



Conference Call on Q3 FY21 financial results

“JK Paper Limited hosted by Motilal Oswal Financial Services Limited”

February 04, 2021



MANAGEMENT: **MR. A.S. MEHTA – PRESIDENT & DIRECTOR, JK PAPER LTD.**
MR. V. KUMARASWAMY – CFO, JK PAPER LTD.
MODERATOR: **MR. SUMANT KUMAR – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**



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Moderator: Ladies and Gentlemen, Good day and welcome to the management call of JK Paper Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumant Kumar from Motilal Oswal Financial Services Limited. Thank you and over to you, Sir.

Sumant Kumar: Thank you. Good afternoon everyone and very warm welcome to call with the management of JK Paper Limited hosted by Motilal Oswal Financial Services. On the call today, we have JK Paper management team being represented by Mr. A S Mehta – President & Director and Mr. Kumaraswamy – CFO. We will begin the call with the key thoughts from the management team on the industry and financial performance of the company post which we will open the floor for Q&A. I would now like to request Mr. A S Mehta to share the prospective. Thank you and over to you, sir.

A S Mehta: Good evening Sumant and good evening everybody those who are on the line. It is wonderful to be with you. In fact, few days back Sumant we had a webinar where I shared the industry perspective. We did not discuss about the company so this is the time to discuss about the performance of the company in the Quarter 3 as well as some perspective as I gave on that day for the industry. So the Quarter 3 I would say that sequentially if you see the results it was a better quarter where the top line has grew compared to the Q2, of course it is lower compared to the previous year, but I must say that the volumetric when you see the performance of Q3 it is more or less the same as we did last year. It is only that the price which has come down and that is why the top line is seeing that it is lower and predominantly lower pricing.

Two factors one is a global pulp and paper prices in Q3 as well as also being the lower demand and the supply side was more than the demand in the country so there was lower pricing, I mean the discounting. So, these were the two predominant factor bringing down the top line and that is certainly resulted in adverse impact on the EBITDA of the company as well. The NSR is down by close to 8.5% or 9% whereas the EBITDA (as % of Sales) down is by close to 4.5% or 5%. So I mean the improvement in the other cost is there whether it is the usage part or the other productivity or operational efficiencies or some input cost reduction that is on the result part. Certainly, the finance cost has also gone down compared to the previous year because the availability of the fund and also due to rating there is a rate reduction also of the total money borrowed by the company whether it is long term or a short term. This is on the result for the Q3 I would say.

Going forward as we are sitting on 4th of February I would say that this quarter from the January month itself it has given us good positive signal. Few factors again because the offices are operating with a higher attendance so when the offices are in, I would say the attendance



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improved in a major way they have reopened. So, the paper consumption means the office paper consumption goes up so that we get the signal from our January sale. Also, now the higher classes in the schools they have already started and in some of the states even they have also started the 9th and 11th classes also. The universities and colleges they have also started, may be 40%, 50% and also the CBSE examination the date schedules are already out now. So that gives indication to the market and to the publishers and the printers and the next session is going to be a physical session for the schools and colleges.

So to prepare for the next session they will have to start printing and procuring the paper sometime in the month of now January, February, March because they will have to place their all the notebooks and textbooks and the reference book sometime in the month of April and May so that the children can buy all these things before July. So we see the revival in the wood free paper. We see the revival also in the office paper and certainly, the packing board has not been impacted in any major manner even during the COVID period. So that segment is doing well also some steps what government has taken and coated paper has also started doing well because there is not much import of coated paper.

So the domestic supply is now a favorable situation for the company so that is by and large the scenario. Some price increases have also happened, again the factor is one is that again revival of demand as well as the major factor is the global pulp and paper prices have started moving upwards. In fact the pulp prices have already crossed \$670 or \$700 a ton which was beginning of the quarter at somewhere around \$475 or \$500 a ton. A major increase in the pulp prices globally is going to impact the global paper prices and which will be favorable to the domestic player. Of course the pulp prices are not going to impact cost in a major manner for the paper because most paper manufacturer in the country are integrated player yet there will be some impact on the packaging board cost because the market pulp is used in packaging board production whether it is chemical pulp or whether it is the mechanical pulp.

There will be cost impact so there would be price increases we already done one price increase and the second price increase has also been announced which will be effective from mid of February or first week of March. So that is the overall scenario for the industry. Now I mean the question from the analyst or the people those who are present. Kumar you want to add anything.

V Kumaraswamy:

Just before they start questioning, all the quantitative details etcetera which they normally want is already there in the website. Let them take it from there rather than making us repeat the numbers once again. So the presentation was uploaded yesterday take it from there otherwise you can ask the qualitative kind of question it will be easier.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sreemant from Unifi. Please go ahead.



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Sreemant:

Few questions from my end on specific to the company firstly on the Sirpur plant operations as you have disclosed on this stock exchanges the plant restarted in the beginning of December what is the present utilization and sales at the Sirpur plant could you help us? I have few questions specifically on the Sirpur so if I look at the difference between our console and standalone performance which largely relates to the Sirpur plant operations and if I look at the sequential numbers of this there has been a steady increase in the losses that has happening at the Sirpur plant so in June quarter I could see 22 crores, 35 crores in the September quarter and about 36 crores in the December quarter, so while the plant were shut in the Quarter 1 and Quarter 2, but the losses have increased substantially and if I would assume that the plant was operated let us say for one month at Sirpur still the losses have increased, could you also help us understand how we should understand this? The final thing on Sirpur could you help us understand the cost metric at the Sirpur plant that we could achieve, as I could see from our existing operations from Orissa and Gujarat our cost per ton at these plants have been a band of Rs. 42,000 to Rs. 44,000 a ton, how does Sirpur compare with these, can we achieve these numbers or better numbers as compared to a existing plants?

A S Mehta:

See the Sirpur as you rightly said that we informed to the stock exchange that we started sometime in beginning of December and in fact in mid-December itself the production was fairly consistent and right now the production consistency is there and we are operating as close to I would say something around 70% of its capacity consistently and also after some modification and the quality related some investment the quality of the product has also improved and it is fairly consistent now. This is on the Sirpur production and certainly I mean we would like to improve the productivity and also the capacity utilization so hope to improve this in the coming quarter February and March month so should cross 75 or close to 80% of the capacity that is our target this is on the productivity. As far as your next question was on a consolidated basis, whether we run or we do not run there are some fixed cost one is that employee related and other things so that is there and then you have the interest and depreciation.

So these are the charge and we will have to absorb in a consolidated result, but once we operate then we have a contribution, contribution is after the variable and semi variable cost I mean there will be positive EBITDA as well as the profitability, also when we do not operate the whole lot of incentive which were committed by the government we do not get because those incentives are linked to the procurement, production and other things. So once we start operating at a 70%, 80% of capacity then the incentive also and the cost structure also changes dramatically. On the cost metric see at any point of time we cannot compare the cost metrics of Sirpur vis-a-vis the JK Paper Orissa because the Orissa is a totally different technology and a high-tech machines, the automation those things are totally different so please do not compare Orissa with Sirpur. The Sirpur cost matrix can be compared with our Gujarat plant, right now it is not comparable because we have just started and it will take some more time to stabilize on the operating parameter because the wood yield is not at that level, the productivity was not at that level, the



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boiler with power block which was fairly inefficient which was also contributing much higher cost.

So now the boiler will be up and running from end of February so from March our power cost will substantially come down. So once we have the new power block means the new utility at a fairly good decent cost and once we are stable and in our production also when the production is stable and quality is consistent then the market price and the NSR also goes up. In fact the NSR is also lower compared to our Gujarat plant at Sirpur because of the qualities because initially the quality was not at par with our Gujarat plant. Now it is fairly at par with the Gujarat plant so we will have a better pricing also.

So all these sectors will contribute the positive impact on the Sirpur profitability and the same will be reflected in the consolidated in the Q4 of this fiscal year.

- Sreemant:** So what should be breakeven capacity utilization at the Sirpur plant?
- A S Mehta:** If you talk about the EBITDA level Kumar to my mind the 70% would be the breakeven.
- V. Kumaraswamy:** We have already breakeven at contribution level the next target is EBITDA level, 70%, 72% EBTIDA level it will break even.
- Sreemant:** Profit level what should be breakeven utilization?
- V. Kumaraswamy:** 70 to 72 % at EBITDA level.
- A S Mehta:** See the net profit level if you ask me the interest and depreciation it would be close to 85%, 90% capacity utilization at this pricing because if we improve the pricing which is likely to happen in coming months if the pricing moves up then the breakeven level which will come down. I mean ideally the breakeven net profit level should be somewhere around 70%, but that will depend on the market pricing.
- Sreemant:** Sir one clarification like even in the month of March when we had started Sirpur plant we had ramped up the utilization to about 65%, 70% as you have mentioned in annual report, but the sales did not come I think most of that got build up in inventory right now is also sales are happening from the Sirpur plant or is it just the inventory that you are giving up?
- A S Mehta:** I would say that whatever is the production the sales is in the same tandem with the production rather the sale is higher than the production. So in fact we could reduce some inventory that is not an issue I am saying Sirpur.



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Sreemant: Our existing plants you know we have operated at high utilization 110%, 115% utilization, Sirpur being a very old plant, is it possible even for that unit to operate at such high utilization if the demand picks up?

A S Mehta: Certainly our target is going to be to operate at 100% or more, but there are still some issues, some debottlenecking we need to do which we already have a plan, and we will do, but this will take some more time because there are some long delivery items which will have to come and then we need to install those to address the debottlenecking in some areas, some pockets. So once that happens then certainly, we will improve the capacity utilization in fact in any case without that also we are going to improve the capacity utilization. See we need to be very consistent first. See the whole objective is that let us produce consistently with consistent quality for even if it is 70% or 75% or 80% let us be very consistent because we have seen since the plant was shut for four, five years there was no consistently that is the reason we stopped the plant entirely and then did many repair, refurbishing and modification to have a consistent production so that now we are fairly confident that the plant is running with consistency. So now gradually inch by inch we will increase the capacity utilization and that will be reflected in this Q4 and thereafter.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Just continuation of previous question I think you mentioned you have taken the price hike, so by how much percentage and what was the extent of price hike and has it been across all segments or any specific segments? Second is on your net debt number I believe it was around 1,560 crores so what at it has been at the December end and what is the repayment schedule and third was if I missed out how much is Sirpur integrated on the pulp side and if any plan how the backward integration plan at Sirpur these are my three questions?

A S Mehta: See as far as the last question on the Sirpur integration I must say that the Sirpur plant is fully integrated. So as far as the chemical pulp is concerned it has a full integrated pulp mill and it can meet the entire demands of the paper production at Sirpur, so this is one thing. On the price increase I would say that the price increase is in a different percentages of different paper category, the Maplitho I would say that the price increase is in the band of 3% to 5% different variety, different location. The office paper I mean the copier paper again it is in the band of 2% to 3%. Packaging board it is something around 3% to 6% price increase and coated paper it is more it would be close to I would say 7% to 10%. So this is how the price increases have happened.

Bhavin Chheda: This is the Jan price increase, or you are including the Feb one also in this?

A S Mehta: What I have said is the January and February both this is not prior to January.



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V. Kumaraswamy: See the net debt on the consolidate level including Sirpur after knocking of the liquid investments is about Rs. 2,320 crores and at the standalone level it is about Rs. 1,835 crore, As you would appreciate, we are going through the project in our unit Surat for packaging board and the debts have come in to finance the project.

Bhavin Chheda: So these are the peak debt levels right?

V. Kumaraswamy: This is not the peak debt because the project will get completed by around the mid of this year only 2021. There is some more debt to be taken on the balance sheet another about Rs. 450 crores to 500 crores is what will be added to complete the project. As you know liquid investments available with us is about Rs. 450 crores but there will be some liquid investments with us even after we take the full debt. The full debt has been contracted and which are available for utilization.

Moderator: Thank you. The next question is from the line of Amit from Care PMS. Please go ahead.

Amit: Sir you mentioned about the global pulp pricing of \$670 or \$700 per ton now I remember you last time mentioning about 480 price it would not be very much sustainable so now do you believe that this global prices of \$670, \$700 is sustainable and kind of likely to stabilize at this level I know it is very difficult to predict, but considering your experience? So on the back of it like you mentioned that because of global pricing domestic I mean there is not going to be any impact because of all our integrated player, but do you believe that this pricing would impact our imports because imports was also significant competition per se, so anything on that and any advantage that you see going forward for that?

A S Mehta: So the global pulp prices is very unpredictable because in last two year if we see the global prices scenario at one point of time beginning of may be the 18 months, 20 months back the prices were in the range of same \$450 to \$500 a ton went up to \$800 in between started coming down and these were back to \$450 to \$430 level and from last three, four months I would say last two months more sharp spurt and has already crossed \$675, in fact the people have started talking \$700 plus. See the sustainable pulp prices globally we always consider that anywhere between \$550 to \$600 is a sustainable pulp prices, but if they are higher or lower there are the reasons because sometime the supply disruption, sometime logistic disruption or sometime sudden spurt in demand. So these may be the factors or sometime the pulp manufacturers, their issue, some sudden breakdown or some sudden disruption the supply line so those maybe the factor, but otherwise in a long term basis pulp prices should hover around 500 to 600, but ideally I would say \$550 to \$600 there is a sustainable prices. The impact on import certainty if the pulp prices are higher certainly the import paper and particularly the pricing, see the global paper pricing will also have some relationship with the global pulp prices. So the pulp prices when they are like this so there will be higher prices of the imported paper and once the landed cost of imported paper is higher and if the demand supply scenario in the domestic market is also fairly balanced then you have opportunity to correct the paper prices in the domestic market as well and that is



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the reason that the coated paper prices we could correct to a great extent because the global coated paper prices have moved sharply because they are produced out of the market pulp and since the market pulp has moved so sharply so the cost of the coated paper have also moved up and there is a price correction. The same is the packaging board because the packaging board producers, they remained dependent on the market pulp and since the market pulp is costlier so the packaging board cost has also gone up substantially. So there will be certainly the impact on the import but the impact on import will be in terms of the pricing.

Amit: Any reason that you can assign to certain spurt in this price to \$675 and you are talking about 700 plus?

A S Mehta: It is very difficult, but see one is the sentiments and second is that from 1st of January the Chinese regulation on the waste paper import, the enforcement I would say is very strict and they are not using a huge quantity of waste paper there and also there is a spurt in domestic demand there because of the prior to the Chinese New Year there is a huge manufacturing upside in China. So when there was a spurt in demand of the fiber in China so there is a price increase. So now we will have to see what happens and also because of the option freight correction because of the supply side or the logistics or the container movement that has also impacted the pulp prices.

Amit: The current standalone margins as we see has been significantly great I would say considering the challenging situation which we have been through and especially the paper industry and the prices I believe you have started taking now, so what kind of sustainable margins do you see I mean this December quarter can we kind of extrapolate it for next couple of quarters at least?

A S Mehta: See it is a very difficult as I said that it is so difficult at this point of time, but I would say see the industry's sustainable EBITDA margin is anywhere between 22% to 27%, 28% and good period there will be a 28%, 30% EBITDA bad period in band of 20%, 22%. So it will depend what kind of demand/supply, pricing.

Amit: So on the Sirpur I think you answered every question just one thing what could be the top line depending on what kind of product that we have at Sirpur say for example we are operating or targeting to operate at 75% capacity?

A S Mehta: See the 75% capacity to my mind will be around Rs. 500 crores.

Amit: And this packaging board plant at Gujarat you mentioned that somewhere in the 2021 any target that we have kept for ourselves by when we begin to expect to begin?

A S Mehta: Can you expect that the people like us we will have no target. We have certainly target to commission this or target to start production. I would say that our own target prior to COVID it was that we would start sometime in Jan, Feb or March I mean that this quarter was our target before COVID, but the COVID has impacted the entire schedule and it has disturbed because



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the restriction, lockdown, the moment of the construction workers to the Jharkhand, Bihar, Orissa and everywhere so it has impacted the whole schedule by close to four months and also the availability of the experts from Europe and the China and all other places so there is a impact, I would not say that there is no impact, there is a impact on the construction schedule and our commissioning schedule, but yes I would say that the Q2 of fiscal year 21-22, I mean we should have the production start, but it will take some time in ramping up the production and other things so that is our target.

Amit: Because packaging board market segment is quite good and the demand is quite robust, what do you think could be like Sirpur we are operating at 70%, 75%, so for that what could be for the first year capacity utilization?

A S Mehta: See as I said that capacity utilization 75%, 80% at least 70%, 75% we are targeting this quarter itself I mean by end of March, but thereafter once we do some debottlenecking and other activities.

Amit: No I am talking about the packaging board plant which we will begin say for example in September 21?

A S Mehta: I thought you started with Sirpur, so I thought you are asking the Sirpur.

Amit: No Sirpur we started with 70%, 75% so in packaging plant what is our expectation?

A S Mehta: See the packaging board plant any new plant when you start I mean it is not that easy because this is a brand new machine so the stability, production, quality and also the whole lot of other issues we need to address, but certainly in a Quarter 1, I mean the Q2 when we start the packaging board plant not the fiscal Q1, but for packaging board that would be Q1 means July, September quarter and thereafter I would say that I would certainly assume that 30%, 40% may be the first quarter thereafter 50%, 60% thereafter 70%, 75% like this the ramp up will happen.

Amit: And just initially Mr. Kumar as somebody mentioned about net debt of around 2,300 crore I could not hear that very clearly so just rechecking?

A S Mehta: Consolidated basis.

Moderator: Thank you. The next question is from the line of Ritika Gupta from Equitas Investment. Please go ahead.

Ritika Gupta: So I wanted to know what is the breakeven for the Gujarat packaging boards plant?

A S Mehta: The Gujarat packaging board plant breakeven should be close to 60%.



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- Ritika Gupta:** What is our debt repayment plan I do understand that you are going to take on 400 crores to 500 crores more of debt for the Gujarat plant, but what is the repayment plan thereafter?
- V. Kumaraswamy:** See the repayment plan obviously whatever cash is there we would like to use to repay. So if we assume the full productivity levels after the plant commences we will have about 400 to 500 crores. The total debt levels will be around Rs. 2,500 to 2,600 Cr.. I think the better way to consider is the debt/EBITDA levels we will reach at the just before the plant commences somewhere close to 3- 4 times will be there on a consolidated basis, but which is going to reduce once EBITDA of the project also comes into play.
- Ritika Gupta:** No as for a company as a whole if you could tell me like what you expect your net debt to be by the end of FY22?
- V. Kumaraswamy:** So let us say approximately at the same kind of level, but as of now because whatever debt comes in also the similar kind of repayment will be happening.
- Moderator:** Thank you. The next question is from the line of Sreemant from Unifi. Please go ahead.
- Sreemant:** One follow up on the Sirpur plant you mentioned about the incentives that you would get from the government at a optimum utilization if you could help us understand what is the kind and the quantum of incentives at the Sirpur plant?
- A S Mehta:** See these incentives are on raw material, coal and also the power and also some other minor GST and the electricity duty and interest subventions. So these are some of the incentives as notified and sanctioned by the Government of Telangana other than the capital subsidy that is one time so that is a separate. So these are some of the incentives.
- Sreemant:** Can you help us quantify sir on a cost per ton basis how much?
- A S Mehta:** I do not think it is fair on my part to quantify those incentives at this stage.
- Sreemant:** Question was on our raw material cost while we are very well integrated in terms of the wood supply, but I am asking this because the MSP for the alternate crop performance has also resin and some of the chemical prices are also upward trend, so if you could help us understand how is the raw material price trend for us?
- A S Mehta:** See what we do is that whatever is the increase in the MSP for alternate crops we always keep that in mind while fixing up the raw material prices or the wood prices in the market for a farmer because we compare farmer revenue model from plantation as well as the other crops that option they have. So that is our very dynamic model we have. What we do is that every time when we go for plantation our constant effort is to increase the productivity of the farmer of the plantation so that it is off-setted much more than whatever the MSP they get in the increase from the



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government announcement so that way we are able to motivate and encourage farmers to continue the plantation activity.

- Sreemant:** Our overall on a cost terms it is more or less stable?
- A S Mehta:** See more of very stable and sometimes it is some reduction as well because when we do more plantation our logistics cost comes down not the basis price for our wood to a farmer, but since my lead comes down so our logistics cost comes down and that is reflected in a lower raw material landed cost for the company.
- Sreemant:** Two questions on our existing operations so post the price hikes that you have and how does the current pricing compare as compared to the same period last year, are we on par with the same period last year?
- A S Mehta:** No we are not at par with the same quarter previous year as the Q3 our NSR as I said that it is lower by close to 8.5% or 9% weighted average for the company. So whatever price increase we do yes there was a price drop in the previous year also compared to that quarter, but we will be still lower than the previous year in NSR.
- Sreemant:** And what would be a present utilization levels at both the JK Paper plants?
- A S Mehta:** Our plant utilization right now it is more than 110%.
- Participant:** Both Orissa as well as Gujarat?
- A S Mehta:** Both yes.
- Moderator:** Thank you. The next question is from the line of Anurag Jain from Green Lantern Capital LLP. Please go ahead.
- Anurag Jain:** So basically couple of questions so pulp prices have gone up by roughly 40% or 50% from the bottom in the recent few months while paper prices have gone up by only 4%, 5% on average do you think that there is scope for paper prices will go much higher than where they are right now the other question was on the new expansion at the packaging board plant what is the peak turnover which is possible and what is the kind of margin that plant can make you can help us with that?
- A S Mehta:** See as I said that the pulp price moment on a steady state basis there is a relationship with the paper prices to the pulp prices, but these sudden spurt make the peak or down you cannot establish or you cannot have a relationship with the paper prices. So one thing is that if there is a 40% increase in the pulp prices you cannot expect the 40% increase in the paper prices this is one part and even if there is a drop in pulp prices by 40% there is no drop in paper prices by 40%



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so that is another part. As far as the Indian paper prices are concerned please delink this because all the Indian players are those who are producing the white paper, they are integrated player. Now whatever price increase what we are talking is to some extent what we reduce the prices compared to previous year so there is a recovery, and the recovery is predominantly two factor. One is that is now the demand coming up in the market and also whatever the global prices are also moving upward so we can keep our price at par with the global paper prices, so these are the factors. Then what was your question on the packaging board as I said that the capacity utilization or the ramp up it will take time because whenever you set up a new machine because it is a pulp mill as well as the board machine it will take time anywhere between 9 to 12 months to reach the optimum capacity, means the higher capacity and a full capacity level this plant should act somewhere around Rs. 1,000 crore plus turnover at a full capacity.

Anurag Jain: If I want to squeeze one more question again on the pricing front so is the pulp prices sustains for a while then we can see further price increases on the paper side also?

A S Mehta: No as I said that the pulp prices remain at higher levels there will be global paper price increases in the categories, but again the local paper prices will also depend on the demand supply scenario in the country. If the demand does not pick up then you cannot increase the substantial paper prices in the country and I do not expect a major price correction I mean even if it happens 4% to 5% I mean that should be good enough.

Moderator: Thank you. The next question is from the line of Darshit Shah from Motilal Oswal. Please go ahead.

Darshit Shah: Sir, just wanted to know what would be at full capacity utilization the new packaging board plant would generate revenue of close to 1,000 crore and what EBITDA would it generate?

A S Mehta: See the EBITDA it is very difficult at this point of time and it is a very sensitive information about the forward-looking EBITDA of a project which we are expanding so I do not want to say anything at this stage certainly I can say that it will reach somewhere around Rs. 1,000 1,100 crore of revenue. For EBITDA, we will have to see.

Moderator: Thank you. The next question is from the line of Vaibhav Gupta from RH- Minerva Funds. Please go ahead.

Vaibhav Gupta: Sir we did a global analysis on conversions like from uncoated paper machine to board paper machine and sir we were able to understand that to convert a 100 ton of coated or uncoated machine to a 120-ton machine it costs around \$450 to \$500 per ton and the timeline is around three to six quarters and we also like there is an assumption that...

A S Mehta: What is it that conversion means.



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- Vaibhav Gupta:** Sir from uncoated paper mill to board mill?
- A S Mehta:** You are saying that converting the paper machine into a packaging board machine.
- Vaibhav Gupta:** Yeah and as far as we understand one of the machines in Sirpur was converted so just wanted to know what are the cost associated in India with conversions?
- A S Mehta:** See it all depends on what kind of a technology or which I mean the generation of the machine you create when you convert. See the Sirpur paper machine conversion into a board machine was not a high-end conversion. Yes, it was a single layer machine it was converted into multilayer machine, but it is not of a fourth generation or advance generation machine so there is no comparison, and I must say that please do not compare this conversion to a global conversion of whatever \$500 or \$1000 conversion you take. There is a very economical way of converting that machine and that we did.
- Vaibhav Gupta:** Sir if you can shed some color on the quantification part like what was the per ton conversion cost.
- A S Mehta:** See this is what I am saying it will be a very small amount so do not discuss that.
- Vaibhav Gupta:** Sir one question related to paper board means only like three fourth of the raw material were being imported earlier like pre pandemic and going forward we assume that the raw material imports would come down and at the same time cogeneration is expanding, so can we expect the margins to go up to like mid teen like mid and higher teen?
- A S Mehta:** I did not get your question right, means your question is for Sirpur.
- Vaibhav Gupta:** No sir the paper board business in Gujarat?
- A S Mehta:** No paper board business see the import of pulp yes it is something around 60%, 70% of the pulp is imported whether chemical pulp or a mechanical pulp and going forward also in this project since we will not have a mechanical pulp here so I mean the 50% of the pulp will continue to be imported one, 40% to 45% at least and rest will be our own pulp so it will be a scenario.
- Vaibhav Gupta:** And when can we expect to hit full capacity?
- A S Mehta:** As I already responded that once we start from zero date at least it will take 9 to 12 months.
- Vaibhav Gupta:** And sir one question related to the uncoated paper business like since the schools and colleges are expected to open from April onwards and inventory at like the wholesale dealers levels would be low at this point in time, so just wanted to understand like how well in advance would the shipment for uncoated paper start to wholesaler?



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- A S Mehta:** All the paper companies are well placed whatever is the demand we can cater our domestic demand no issue at all.
- Vaibhav Gupta:** Can you see some movement happening there?
- A S Mehta:** So this is what I said that from January also in the month of January also we saw some moment where the shipment were higher than the November, December and there should be some more improvement coming forward in the month of February, March.
- Vaibhav Gupta:** And sir what is the current landed cost of Indonesian uncoated paper like before anti-dumping duty?
- A S Mehta:** See it is not happening these days because the local prices are more or less at par with the imported prices so why should anybody import the paper when a cheaper paper is available in the domestic market.
- Vaibhav Gupta:** It is at par with Indonesian paper before anti-dumping duty sir?
- A S Mehta:** Absolutely it is at par rather at some point and some places it is cheaper than the imported one. I will have to leave now Mr. Kumarswamy and our team is there if you have any other question.
- Moderator:** Thank you. The next question is from the line of Kush Gangar from Care PMS. Please go ahead.
- Kush Gangar:** So basically, I had just one question so on the industry side have that been any smaller players or who have vacated the industry so in terms of numbers if you can write 7%, 8%, 10% of the capacity would have been vacated by smaller players, so any structural improvement we can see on that side?
- V. Kumaraswamy:** Repeat your question you are speaking in such low volume.
- Kush Gangar:** Basically, my question was on what percentage of the industry smaller players have vacated the industry?
- V. Kumaraswamy:** Vacation of industry I do not think anybody has vacated the industry.
- Kush Gangar:** vacated in someplace.
- V. Kumaraswamy:** I do not think anybody has exited in that sense so they will all come back once the prices improve ; the lower cost producers will hit 100% capacity utilizations slowly one after the other will start hitting 100% capacity utilization and the higher cost people will reach capacities later nobody is exited in that sense.



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- Kush Gangar:** And any structural demand issue we see from the higher digitization initiatives etc etc any structural shift?
- V. Kumaraswamy:** Structural is already happening - may be COVID would make people rethink, but if you see the growth of copier which was around 10% to 12% may be about a decade back came down first about 8% and then 6% it is hovering around 4% now. So you cannot strictly compare it with the West where it is already in the negative, but since our education sector is still expanding and literacy levels increasing and so long as it still improves we will be in the positive territory, but I think the structural changes have already happened substantially.
- Moderator:** Thank you. The next question is from the line of Paul from Albatross Capital. Please go ahead.
- Paul:** So just one question on the EBITDA range Mr. Mehta you mentioned and if I go back to the Q1 20 number of 37 odd percent and since you mentioned that you already a 110% utilization and there have been price hikes across segment do not you think it is a fair assumption that we should be close to that or may be surpass that 37% EBITDA number going forward?
- V. Kumaraswamy:** Going forward is you know your guess is as good as mine and normally we do not put any forward-looking numbers for ourselves what Mr Mehta was indicating was the general range in which it hovers. So I leave it to you to this one decide what it would be.
- Paul:** Secondly any further room for cost cutting and efficiency is coming into the cost line going forward?
- V. Kumaraswamy:** The industry in several sectors I hear have been able to cut cost during the COVID times. Basically, when everybody was shut and having to cut cost everybody has looked at it and looked at various signs of expenses whether travel can be cut out whether communication expenses could be cut out, office expenditure should be cut out, electricity all these. So we have also done our own bit and some of them will stabilize at that lower level and having tested the benefits including the optimization of inventory that is a big move. In fact, I was just with some bankers they were also saying many of the clients are reporting sharp fall in total working capital levels and everybody has used this last six or eight months to see what all can be cut, how inventories can be cut, debtors can be cut, the suppliers can be optimized all these things have happened largely and most of them will stabilize at the lower levels. There is every good moment positive benefit out of this COVID disruption.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Sumant Kumar for his closing comments. Over to you, sir.
- Sumant Kumar:** Thank you so much. Thank you, Mr. Kumaraswamy, and JK team any closing comments from your side.



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V. Kumaraswamy: Thank you so much for everyone for attending and what I suggest is you please have a look at the presentation updated on the website and that will be the basis on which you can do your analysis further. Thank you Sumant.

Moderator: Thank you very much. Ladies and gentlemen thank you for joining in today. You may now disconnect your lines.