any capacity expansion, even if the announcement happens, it takes minimum 18 to 24 months' time. Right now there is no announcement.
- **Nishith Shah**
- Okay. And sir for one....
- **AS Mehta – President & Director, JK Paper Limited**
- As far as the demand supply your question is concerned, I would say that if no announcement happens let's say, right now there is no announcement, and even if in 6 months, 12 months, then even if there is something or if somebody decides, so the capacity is not likely to be available before 2023-24. So if at all something is done, it can be only after 2024-25. That means 2025-26. And before that the demand supply scenario in the industry to my mind 2022-23 itself it should be a fairly balanced demand-supply scenario in the country. Hope I have answered your subsequent question also linked to it?
- **Nishith Shah**
- Yes sir. I have one second question. Sir I wanted to – so for one of the earlier participant you said that we can do around 200 crores EBITDA on 1000 crores of revenue for this packaging board.
- **AS Mehta – President & Director, JK Paper Limited**
- Yes.

- **Nishith Shah**
- That comes to around 20%. So is my understanding correct that paperboard margins would be lower than our consol margins?
- **AS Mehta – President & Director, JK Paper Limited**
- See the packaging board, see it is a high volume item. And the EBITDA in packaging board is to some extent lower compared to the copier paper. Compared to the copier paper. But when we see the capital employed in packaging board, so the return is decent. Because the capital employed in packaging board is lower.
- **Nishith Shah**
- Okay. Got it sir. Thank you.
- **AS Mehta – President & Director, JK Paper Limited**
- Thank you. But certainly since we are putting up our own pulp mill, so to that extent the EBITDA should be – in time to come it should improve. I mean 20% I have just given you ballpark at an 85-90% capacity. But when we run the machine at 100%, or more than 100% because this is our track record, so at that time the EBITDA would be better than 20%.
- **Nishith Shah**
- Got it sir, thank you.
- **AS Mehta – President & Director, JK Paper Limited**
- Thank you.
- **Moderator**
- Thank you. We have next question from Amit Doshi. Amit please go ahead.
- **Amit Doshi**
- Yeah thank you for the opportunity. Sir you mentioned that Sirpur, I mean I think initially Mr. Kumaraswamy mentioned about that 0.7:1 is the ratio of the capital employed. Sirpur at 100% capacity would be approximately say Rs. 700 crore of top line it would add. So by when we expect that 100% to get achieved at Sirpur?
- **AS Mehta – President & Director, JK Paper Limited**
- See ideally and if the market supports, to my mind the fiscal year 2022-23, I mean our aim is to do it 2022-23 is 100%.

- **Amit Doshi**
- 2022-23?
- **AS Mehta – President & Director, JK Paper Limited**
- Yes.
- **Amit Doshi**
- Okay. And for the year 2021-22? Sirpur would be at?
- **AS Mehta – President & Director, JK Paper Limited**
- See Sirpur would be lower certainly. It would be lower because one is the lockdown and the other one is the lower demand. And also some other debottlenecking work which we were doing it will be completed by December only. So the Q4 we can think of that, we can touch somewhere around 90%. But 2022-23 we are aiming 100%.
- **Amit Doshi**
- Okay, okay, okay. And in terms of margin the JKPM and these both will have similar kind of margin profile.
- **AS Mehta – President & Director, JK Paper Limited**
- No Sirpur cannot compare JKPM.
- **Amit Doshi**
- Okay fine, fine.
- **AS Mehta – President & Director, JK Paper Limited**
- Sirpur would be lower than JKPM.
- **Amit Doshi**
- Okay. And our market share I just noticed in last couple of presentations has gone up by 100-200 basis points. So that is because of Sirpur or because of import restrictions or because of unorganized to organize? I mean anything that you can...
- **AS Mehta – President & Director, JK Paper Limited**
- See the copier I would say that yes there is let's say improvement of market share by let's say something around 2%. So I would say 1% is because of our own traditional production from our facilities. And 1% is because of Sirpur.

– **Amit Doshi**

– Okay, okay, okay. Sir about this global pulp prices which had gone to \$900 per ton and now have probably come down a bit, so can you give what is it currently and how long they could be sustainable considering the situations world over?

– **AS Mehta – President & Director, JK Paper Limited**

– See the pulp prices, yes they crossed \$800 a ton. And right now also in the same band of \$780 to \$800. And right now the scenario is– it looks that it will remain for another 6 months at least in the same band. Thereafter it should come down because the sustainable pulp prices are not at this level. It should be lower. But there are a number of variables happening globally. I mean sometimes you do not know what happens, what way the market operates, there are many operators now in the pulp trade. So I mean it all depends on a number of other variables. But ideally it should not be at this level.

– **Amit Doshi**

– Okay, okay, okay. And sir the raw material the sourcing that we do pulp within that 200 km range which we have achieved and now last year the entire 100% of our sourcing has been from our own this thing. So going forward also is it likely to continue or because we have achieved as a certain level of procuring now again it could come down and again it will ramp up because of plantation etc. takes some time? So how does it work? Or it is likely to...

– **AS Mehta – President & Director, JK Paper Limited**

– See we do plantation in a very, very scientific manner that see we don't harvest the entire plantation whatever we have done in 200 km or 250 km. We do let's say one-third, one-fourth, one-sixth sometimes. So to my mind it will continue the way we are doing right now. So our distance should be more or less the same, 10-20 kms here or there. So that should remain our focus.

– **Amit Doshi**

– And last question sir about this anti-dumping duty on uncoated paper I think is ending in this year. So any clue or anything that you believe there is a likely extension of the same?

– **AS Mehta – President & Director, JK Paper Limited**

– See very difficult for me to comment what will happen. But yes we have filed an application and the investigation had started. The duties up to 3rd of December 2021. And so the review is due. And I will fight the case very strongly for the country.

- **Amit Doshi**
- The facts or the data points which were there 3 years back is similar so which is making the case stronger? Or no, because overall...
- **AS Mehta – President & Director, JK Paper Limited**
- See, as a country when we talk about Aatma Nirbhar so we are Aatma Nirbhar. So why should we allow other people to capture this market? When we can sell, we can provide the product of a good quality and good timing at a decent price, why should this market be open to or allowed for those people?
- **Amit Doshi**
- Okay, okay, thank you and all the best and congratulations for superb numbers despite COVID year.
- **AS Mehta – President & Director, JK Paper Limited**
- Thank you.
- **Moderator**
- Next question is from Shah. Mr. Shah please go ahead. Mr. Shah please unmute your line.
- **AS Mehta – President & Director, JK Paper Limited**
- Can't hear anything.
- **Moderator**
- We will go to the next participant. Abhisar Jain from Monarch Network.
- **Abhisar Jain – Monarch Network**
- Yes thanks a lot sir for the opportunity and congratulations for a good performance in a very tough year.
- **AS Mehta – President & Director, JK Paper Limited**
- Thank you.
- **Abhisar Jain – Monarch Network**
- Sir just wanted to confirm that I think Mr. Kumaraswamy mentioned that the Sirpur utilization in FY21 was close to 70%. Is that the right number sir for the last year?

- **AS Mehta – President & Director, JK Paper Limited**
- No, no, Full year it was not 70%. 70% was Q4 of the fiscal year.
- **Abhisar Jain – Monarch Network**
- Okay and sir full year would be close to 50% then or it is even lower than that?
- **AS Mehta – President & Director, JK Paper Limited**
- No I don't have right now the number but I think it was lower than even 50%.
- **Abhisar Jain – Monarch Network**
- Okay. And sir since we have broken even at 70% utilization as it appears from the Q4 numbers, so considering that you mentioned that Sirpur should be able to do say anywhere between 80-90% utilization for this year, what kind of EBITDA margins do you think we can expect at Sirpur level this year?
- **AS Mehta – President & Director, JK Paper Limited**
- See as I said that this is very difficult because the second wave impact in this Q1 is there and there were lower sale in the market. And going forward what kind of price will remain I mean the advisory on the future number will be very difficult and I don't want to venture on this part.
- **Abhisar Jain – Monarch Network**
- Okay sir understood. And sir what is the capex outlook for FY22 and FY23? What would be the remaining capex at both Sirpur and CPM which we will incur in these two years?
- **AS Mehta – President & Director, JK Paper Limited**
- See FY22-23 what you are talking is I would say that only the maintenance capex or some debottlenecking of small-small things. Otherwise no major capex is for 2022-23. If at any stage we decide on the BCTMP pulp mill then we will come back with the number. But right now we have not yet decided. So any number cannot be given for that. But otherwise there are normal capex.
- **Abhisar Jain – Monarch Network**
- Sir FY22 we will still have some residual capex for the packaging board plant and also Sirpur or...
- **AS Mehta – President & Director, JK Paper Limited**

- No I don't think 2022-23 there will be residual capex because those will happen in this 2021-22 itself.
- **Abhisar Jain – Monarch Network**
- Yeah so that is what sir. FY22 what it will be? FY21-22?
- **AS Mehta – President & Director, JK Paper Limited**
- You are asking 2022-23 or 2021-22?
- **Abhisar Jain – Monarch Network**
- Actually sir I was asking for both the years' sir. Sorry for that.
- **AS Mehta – President & Director, JK Paper Limited**
- Your question was 2022-23 so I responded. 2021-22 see this project is of whatever Rs. 1940 crore project. So that will happen by Q2 of this fiscal year itself.
- **Abhisar Jain – Monarch Network**
- Right.
- **AS Mehta – President & Director, JK Paper Limited**
- Right? And with this there are some normal capex of Rayagada, Sirpur and the Gujarat plant will happen. That is all the capex for this year.
- **Abhisar Jain – Monarch Network**
- Sure sir. So what is the pending amount sir which will be spent in FY22? This fiscal year?
- **AS Mehta – President & Director, JK Paper Limited**
- Oh, see I would say that our March 2021, if the CWIP if I remember it was Rs. 1500 crores. Anil am I right?
- **Anil Jatana – Deputy General Manager Finance, JK Paper Limited**
- Yes sir. Yes sir Rs. 1590 Cr. sir, Rs. 1600 cr. about.
- **AS Mehta – President & Director, JK Paper Limited**
- So approximately Rs. 1600 crore we have already done. So rest Rs. 300-400 crores will be in this fiscal year.
- **Abhisar Jain – Monarch Network**

- Right. And sir the maintenance capex for now the whole JK Paper will be how much approx.?
- **AS Mehta – President & Director, JK Paper Limited**
- See that would be somewhere around Rs. 100 crores.
- **Abhisar Jain – Monarch Network**
- Right, right. And sir just one more thing, last from my side sir. What is now the company's 3 to 5 year strategy? See we had done, I think a lot of expansion related efforts by first getting Sirpur and now having the expansion in CPM. So now from a 3 to 5 year view considering we will be ending our capex cycle in this year, what is the strategy of the company? Will it first now focus on a little bit more deleveraging and conserving some cash flow or will we still be a little bit aggressive on the growth side?
- **AS Mehta – President & Director, JK Paper Limited**
- See as you have seen our strategy part we are very clear in our strategy that major capex you do and thereafter for 2 years to 3 years it is a time to stabilize and extract the benefit of the capex and to some extent deleveraging of course. And see once you become again cash flow strong and financially very strong and then you start working on the next capex, so certainly for 3 years no major capex except BCTMP pulp mill if we decide, that is one. But after 3 years yes, I mean we will see which product category, which vertical, there are scopes and there are market opportunities. So that would be seen.
- **Abhisar Jain – Monarch Network**
- Right sir. I think that is very helpful. And just last one clarification. If we do that phase 2 that pulp mill which you have been talking about, what would be the approximate capex there sir? I know it is not decided but whenever we do a...
- **AS Mehta – President & Director, JK Paper Limited**
- It would be very estimated number so I don't want to burden you with those kind of estimates. So we are still working out what capacity, what technology. So it is very difficult at this stage.
- **Abhisar Jain – Monarch Network**
- No worries sir. Thank you so much and best of luck.
- **AS Mehta – President & Director, JK Paper Limited**
- Thank you.

- **Moderator**
- Rajesh Basu, please unmute your line and ask the last question.
- **Rajesh Basu Majumdar**
- Okay, okay. Sir thank you for taking my call sir. And my question was relating to the export-import and the waste paper pulp trade. So basically what we have been hearing is that because of the rise in waste paper pulp prices, India has become a net importer of coated paper from being – sorry India has become a net exporter of pulp from being an importer of coated paper. So to what extent is this true and how much is it sustainable? I mean if the pulp prices or the waste paper prices come off, can the smaller players come back? Especially in the W&P market?
- **AS Mehta – President & Director, JK Paper Limited**
- See I mean I would – see the question to my mind it lacks some clarity but anyway I will attempt to answer you. I mean I got the sense of your question. See the global pulp prices as I said that they are moving in a direction of \$700-\$800 per ton. The waste paper prices see India has always been the waste paper importer. We were always importing the waste paper in the country. So the waste paper import was happening and the prices were in the band of \$100-150 a ton, waste paper.
- **Rajesh Basu Majumdar**
- Correct.
- **AS Mehta – President & Director, JK Paper Limited**
- Okay? And why the waste paper import was taking place in the country? It was because the western part, Europe and the other places, where the basic paper consumption is so high, and even if their collection system was there or not there, they just wanted to clear those kind of things. So China, India and the other Asian countries they were the net importer of the waste paper. So the waste paper was imported in the country and we were always the importer. What happened during the lockdown which happened not only in India, elsewhere also, that one is that the collection of waste paper was impacted, because of the lockdown who will collect the waste paper from the markets or homes or other places? So the collection itself was impacted during the lockdown. So that was one factor. The second factor and the biggest factor was the availability of the containers. Because the shipping freight or the shipping lines and the ocean freight has moved drastically because of the container availability. Initially container availability was an issue of a kind of a mismatch, import-export globally. And availability. So the ocean freight went up. So the waste paper which was coming at \$100-150 a ton, it crossed \$300 a ton. And when the waste paper prices move up, naturally one is the availability and the second was the prices. So that impacted for our craft liner producers. The craft

paper producer in the country. This waste paper is used predominantly for the craft paper manufacturing which is ultimately used in the corrugated boxes. Are you clear? So that was the impact. Slightly some easing has started happening because one is the collection and also local collection has also improved, because when you have easing in restrictions there would be better collection. But again last two months collection was impacted. So once the domestic collection improves so the domestic availability improves and also the ocean freight to some extent there is some kind of an easing. See of course we are not in this trade but my understanding is that the waste paper prices have come down to some extent. And in any case when the waste paper prices will hover at around \$250 or \$200 a ton, it will have a bearing on the craft paper.

– **Rajesh Basu Majumdar**

– Right sir. So this impact on the Chinese ban according to you is not too much in terms of the import on solid waste and waste paper?

– **AS Mehta – President & Director, JK Paper Limited**

– No see the impact of the ban in fact mix waste paper ban is not there. It is only question of enforcement. See I can only tell you that as per the guidance and as per the regulation the mix waste import can be allowed if the contamination level is less than 0.5%. So if the contamination is more than 0.5% that is not allowed. This is one part. But what was banned was the stock lot import. Because in the name of stock lot imports, the cheaper material were dumped in the country and that was impacting the domestic industry. So that was banned. But otherwise the waste paper is still coming to India and it is happening. It is only the pricing and the availability.

– **Rajesh Basu Majumdar**

– Okay, okay, just wanted to follow up with one last question if it is possible that will we see the kind of pricing strength that we have been seeing despite a demand fall when the full supply comes back in the industry? That is my general question. If you could answer that.

– **AS Mehta – President & Director, JK Paper Limited**

– See the prices are always linked to the cost. Always linked to a decent profitability so that the companies can have a decent return on their investments. And certainly the demand-supply scenario and the global pulp and paper prices. So if the global paper and pulp prices are at a decent level that should also be one factor when we have a pricing in the domestic market. Once the demand is right, so the demand and supply will be a factor to decide the pricing.

– **Rajesh Basu Majumdar**

– Thank you sir.

- **AS Mehta – President & Director, JK Paper Limited**
- Thank you very much. Thank you everybody.
- Moderator
- Thank you sir for taking time out and answering all the questions.
- **AS Mehta – President & Director, JK Paper Limited**
- Thank you so much. Anil?
- **Anil Jatana – Deputy General Manager Finance, JK Paper Limited**
- Yes sir thank you sir.
- **AS Mehta – President & Director, JK Paper Limited**
- Okay thank you. Thank you Sudipta.