JK Paper Ltd.

Transcript of Annual Conference Call titled 'Emkay Confluence-Ideas for tomorrow' organised by Emkay Global Financial Services Limited on 12th August 2021

Harsh Bhatia: Good afternoon, and welcome to Emkay Conference 2021. Thank you for joining in. Today, we are hosting JK Paper Ltd. We have with us from the management Mr A.S. Mehta, President and Director, Mr. V. Kumaraswamy, CFO and their team. All participants are on mute to start with. To ask a question, please raise your hand. You can unmute and ask when indicated. We now hand over to the management for the brief opening remarks. Over to you, Sir.

V. Kumaraswamy: We will run through the corporate presentation which has already been shared and after that, we'll take queries as we go along. Next page. This gives a brief overview of the total group including all the companies listed as well as unlisted, about USD 4 billion turnover, 30 manufacturing plants and present in over a hundred countries through sales offices, etc, more than about 40,000 employment. Next slide.

Next, this is the history of the group as well as this company. Next slide. This is the shareholding pattern as of June 30th, 2021. Next slide, and this is the two facilities. And, we have acquired Sirpur also. Copier Paper we have got 25% market share and Coated Paper about 11% and current market share in Packaging Board is about 11%, obviously, it will go up once the new project comes to life. Next page, this shows the total capacity as on date as well as post expansion, how much it would be. Existing capacity is about 591,000 MT p.a.(bottom most line) as well as post expansion, It will be around 761,000 MT p.a.. Next slide. This is the progress over the last four quarters since being affected by Covid. Like, you can see the turnover, it has increased from Rs 505 crore to Rs 721 crore. Last quarter, there was some impact from the second wave of Covid 19. EBITDA, If you see, it has gone up from Rs 98 crore to Rs 203 crore and PAT has risen from Rs 25 crore to Rs 98 crore. We will see across the years moment separately. Later, Next slide, this is for the quarter, year-on-year basis an increase of about 30% in sales volume. However, there was drop of over 30 % compared to the previous quarter and gross revenue in Q1 of around Rs 721 crores, an increase of around 43% and EBITDA around Rs 203 crore against Rs 98 crore, 108% increase. PAT at Rs 98 crore against Rs 25 crore, increase of 290%. EBITDA margin has been 30.7%, not the best, but we would be reaching there. Next slide. This is the quarterly performance, which you can have a look at it later.

This is the Index of Realization since Q3 of last year, but I must tell you that we are nowhere near the best in terms of realizations. We have taken two-three years as a benchmark, but if you look at all-time highs, we are still behind in Uncoated Category by at least about 6-7% from our previous best. In case of Packaging Board, we are still, maybe about, 5-6% above the previous best, but in Uncoated Category we are significantly lower than that. Next slide. This we have included for the last five years. We have given it as an index so that the comparison is easier. Manufacturing cost has come down by about 10%, basically because of power savings and coal savings and optimization of, you know, fixed costs. Plus, of course our excellent work in raw materials area. Asset utilization, we are continuously improving from 100-110%. This is not capacity utilization. I have taken 2017 as the 100% and benchmarked, but we are down to about 99% in a FY21 because of Covid. And average Interest rates, if they were 100%, let's say in 2017, we are paying something about 76% today. And, in terms of our ROCE, we were 11.1% in 2017. We climbed up to about 20.6% in 2019, 20.2% in 2020, because the last days in March, there was some impact due to Covid. Next slide, we have been focusing on deleveraging between 2015 to 2019. And then after that, we have taken some investment decisions in Packaging Board. So because of this the debt component is increasing but we are conscious of it and we will control it within prudence levels so as to maintain our rating in the AA category levels. Next slide. Most of you are aware of this. So I'm not repeating except the plantation activities which continues to remain focused and we will continue to grow and bring to our factory from nearby distances. This proved to be a very good strategy for cost cutting.

Next slide, in terms of where we are compared to 2005, we have three times Volumes, four times Turnover, five times Assets and Equity/Net-worth, nearly 13 times. So, that's how it is. Next slide is the raw materials. As you can see, we were continuously growing right from 2010, even before, but of course, we were going a little ahead of ourselves by 2015-16. We scaled it up a little bit. But, now that the Packaging Board is coming, we will rapidly expand our reach as well as the, you know, acreage under the nearby areas. And if you see the middle chart, we were procuring about 49% in the local catchment area. Now, it's almost 100%. Next, we are a Corporate, Socially Responsible Company and we have about 578 villages where we remain, about four lakh direct beneficiaries are there, these are youth farmers, mainly. The total spends are about Rs 10.35 crores last year and out of which 17% have put on Covid 19 relief measures.

Next slide. This is the financial summary of Profitability of the last four years in the Q1 of 2021-22. You can have a look at it at leisure on the website. ROE at 23.7% and 22.3% in 2018-19 and 2019-20 respectively which is what we would like to achieve in the coming years as well. EBITDA Margin has climbed up to 32.2% on a standalone basis. We wish we are there sooner. Next slide, this is the Balance Sheet Summary. If you look at the Net Debt / Equity, we have brought it down from 1.68 times to 0.34 times by 2019and Net Debt / EBITDA from 4.65 times came down to about 0.75 times.After that, the investment phase started. FACR is very comfortable. That's all I have to say from the presentation point of view, and Mr. Mehta, you would like to add anything?

A.S. Mehta: I think the presentation covered everything. But, now, I would welcome the questions and then we can respond to the questions by all of these people who are attending this call, and thank you very much for joining this call.

Harsh Bhatia: Thank you, sir. Thank you for the opening remark. If any participant wishes to ask any questions, please raise your hand. Mr. Nagraj, you may go ahead with your question, please.

Nagraj: Hi, thank you, Sir, and congrats on a very good performance in the last quarter. I think, the best we have seen of any paper company that is listed, so far. Just had a question on realizations and our COGS. So, our realizations were up in Q4 to Q1. Just want to get a sense of how much of that is because your Paper Board sales were roughly, not that affected, whereas the Uncoated sales went down from 1.17 lakh tons to 67,000 tons or almost half. So how much of that was mixed versus how much are you actually seeing pricing of, say, quarter-on-quarter in Paper Board and is that now holding up as we go into the Q2 and Q3?

A.S. Mehta: Okay. See, as far as the realization of Packaging Board is concerned you're right. There were no major impact on the Packaging Board sale. And also the prices were more or less in tandem with the global pulp prices as well as the global board prices. Because the board prices are directly linked with the global pulp, both chemical as well as the mechanical pulp. So, the prices have been increasing in tandem with the pulp prices. Right now we are holding the price and, in fact, at one point of time, we thought to increase some more, but since the global pulp prices have come down and they are fairly stable now, so, to my mind the prices will remain at this level. So, our overall NSR compared to last year, it has gone up by something around 9% and predominantly this is because of the two strengths. One was the Packaging Board and the second was the Coated Paper. The Coated Paper prices were also higher compared to previous year, and two reasons again, the global demand supply scenario as well as the global pulp prices. Because, the Coated Paper supplier, there are number of suppliers those who are not integrated manufacturers. So, they're impacted because of the global pulp prices. So, their costs have been higher and consequent to that they increase their Coated Paper prices. So that also benefited JK Paper. So, this is all about NSR.

Nagraj: Understood. And just on the Uncoated side, it looks like production was much higher than sales, totally understandable given the lockdown. It looks like a lot of companies are facing the same issue and until and unless offices and schools totally reopen we won't have that same amount of demand. So, you think demand is normalizing now to Q4 levels and is pricing also improving or what are you sort of seeing here?

A.S. Mehta: I would like to say that pricing remains at the same level. Pricing has not yet improved and it will take some more time because at this point of time, the priority and the focus is to sell more and service the market rather than the pricing. Yes, the demand is better in Q2 compared to Q1 because most of offices have started operating. Now school, colleges, some higher classes and colleges and institutions, they have started. And, hopefully once they become operational, there should be a good demand. And also, September or October the printing season, starts not only for the school-colleges also for the commercial printing, the New Year printing and the souvenirs printing like calendar, diaries and other freebies, so that also starts sometime in September. So that way Uncoated Paper should see a revival of demand in this quarter and thereafter.

Nagraj: Understood and just on costs, there is a very sharp decline on COGS per ton last quarter. Some of it is obviously because the production is much higher than sales amount. So some reversal in the traded goods. But just organically, what has been our increase or decrease on overall cost of goods versus second half of 2021, Q4 21, right now because chemical prices were up but have sort of stabilized and you're saying, wood prices continue to come down for us. So, I wanted to get a sense of what that COGS per kilo should be once the production is equal to sales.

V. Kumaraswamy: Actually, I had shared in the presentation the movement of things, Index Of Manufacturing Cost, so once this one catches up, the 2019 index may go down a percentage or so. That's the way it will be.

Nagraj: Okay, okay. And just one question on the timeline of the new plant. How long will it take for you to get capacity utilization ramp up given good demand in Packaging Board and what sort of losses will we see in the Q2, Q3, Q4? Maybe till we break even there?

A.S. Mehta: See, as far as the new plant is concerned, as of date today the trials in certain sections are going on at plant and hopefully by end of this month we should be able to take the full scale trial and by the end of next month we should see some trial production, which may be a marketable trial production. This may be on the timeline of this new project. What was the other question you had on the ramp up?

Nagraj: How quickly you can get to ramp up?

A.S. Mehta: See, ramp up, I would say this capacity is something around almost 15% of the total size of the market, so it will take some time for ramping up the capacity. Because it is not a question of only manufacturing, ultimately the ramping up has to happen in the market first. Because, if there is a market demand or the market is there, our production team can swiftly start increasing the production, once the machine gets stabilized. But foremost thing and important thing for us is the market demand and it takes time.

Nagraj: Paper Board is a very concentrated market. It is only ITC, you, Century, Emami, TNPL to an extent. How is a new plant on the cost curve to the other 85%. Could you give us any sense of how competitive it could be?

Mr. Mehta: See more or less, I would say that the cost is concerned, most players are more or less in the same bed. What's important is that to what extent you are integrated. Because in the board cost, predominantly the cost of pulp is a major factor, and if you are integrated for your chemical pulp fully, you remain efficient in the cost management. But if you are exposed to the volatility of the global pulp prices then you have an issue. Like Emami is totally non-integrated. So they will always be exposed to the pulp price volatility. Right now TNPL is also non-integrated to a great extent. But hopefully this year itself, they will be commissioning their pulp mill. So thereafter, they will also become the integrated. So ITC is integrated to the extent of chemical pulp fully, but partially they are also integrated for the mechanical pulp. Century and ourselves, we are not integrated for the mechanical pulp because we don't produce the mechanical pulp here. So, that is the difference as far as the board is concerned. But rest, there are some factors of the differential cost, let's say ITC’s size and scale is huge. So effectively therefore fixed cost per ton would be lower. The Century and ours, We are having bigger size of operations which first gets distributed in the higher volume. The TNPL Packaging Board is at that location, to some extent they may have a higher fixed cost. I mean, these are the minor elements of costs were there may be the difference but by and large the variance of cost on Packaging Board except the pulp integration would hardly be in the band of 2-4% percent, the difference between the efficient player and other player.

Nagraj: Thank you.

A.S. Mehta: Thank you.

Harsh Bhatia: Thank you. Mr. Deepak, you may go ahead with your question, please.

Deepak: Hello, sir. Thank you for the opportunity. So my questions are on the revenue mix. What is the revenue mix between uncoated, coated and packaging in this current quarter? And what was it last year?

Management Team: That is been given in our presentation, that mix of the quantity. Presentation, the same proportion you can see that revenue mix also.

Deepak: Sir, so that would be the volume mix, right? I was asking for the revenue mix.

Management Team: Revenue mix also is billed in the same proportion more or less

A.S. Mehta: By and large it will be this same, maybe one or two percent here or there.

Deepak: Okay. Got it, sir. So secondly, what is the current utilization rate in our Odisha, Gujarat and Sirpur plants? And what will be our outlook in these three locations?

A.S. Mehta: Over a hundred percent at JKPM, Over hundred percent at CPM also. And Sirpur would be close to 75% or so. And outlook wise, I think we are trying to gradually keep up in both JKPM and CPM. That is our Orissa and Surat plant. Sirpur, obviously, we are trying to move towards hundred percent as quickly as possible. Maybe, under the first quarter next year also.

Deepak: Sir, next question is just a bookkeeping question. Our total investment in Sirpur is Rs 900 crore as per your annual report. However, our annual report of Sirpur shows gross block of Rs 590 crores. So, can you share some clarity on this difference of about Rs 300 crores?

V Kumaraswamy: you go to the next question by that time, we will revert to you.

Deepak: Sir, the next question was on our export mixer. What is our export mix in this quarter? And is there any realization difference between domestic and exports?

A.S. Mehta: Yes, exports mix during the quarter would be close to 10%. And the realization in case of exports, it is lower than the domestic realization.

Management Team: In Sirpur, gross block including CWIP, Net Block including CWIP is about Rs 700 crores you have to see CWIP also, that's what

A.S. Mehta: What is the gross block?

Management Team: Gross block is even more.

V. Kumaraswamy: Net Current Assets is about Rs 150 crores.

Management Team: The gross is around Rs 730 crores.

Deepak: Okay. Gross of about Rs 730 crores and Net Current Assets of Rs 150 crores.

V. Kumaraswamy: Yes.

Deepak: Got it, Sir.

V. Kumaraswamy: What's the next question?

Deepak: I got the clarification on the exports mixer. That is all from my side. Thank you. All the best.

Management Team: Thank you.

Harsh Bhatia: Thank you. Mr. Punit Kabra. You can go ahead with your question.

Punit Kabra: Yeah, good morning, Sir. First question is on our paper board plants. So, along with that we were also setting up the pulp mill. So, now, do we have this new pulp mill feeding into the existing production?

A.S. Mehta: Okay. Any other question?

Punit Kabra: Yeah, second question was we announced the corrugation plant capex. Could you give some more details around, you know, whether it is the brownfield location or what is the opportunity around there for us?

A.S. Mehta: See the pulp Mill at Gujarat facility, this will be the only pulp mill and it will feed old and as well as the new, both the areas. So this is one.

Punit Kabra: Yes. So has it started feeding the existing production?

A.S. Mehta: No, the pulp mill has not yet started. It is likely to start sometime in September only. So, till that time our old pulp mill is in operation and rest of the pulp whatever we need for our old site, we are getting some pulp from our own plant in Orissa and Telangana. And certainly, mechanical pulp is imported. That's how we are managing. And once the new pulp mill at the Gujarat plant starts, the old pulp mill at Gujarat will be stopped, and it will be fully integrated for both, old as well as the new area.

As far as corrugated business is concerned, we have decided to enter into this vertical and our first project will be at Ludhiana which will be a green site. Okay?

Punit Kabra: So, do we have the land accorded at Ludhiana? Or could you give us any indication?

A.S. Mehta: No. We already have acquired the land. In fact, the coming week, we will get the possession of the land. It is in an industrial zone by the government of Punjab. So no issue on the major acquisition formality or other thing. We have already got the allotment of the land.

Punit Kabra: So, it will take about how much time Sir, before It will start production, like two years or...

A.S. Mehta: No, it should be less than two years, In fact, our target is 15-18 months.

Punit Kabra: Okay, and just going back. So the pulp mill starts contributing from Q3 onwards to existing production. So, the Improvement in margin should be there for the full third quarter, right? In terms of both realization because you had mentioned once it will be a better quality finished product and also the cost side because it is a more efficient pulp mill.

A.S. Mehta: You are, right.

Punit Kabra: And Sir, can you throw some light on one of the companies that we are going to take over in electronic chips. You know, what is the rationale or what is the plan around it?

A.S. Mehta: Yeah, in fact since we have the surplus cash flow available and looking into the future or portfolio diversification, we decided to enter into this field, it's electronics and embedded electronic systems company. And see, if anything we need to experiment, we can experiment for a smaller size. So this is a very small size so we can experiment, this is what we have thought. Because this sector is growing very well and it's a huge opportunity. So, if we find this as a good acquisition, then we can expand and move in the next phase.

Punit Kabra: Okay. So, final question is about the Coated Paper. Could you throw some light around what is the trading volumes in the Coated Paper?

A.S. Mehta: See the Coated Paper in India, there are only two manufacturers, Ballarpur as well as JK, and total market supply from these two manufacturers is something around 50-55% at this point of time. Rest is imported in the market, and our capacity is small capacity. In fact, we do something around 50,000-55,000 ton a year. And our share in this particular product category is something around 11-12%

Punit Kabra: But we, we do some trading, right? So, I just want you to understand how much is the trading volume.

A.S. Mehta: Trading, We used to do for some quantity, but these days because of the volatility in the global Coated Paper prices and the pulp prices we have scaled it down to a very minimum level. So, it's a very small quantity now. Earlier, we were doing a larger volume, but we have reduced it drastically and it's a very small quantity, insignificant quantity, I would say.

Punit Kabra: So fair assumption that because the trading volume goes down, our EBITDA margin improves because that particular trading segment would always have much lower margins, right?

A.S. Mehta: Yes. You are right.

Punit Kabra: Okay, sir. Thank you. I will come back if I have any follow-up questions.

A.S. Mehta: Thanks a lot

Punit Kabra: Thank you.

Harsh Bhatia: Mr. Monish, you may go ahead with the question, please.

Monish: Hello, Sir, your volume for the current quarter is 104,000 tons. Does it include Sirpur Paper's volume?

Management team: Yes, it includes. Yes.

Monish; Okay. So how much is the volume for Sirpur Paper?

A.S. Mehta: See the Sirpur, it was something around 18,000-20,000 ton.

Monish: So, Sir, if I exclude Sirpur volumes then your JK Paper's standalone volumes would have been 84,000 ton. And then if I calculate the capacity utilization, it comes less than 100%. Is it right?

A.S. Mehta: Yes, but this is you're talking about only the sales volume. You are not talking about the production volume. Capacity utilization is calculated around the production quantity.

Management team: Because our inventory has also gone up, so that you have to consider and that increase in inventory also while calculating the capacity.

Monish: Okay, Sir. And one more question. Your Sirpur mill sells paper to JK Paper right? and JK then sells it to customers? Is my understanding correct?

Management Team: Yes, as of now. This is the channel which we are operating.

Monish: Okay, okay, Sir. Thank you. That was the question.

Harsh Bhatia: Mr. Amit, you may go ahead with the question, please.

Amit: Yeah. Thank you. Sir, in corrugated box, what is the turnover that you're expecting in terms of this... after spending Rs 150 crore.

A.S. Mehta: See, it is at very, very initial stage. And once the plant becomes operational and it achieves good capacity utilization level then the turnover should be close to Rs 150-160 crores.

Amit: Okay, okay. So here it is slightly better compared to the Copier Paper. We generally have less than 1X of the turnover.

A.S. Mehta: Correct.

Amit: Okay, okay, but the margins would be quite different here.

A.S. Mehta: Yes.

Amiy: But this is all story after 18-20 months.

A.S. Mehta: Absolutely.

Amit: I think my audio got disconnected in between so I couldn't hear the capacity utilization of the plants that you mentioned. I am sorry for that.

A.S. Mehta: capacity utilization, we said that it is almost a 100% or slightly higher than a 100% at our Gujarat and Odisha facility and something around 70-75% at Sirpur.

Amit: Okay, okay, fine. And one question on the pulp prices, the global pulp prices, the effect on the Packaging Board, as well as this Writing Printing Copier Paper. Is it the effect same or is it different? Because I believe the pulp required for Packaging Board is different from the Copier Paper.

A.S. Mehta: The effect is different. One is that for Writing Printing Paper, you need only the chemical pulp. For Packaging Board, you need chemical as well as the mechanical pulp. And broadly, the mechanic pulp you need is something around 40-45% depending on the different product. So that 40-45% is always imported, rest is 55-60% pulp is a chemical pulp. If you are integrated fully, then you have your own pulp, if you're not integrated then to that extent also you depend on the market pulp. So that is one. But the pulp requirement in the Packaging Board is more than the pulp required in the Writing Printing Paper. So that's also a difference.

Amit: Okay, so quantity-wise it is different. Okay, okay. And the current pulp prices and that you have mentioned they are firm, the volatility has reduced and they are remaining firm. But I believe from March level, I think 10% or down is there or is it correct understanding?

A.S. Mehta: See, yes, you are right. Something around 10-12%. It has come down from a peak level. But the volatility, if you ask me in the year 2021 itself, the pulp price has moved from $400 to $810 and coming back to $700 or $720. So, this kind of volatility was there in the fiscal year.

Amit: Okay, okay. But the impact on the paper prices has also been similar or because it has changed, because of the logistical issues etc. The imports could not happen and therefore we could gain that advantage or something?

A.S. Mehta: No, no, see the paper prices will have some impact on the pulp prices Yes, because that is the basic raw material for paper but paper prices will largely depend on the demand-supply scenario in the market. Yes, to some extent global paper prices, in certain category, they will be directly linked with the pulp prices because the manufacturer they depend on the market pulp, but at the same time, I mean their capacity to correct the prices in the market will depend only on the demand-supply scenario.

Amit: Okay, okay. Thank you. And wish you all the best.

A.S. Mehta: Thank you.

Harsh Bhatia: If any participant wishes to ask any question, please, raise your hand. Mr. Punit, you may go ahead with the follow-up question.

Punit Kabra: Yes, Sir. So, two questions on corrugation. First is, could you just clarify or explain for our understanding - why a move to Ludhiana for that plant because I guess, we still have some land in Sirpur. And second is like, paper grows uncoated and paper grows generally at GDP and both you had mentioned earlier grow at 2x GDP. So, what is the kind of growth in corrugation?

A.S. Mehta: Okay. See the location for the corrugated plant, it is not entirely about where the land is available to me. See this particular business, your location of the plant is entirely dependent on where you have the customer. So we thought that Ludhiana ideally, is suggested, based on the customer locations. So that was the reason. Not that I have land at Sirpur, So I set up a plant at Sirpur, or I have a land at Gujarat or Orissa, so I set up a plant there, because to whom will we supply these cartons. If I set up a plant in Telangana, so there is no major Market close by. So, the market close by is available, Ludhiana is the location. This is what we thought.

Punit Kabra: Okay. And what is the growth of this industry? This particular industry is growing more or less at the growth rate of economy?

A.S. Mehta: See the Writing Printing Paper is not growing at the growth of the economy, that is growing at half of the economy growth rate. But this particular sector to my mind will grow in tandem with the economic growth because these are for the packing and as the manufacturing sector grows, rather the new, I mean the-commerce and the organized retail or slightly a better or a different packaging, this sector will grow better than any other sector. That's the thought.

Punit Kabra: And board is growing 2X GDP. Am I correct in understanding?

A.S. Mehta: It is not two time of GDP. Board is growing at a double digit here because see, again, because of the organized retail, because of some kind of an upgrade in the branding and the aesthetic of the product. That is why the packaging board is growing. And also, because of the food sector, the processed food sector or so, the FMCG and the other product. So those are driving the packaging board growth

Punit Kabra: Thank you, sir. Just one last question is, in terms of land for Brownfield expansion, do we have land at all? Are our sites available for any future Brownfield expansion? Or we have run out of land, say in Gujarat now, or maybe in Ludhiana, the land

A.S. Mehta: No no, as I said the corrugation business, the location will depend on the customer bases.

Punit Kabra: Sir, this is unrelated, general question I'm asking, for all our four sites.

A.S. Mehta: General question is that we always keep a land bank at a plant where we have. So, I would say that we still have some place available in our existing plants where we can expand our paper capacity. At all three locations, we still have some land.

Punit Kabra: And even in Ludhiana, we have the land available beyond this Rs 150 crore capex?

A.S. Mehta: Yes, yes. Even in Ludhiana, the land we have got is not just for current project. There will be additional land where we can expand it.

Punit Kabra: Thank you, sir, and good luck.

A.S. Mehta: Thank you.

Harsh Bhatia: Thank you. Mr. Deepak. You may go ahead with your question, please.

Deepak: Yes, sir. Thank you for the opportunity again. Sir, what are the peak revenue potential from our new packaging plant?

A.S. Mehta: Okay. Any other question?

Deepak: And so, just to follow up on that, what would be the utilization rate at which we will break even at this new plant?

A.S. Mehta: Okay, see the peak revenue from the Packaging Board new plant is likely to be something around Rs 1200 crores and break even to my mind, it should be at about 40-50%?

Management Team: Yeah. EBITDA break even?

Deepak: Yes, Sir. So, the Rs 1200 crore revenue was on a gross block of Rs 1900 crores. So, the asset turns, is it lesser than our company asset turns?

A.S. Mehta: No, no. See the investment here is not only the Packaging Board it is also for the pulp mill. So don't calculate the asset turnover just with respect to this, okay? Because this pulp mill will also be feeding the old Packaging Board and old paper mill area.

Deepak: Okay, so sir, so what would be our investment in the pulp mill and the breakup of...

A.S. Mehta: No, it's not separately done. So it's a part of the whole project.

Deepak: Thank you, sir. That's it from my side. I would wait for the break even EBITDA number.

A.S. Mehta: Yeah, yeah. Sure.

Deepak: Thank you.

Harsh Bhatia: For any question raise your hand. Mr. Punit, do you have any follow-up questions?

Punit Kabra: No, no. Sorry. I forgot to lower it. I'm sorry.

Harsh Bhatia: Please note. We are in the last five minutes of the meeting. If any participant wishes to ask a question, please, raise your hand.

A.S. Mehta: See the break even would be somewhere around 40-50% EBITDA break even. We are talking about EBITDA break even. It will be 40-50% only.

Deepak: Okay, Sir. And would we be in line to achieve this EBITDA break even in this first half of the next year?

A.S. Mehta: No no. Why are we talking about the first half of next year? We are targeting in the Q4 of this fiscal year itself.

Deepak: Okay, that's great to hear, sir. Thank you.

A.S. Mehta: Okay.

Harsh Bhatia: Mr. Bhavin, you may go ahead with the question, please.

Bhavin Doshi: Regarding this new packaging plant, what are the volumes we are targeting in FY22 and FY23.

A.S. Mehta: See, it's very difficult at this stage what is going to be the volume from the new Packaging Board But I can only tell you that our effort will be to ramp up fast. But yes, in FY22-23, we should be close to 80-85% of the capacity. The capacity is 1,70,000 tons.

Bhavin Doshi: The pulp mill which you are expanding along, so you have expanded your pulp capacity by 1,50,000 TPA, whereas your packaging plant is 1,70,000 TPA. So, you are saying there would be additional pulp available for the other plants also?

A.S. Mehta: Yes, available because in packaging board, the 50% pulp is the mechanical pulp, which in any case is imported one. So, this plant will be an integrated plant with the bleached pulp or the chemical pulp fully available for old as well as the new plants.

Bhavin Doshi: Sorry, sir. I missed out on the starting remarks. Have you updated on the paper price? What has been this price trend in July-August? Any further hikes?

A.S. Mehta: No, no hikes.

Bhavin Doshi: So the realizations are in line with Q1 realizations,

A.S. Mehta: Yeah, more or less.

Bhavin Doshi: The volumes have picked up, sir.

A.S. Mehta: Yes, volume July was better than May-June and August, I think it should be some more better than July.

Bhavin Doshi: I think in the presentation you have given 107% utilization. So that is for JK Paper or including Sirpur?

A.S. Mehta: No, it was standalone JK Paper.

Bhavin Doshi: Sirpur, what was the production around Q1?

A.S. Mehta: Something around 70%.

Bhavin Doshi: So, you're sitting on good enough inventory. Because the volumes in Q1 were quite less.

A.S. Mehta: Yes.

Bhavin Doshi: So, we are on close to 30,000 tons of inventory, right?

A.S. Mehta: Yes. We have a higher inventory. I don't think 30,000 tons.

V. Kumaraswamy: It’s actually 23 days of inventory we have and sharply down somewhere same period last year. But we will run it down as we go along.

A.S. Mehta: It was a conscious call to build some more inventory when there is a good Market, we would take the advantage.

Bhavin Doshi: Sirpur Paper margin's difference is how much as compared to JK Paper’s standalone? Operating margin - What is the profitability at Sirpur Paper?

A.S. Mehta: Unit wise the Sirpur is in any case you can see this. So what is that? Something around 20%?

Management Team: 20% EBITDA margin ,

Bhavin Doshi: Okay, sir. Thank you.

Harsh Bhatia: Mr. Monish, please go ahead with the follow-up question.

Monish: So, the financial incentive that we are getting for Sirpur Paper Mill, around Rs 25 crore per quarter, around how much time we would be getting the incentive?

A.S. Mehta: See the amount for the first 3-4 years is Rs 20-25 crores thereafter, it would be lower.

Monish: And this EBITDA margin of 20%, does it include the incentive amount as well or that is extra?

A.S. Mehta: Yes. Yes, that includes.

Monish: Okay. Thank you, Sir.

Harsh Bhatia: Mr. Nagaraj, you may go with the follow-up question, please.

Nagraj: Just one question on the Waste Paper mills. In India, have they recovered to good amounts of capacity utilization in Q4, and right now again, or are they still facing issues non availability of...

A.S. Mehta: We have no idea because we are not in that particular line of product or manufacturing chain. So, can't respond on that. It's the factual data.

Nagraj: Does any of our product mix compete with them?

A.S. Mehta: No, we don't.

Nagraj: Okay, thank you.

Harsh Bhatia: Thank you. Mr. Amit, you may go ahead with the question. Please note, this would be the last question.

Amit Doshi: Sir, thank you, of course because last year owing to Covid and prices volatility, a lot of small players could not operate because of the cost, etc. Is, now, considering that prices are becoming better or less volatile, are they coming back? Because that was the reason, I think we gained the market share last year, about 1-2%.

A.S. Mehta: Entirely, that may not be one reason. But again, right now, also the players, those who were out last time, they are all out right now also. Because in White Paper, there are no small players. The small players are only in Brown Papers. White Paper players are of a decent size. And yes, they are facing the greater difficulty this time again because of the Waste Paper prices, because the Waste Paper they use for their paper production, because they are Recycled Paper players, and Waste Paper prices are very high because of one is that Covid impacted Waste Paper or the Recycled Paper collection as well as the container freight because the Waste Paper is predominantly a sizeable quantity India Imports and the incoming freight has been very high, and again the container availability has been an issue. So the Waste Paper prices have gone up which has impacted their cost of production.

Amit Doshi: No. No, my point was where, of course, the place where we operate, and you know, I thought last time, out of the reason or one of the factors for increasing market share mentioned was smaller players or whatever. I'm not talking about extremely small players, comparable players, you know, they had faced issues as far as production or cost efficiencies.

A.S. Mehta: This is what I also responded that the players those who have impacted last time...

Amit Doshi: They are still impacted.

A.S. Mehta: Yes. Yes.

Amit Doshi: Okay, and China, the import which they have banned and owing to which these global pulp prices have now become this thing, do you believe as a policy or do you have any idea of those policy or this will be continued and therefore these prices will remain firm?

A.S. Mehta: See right now, their stand remained the same but again their own consumption on the demand in China has come down. So that may be one reason that the pulp prices have come down because their demand has gone down of pulp.

Amit Doshi: Okay. Okay. Thank you.

A.S. Mehta: Thank you. So, thank you very much all of you for joining this call.

Harsh Bhatia: We thank the management of JK Paper as well as all the participants. Thank you, Sir.

A.S. Mehta: Thank you.