



Transcript of Analysts/Investors
Conference Call on Q1 FY-23 Financial Results
organized by IDBI Capital Markets and Services Ltd.

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MANAGEMENT: **MR. A. S. MEHTA – PRESIDENT & DIRECTOR, JK PAPER LIMITED**
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MODERATOR: **MS. ARCHANA GUDE – IDBI CAPITAL MARKETS & SERVICES LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to JK Paper's Q1 FY23 Earnings Conference Call hosted by IDBI Capital Markets & Services 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Archana Gude. Thank you and over to you ma'am.

Archana Gude: Thank you ladies and gentlemen. Good afternoon, everyone. I would like to welcome Shri. A.S. Mehta sir; President & Director and Shri. KR Veerappan sir; CFO and other team members of JK Paper Limited. I thank them for giving us this opportunity to host the earnings call. I shall now handover the call to the management for the opening remarks. Over to you Mehtaji.

A.S. Mehta: Thank you. Good afternoon, everybody and Ashok can you talk.

Ashok Gupta: Welcome all for this investors conference call for Q1 FY22-23. We have already uploaded our investor presentation for Q1 22-23. So, we can start with some opening remarks of Mr. A.S. Mehta and then directly we will take questions for this session. I request you can briefly update about the Q1 performance.

A.S. Mehta: Thank you Ashok. Thank you Veerappan and everybody, whenever you want to pitch in you can just pitch in, and briefly I would talk about what has been the quarter and what is the outlook and thereafter if you have any questions, you can ask the question one by one.

This quarter has been a better quarter from different perspectives. One is that from manufacturing perspective plants operated much better compared to last year the same quarter and also the preceding quarter. Odisha plant, Telangana plant and Gujarat plant, all the three plant operations was good, quite efficient. Of course, we took annual shut in this quarter at our Odisha facility because after the COVID this was now the time available for us for our annual shuts which we did in May end then June first week. So, that was close to 10 days annual shut which normally we take once in a year.

Other than that, the plant operations were quite efficient and good. Our Gujarat facility where we commissioned our new packaging board line and pulp mill and also the other utilities, very happy to share with you that we already achieved 90% of our new board machine and close to 100% of the new pulp mill at Gujarat facility. So, from that new board mill the volume came up in this quarter and that is why you would see that the turnover doubled, more than doubled. So, the two factors, again the volumetric growth close to 82% and the price realization and also the mix change which gave us something around (+20%). That is how the turnover doubled. The raw material costs, some pulp costs, commodity prices and also the chemical cost, the input costs have gone up. Energy prices have been very high this quarter again. So, those were factors influencing the cost increases. But at the same time as I said that the NSR has gone up because



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we could pass on the cost increases in the market on the robust demand outlook. So, the margin we could maintain, rather we could improve our margin to some extent. On the same margin at doubled volume has resulted in the significant increase in our operating profits. Also, our finance cost has been much lower because of some gain also. That is the reason that our PAT is higher by close to 150% compared to last year the same quarter and also much higher compared to the preceding quarter.

As far as the outlook, if I talk outlook remains strong on the different categories of paper. It's a writing printing paper, officer paper and packaging boards. The new education policy and also the full fledge working in the offices are driving the demand for writing, printing and cut size paper. The FMCG sector, pharma sector and also now the food sector, with all these sectors are doing very well. On that front, packaging boards demand is fairly robust. In fact, the new capacity has fully been absorbed in the market. Our new capacity when I'm saying and also the export market is fairly remunerative. So, part volume is also going in the export market. This is all the outlook I see for two months. As far as the cost is concerned, I would say that broadly the cost is now at a stable level. Some cost has come down but there are some other cost increases are still there but energy costs I don't see any respite for this current quarter, thereafter maybe some respite. This is all about.

Ashok Gupta: Archanaji, we can take now open floor to the question-answers, so that will be better to directly take questions one to one.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Jatin Damania from Kotak Securities.

Jatin Damania: As you said that we are able to pass on the cost increase in the market given the strong demand. I mean are we booked for the entire year in terms of volume, I just wanted to understand the long-term contract and the small some contract because if I look at the last three quarters or 3 years numbers, our gross profit margin gets picked in first quarter and then it subsides in the subsequent quarters. I just wanted to know your view on the same.

A.S. Mehta: See in the paper sector we don't have the long-term contracts. Certainly, there are understandings with some of the people what going to be the volume, their requirement maybe but there are no formal long-term contracts for the volume. This is one part on the contract path. But as I said that the outlook is strong. So, we are not worried on the volume part, whatever we are able to produce from our plant the market is there. So, this is one part. As far as your question is that the Q1-Q2-Q3-Q4, the volume volatility is always there in the paper industry because the Q1 slightly after the month of May, the offices and the courts and all other things to the office paper demand comes down. The second quarter slightly from August it is down for the printing sector. The third quarter is I mean the third quarter when I am talking it is October to December fiscal be a third quarter, is considered good for writing, printing, good for office paper. But part of the quarter for packaging board there is some downward because the festival and all at other things



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are over in the month of October or a mid-November and the last quarter is better for office paper, better for printing and all, so reasonably for packaging board. But this has been traditionally the trend but this year I don't see this trend. I mean there may be many reasons because in the first quarter, we have not seen a downward trend of demand in case office paper which normally used to be, so it was a fairly strong for all of the quarter. Q2, I don't see any impact in the printing sector which earlier we used to see because right now also the printing sector demand is huge and very good traction for the paper demand. So, at this point of time, I would not say that there will be a major volatility as far as the quarterly trends are concerned for this fiscal.

Jatin Damania: So, as you rightly pointed out, if we don't see any impact in the Q2 for the printing paper, so is it fair to assume that we won't see a significant impact on the gross margin and the gross profit margin as well in the coming quarter?

A.S. Mehta: As I said that when the demand and outlook is good, there should not be a major impact on the profit margin. If there is a cost increase, we should be able to pass it on.

Jatin Damania: One more question and then I'll come in the queue again. You said that the export market is a remunerative, so can you help us in terms of what is the export contribution to overall revenue? What is the margin difference between the export and the domestic market?

A.S. Mehta: Right now, our export volume is close to 8% to 10%. It depends on the domestic market demand. So, right now, since the domestic market is fairly strong, so we have reduced it. At one point of time, we were as high as 15% of the total volume but we have managed it at something around 8% to 10%. Going forward also in coming months we may restrict it to 5% to 8% because the domestic market is fairly strong. See it's not a question of the margin in the export, export prices are remunerative and they're as good as the domestic prices. But our commitment to the domestic customer is much more critical and that is why our priority to the domestic market is number one.

Moderator: The next question is in the line of Harsh Shah from a L&T Mutual Fund.

Harsh Shah: Just one thing you just mentioned that, the demand continues to remain strong and this quarter on a volume basis we were more or less flat versus your Q4 of last year. We are entering Q2, you think that volume will get better on a quarter-on-quarter basis since the demand has continued to remain strong and pricing is also strong?

A.S. Mehta: Yes, I would say, as I said that when you compare the volume or the total top line for Q4 to Q1, in fact as I said that the Q1 this time we took annual shut. That 5-10 days annual shut, I mean this is the volume. So, now you can think of that in Q2 and there is not going to be annual shut. Certainly, the volume is going to be high.



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Harsh Shah: On an average for these three main categories that we operate in uncoated, coated and Virgin fiber, how much was the price increase on an average that we have witnessed in this quarter?

A.S. Mehta: As I said that compared to previous year the same quarter, the average NSR increase is close to 20%.

Harsh Shah: And entering Q2 you think that the prices have remained steady so far? Because I guess July and August has also witnessed quite a bit of price hike by many players, globally as well as in India.

A.S. Mehta: See now the global prices of pulp and paper, they are fairly I would say they are stable at this level. Also, we don't foresee a major input cost rise. So, there is no reason for a major price correction at this point of time. Yes, minor price changes, minor price correction and also the mix change would impact the NSR, impact NSR in the sense in a positive sense, maybe shade better but otherwise I don't foresee any major price correction in coming months.

Harsh Shah: If we assume a better mix and a normalized cost environment with power and fuel and everything else, do you think that our margins can increase from here also?

A.S. Mehta: I would say that we need to understand, the industry has been operating at 22%-24% operating margin for many years and at that operating level the industry used to have a ROCE of close to 12% to 14% depending on the capital structure and other thing. So, operating at 30% margin or (+30%) margin is a decent margin. If you are able to maintain this that would be very healthy. In fact, I don't foresee a major or further improvement in the margin but the top line improvement and also the volume improvement per se should give us absolute increase in the operating profit as well as the net profit. We should be happy and satisfied on this front.

Harsh Shah: This is extremely reassuring to be very honest with you, considering how the industry dynamic is played and how JK Paper has been performing. So, that is extremely reassuring.

Moderator: The next question is from the line of Deepak Lalwani from Unifi Capital.

Deepak Lalwani: As you mentioned that you don't foresee any correction in paper prices in the immediate time, how do you view the situation on dumping through imports? If you can give any sense from that. And on the coal, you mentioned in the last quarter that we are getting only linkage coal in the Sirpur facility and we're buying from outside in the other two plants, so has that situation improved as of now?

A.S. Mehta: See as far as their dumping is concerned, I would say that very small quantity is coming as import in the country right now because the domestic prices and international prices are more or less at par. The people are finding no reason to import sizeable quantity then substantial quantity to except the coated paper because the coated paper traditionally 50%-60% has been imported in India and it will continue because the availability of coated paper in India from domestic



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manufacturing is limited. Other product categories we don't find a major import is taking place because the domestic prices are maybe slightly lower than the landed cost of imported products. There's no reason for people to import the paper, so right now there's no dumping. That's not a concern at this point of time. Also, from 1st of October the import monitoring mechanism will be in place by Government of India. There will be some kind of a restriction on the wrong practices being followed by the importers. That's a good thing for the paper industry and it will help. So, this is on dumping. As far as the coal your second question was on the coal. I would say that compared to last quarter and compared to the month of April and May and also July-June, I think there is a minor improvement in the situation and the availability of the coal from our Coal India and their subsidiary, it has slightly improved but we will still remain dependent on the imported coal in times to come. I would say that the cost which I've seen in the Quarter 1 it has slightly come down or it may remain at the same level.

Deepak Lalwani:

You mentioned that the domestic prices are slightly lower than the global prices. How much would that difference be and that is on account of what if you could give the reason for that? Lastly you mentioned in your initial comment that we had a gain in our finance cost and also our tax rates are lower, so any explanation on these two numbers?

A.S. Mehta:

The prices, your first question on the difference in the prices of landed cost of imported products and domestic prices, I would say it's with the different product category it is different. The office paper I would say that the people are talking about the landed cost of copier paper something around Rs. 85 to 90 per kg whereas the domestic prices would be close to Rs. 76 to 80. so that's the price difference. The packaging board I would say the difference would be close to Rs. 3 to 4 per kg. Coated, I mean there's no point in comparing, so writing and printing, the difference maybe Rs. 1 or 2. So, this is a price difference. The difference or the lower price is because I would say that predominantly we are integrated player. Our prices are not based on the market pulp but because globally there may be number of players those who are not integrated players. So, their product prices or paper prices will depend on the pulp prices. Whereas in our case it will not be entirely on the pulp prices, it will be based on the demand supply scenario. Also, there is a landed cost of imported product.

Ashok Gupta:

Regarding interest you have mentioned, there is a saving on our derivative restatements whatever we have taken because of our ECB loans are in Euro, so we have gained incomes on that restatements as well as the derivative restructures what we have taken on that also we have gained in this quarter and also there is some rate reduction in our existing debt which has come to this quarter. So, there is a substantial gain in this quarter.

A.S. Mehta:

As far as the tax rate is concerned it is because in case of consolidated results, the lower tax rate is because we have the unabsorbed business losses of Sirpur and we are not subjected to tax on the Sirpur. So, that's the reason.

Deepak Lalwani:

So, that was useful. If you could give the number for the accumulated losses?



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A.S. Mehta: I mean it may not be necessary at this point of time and we don't want to disclose at this stage, how much is the accumulated losses but right now we still have some accumulated losses.

Moderator: The next question is from the line of Amit Doshi from Care PMS.

Amit Doshi: As far as margins are concerned, so while we were already operating on more than 100% capacity since last 2-3 quarters already. I believe this is more do to with probably this packaging board contribution as well as Sirpur Mill better capacity utilization. If that were true which your margins in packaging board is less than the copier paper etc. So, how that margin is improved? If my assumption is right, can you just clarify this doubt of mine?

A.S. Mehta: You're right. But the packaging board margin is also improving because when you utilize 90%-95% of your packaging board capacity and there is some price correction, there also the margin improvement has taken place in packaging board. Of course, yes, it is lower than the writing-printing paper but the margin in copier has further improved. That is why as a company as a whole writing-printing paper, our office paper that improved margin has contributed for a company level margin improvement and stabilizes.

Amit Doshi: This our wood procurement, there has been significant jump from 32,000 acres approximately to 45,000 acres. So, this of course it will take its own time to get this benefit, so last 5 years if I see our trend of the number of acres is around whatever 25,000-30,000 acres. Do you believe with this increased capacity and this per hectare increased which has happened just last year. So, would that be couple of years where we would be short of our requirement as far as the wood pulp is concerned or it's enough?

A.S. Mehta: No, we will not be short because for our capacity of total pulping, in fact 15,000 to 18,000 hectare of plantation is good enough. But we are doing more than that. I'm saying 15,000 to 18,000 hectares, so when you convert into acres, to my mind it will be close to 40,000 to 45,000 acre of plantation is good enough. Also, because now the productivity has gone up, so that's good enough. But we do purposely higher because 100%, the planted wood you cannot guarantee that you will receive because the farmers can sell to other players or for the other application also. So, purposely we do close to 35% or 40% additional plantation so that we don't foresee any difficulty in our sourcing. Right now, also we are not foreseeing any difficulty and going forward our effort will always be to do over 40,000 acres of plantation so that we don't face the problem of sourcing.

Amit Doshi: Regarding this interest costs you mentioned, there is some rate reduction. So, in this rising interest scenario what is the rate reduction if you can explain and with this sizable cash flow that we have generated and we will continue to probably generate going forward, is there any change in some debt repayment plan? So, what's our net debt and what is a debt repayment schedule for this '22-23?



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- Ashok Gupta:** Rate reduction in two fronts, one is regarding that even the short-term also the kind of instruments which we are using there is a reduction in that also, whatever commercial paper, other things and as well as in the long term also, whatever at existing rate that is spread other things on the interest rate we are renegotiating and within the term loan also we are getting some good line as option on the fully converted, hedge line. So, there are various kind of innovative things on interest rate front, so this is a mix of it.
- Moderator:** The next question is on the line of Nirav Seksaria from Living Root Capital.
- Bharat:** I am Bharat here. I have couple of questions. I want to understand that you are already operating at good capacity across all your units. I think the new one you've mentioned you're at 85% but is there scope to ramp-up volumes further from here?
- A.S. Mehta:** Of course, as I said that Q1 we had annual shut. So, now in the rest of the months there should not be any shut for the 10 days at Odisha facility, so will give the additional volume that is one part. Sirpur we have been operating at 80%-85%. There is scope to go up at least 90%-95%. The new board facility we have been operating at 90% and ideally, we should run at 100% or plus. There is a good scope to further improve the volume.
- Bharat:** So, when you are increasing your capacity in this particular segment, you are not basically going to put in any CAPEX to increase your volumes from here, correct? Whatever CAPEX is there you are going to utilize further?
- A.S. Mehta:** There's no need of putting a CAPEX. Please understand and appreciate that only last year we put about Rs. 2000 crores of CAPEX and also something at around 50 to 60 crores at the Sirpur Paper Mill, so no question of any additional CAPEX for at least 2-3 year for the volume. It is better that we utilize that capacity fully and in a more optimum manner to extract the volume.
- Bharat:** So, is it correct to understand that you're generating good cash flow right now? Is it correct to understand that you would be repaying the debts or would you be also be distributing some dividends?
- A.S. Mehta:** No, dividend we have been paying, last year we paid 55% and we will be paying dividend but certainly for our debt repayment, there will be accelerated repayment of the debts.
- Bharat:** Which means that from here on from what I understand that there will be borrowing as such and debt levels will come down over the next couple of years since you have no CAPEX plans going ahead and you want to increaserepayment cycle?
- A.S. Mehta:** Your understanding is right. There will not be any major borrowing and there will be more repayment to reduce the net debt position.



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- Bharat:** So, finally what is the regular payment every year for the borrowing, for this year what are the regular payments and how much more do you expect to pay back?
- Ashok Gupta:** It will be close to Rs. 325 to 350 crores kind of repayment because new line is also getting repaid, starting repayment. So, which will go up to Rs. 400 crores by '23-24 only.
- Moderator:** The next question is from the line of Sourav Dutta from Minerva India Underserved.
- Sourav Dutta:** On the BCTMP part I wanted to understand the status of the new BCTMP mill that has come up in Songadh. Also as far as the BCTMP use is concerned how does the current breakdown occur between hard and soft BCTMP at this point? Any reason to believe that this mix could change going in the future?
- A.S. Mehta:** The BCTMP pulp mill, we did not put up at Songadh. We put up a bleached pulp mill there and BCTMP pulp we are still importing, whether hardwood or softwood. It is used close to 50% of the packaging boards. It goes 50% bleached pulp and close to 50% of the BCTMP. Right now, we are importing both softwood and the hardwood BCTMP. We have not done anything on this. We are still working on whether to put our own BCTMP pulp mill or continue to import.
- Sourav Dutta:** Understood. What is the current breakdown between the usage of hard and soft BCTMP?
- A.S. Mehta:** Depends on the product to product. I mean it varies and every mill to mill it varies.
- Sourav Dutta:** Any overall percentage if you could give me a rough idea?
- A.S. Mehta:** We don't disclose this kind of a breakup because it's a confidential and it's a very business call for a product to product and the sensitivity is involved, so you will appreciate that.
- Sourav Dutta:** Understood. Secondly, we wanted to understand what percentage of the paperboard that we are making would be food grade and what percentage would be non-food grade?
- A.S. Mehta:** The paperboard we are producing, I would say we are producing something around 90% would be the food grade. I mean the food and pharma grade and the pharma grade board is also food grade, only 10% or less than 10% would be for the wedding card or some other applications where the food grade standard is not applicable. But I can tell you that whatever board we produce is entirely can be a food grade because all the safety parameters and the measures are taken because it's a virgin pulp, no recycled paper or recycled fiber is involved. Also, whatever the coating material we use everything is food grade.
- Sourav Dutta:** Given the current currency headwinds and limited softwood availability in India, do you see some sort of a shift towards the recycled paper wood versus virgin fiber, let's say in the next 3 to 5 years from now?



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- A.S. Mehta:** No. See the shift depends on the ultimate end product. It is not a question of availability of the softwood pulp or other thing. If the company, let's say FMCG or any cosmetic company if they want to launch their product and they want to maintain the aesthetics and the premium ness, they will use the virgin board only because of the print quality, because of the touch and feel, smoothness, brightness. That depends on the end product, not the availability of the recycled fiber or recycled paper.
- Moderator:** The next question is from the line of Venkatesh Subramanian from Logic Tree.
- Venkatesh Subramanian:** Just two questions, one on what kind of scenario do you foresee for the next 2 to 3 years, broadly the kind of performance that we are delivering? If nothing really upsets the applecart, are we in a good scenario to sustain our performance, some sort of a guidance? What kind of challenges do you foresee? Is it input costs or logistics? What does it that you think can go wrong?
- A.S. Mehta:** First and foremost, thing that I'm afraid of giving any guidance.
- Venkatesh Subramanian:** You can give me a broad idea of how things can be if everything goes well that's what I'm saying.
- A.S. Mehta:** I agree but please understand that. The regulators and the regulation in the country, its you people know much more than what I know. But very hesitant to give you any guidance on this. But I can certainly give you that outlook what I have painted as for this fiscal year and going forward also for the country, India being the good growing economy and also a young country, focused on education, focused on so many other things there is no reason for a muted growth of paper. And also, the developing society where there is going to be a major shift in the food what we eat right now and food what we will be eating going forward because the younger generation more and more will use a packaged food rather than the home cooked food. So, when that trend will remain, the packaging board consumption will further go up. Pharmaceutical sector will boom and that will provide the driver for growth for the packaging board again. The FMCG is likely to grow. So, again, it will provide a driver for the growth for the packaging board. I don't foresee any major driver of de-growth. That's one on the guidance I can say for next 2 to 3 years and for any industry if the demand outlook is favorable that would be a good period for industry.
- Venkatesh Subramanian:** Agreed. What is our current realization per ton?
- A.S. Mehta:** I can just tell you the broad it would be close to Rs. 70,000 per ton
- Ashok Gupta:** Average, blended and net basis it is 75,000 and compared to previous time same period it was 62,000.
- Venkatesh Subramanian:** So, 75000, so that's probably where I'm getting it. Do you see this kind of sustainable over the next couple of years?



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- A.S. Mehta:** As I said that the global pulp and paper prices and global energy prices if they remain the same level, these NSR will also be sustainable. If the energy prices come down and if the commodity prices come down and if the cost goes down, there is no reason to keep the same NSR. So, everything will depend on these two factors and energy and the commodity prices.
- Moderator:** The next question is from the line of Viraj Parekh from Carnelian.
- Viraj Parekh:** So, just a follow-up on the previous question, you said that our NSR is close to Rs. 75,000 per ton and you mentioned that the export market has been quite remunerative. Do you have a break up for export and domestic NSR?
- A.S. Mehta:** No, we don't share this NSR export and domestic. But as I said in my own way that some product category, the domestic NSR is lower by 2% to 3% in different product category. So, the export NSR is high in some product categories. But it varies, it depends on the country to country, time to time. At one point of time the export NSR was much lower and the domestic prices were higher. Right now, the export is higher compared to domestic, so it varies.
- Ashok Gupta:** It is also the impact of that rupee depreciation also that has played in our export market. So, we purposefully continue to do that in the export market to regimise our presence. That is at 100% only to gain or add realization other strategies also because during the COVID time that export market has really helped us to fill our plant capacity so it is as a strategy of the company to remain present into that market.
- Viraj Parekh:** Just second question is in the lines of Sirpur. You said we are currently at 80% to 85% capacity. Out of the current quarterly 1,430 crores how much have come from Sirpur and if you can share the NSR for Sirpur as a standalone entity, what would that be?
- A.S. Mehta:** The turnover when you see the quarterly turnover close to 200 crores come from Sirpur and that you can also see from standalone and a consolidated the results. So, close to 200 crores. May be plus-minus some amount and the NSR for the product, same product manufactured at Sirpur and our own mills is a more or less on the same line because the quality of products from the Sirpur is now as good as the product the coming from our JK Mills.
- Moderator:** The next question is from the line of Harsh Shah from L&T Mutual Fund.
- Harsh Shah:** You did mention that there will be no significant CAPEX in the next 2 years since we have only done it. Are we going to do any small CAPEX for debottlenecking any of the capacities?
- A.S. Mehta:** No, that will always continue and as you have seen that every year without any major CAPEX 2%-3%-4% volume we may increase from our existing facilities and that's the only debottlenecking so that will continue.
- Harsh Shah:** How much are we doing on job work basis currently?



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- A.S. Mehta:** We don't do anything job work right now I mean we produce our own.
- Harsh Shah:** Just last question one data keeping. As on Q1 what is the debt and cash that we have on our books?
- KR Veerappan :** On a consolidated level we have around 2,572 crores of debt and cash equivalent of around 918 crores.
- Harsh Shah:** Sorry, I couldn't hear you.
- KR Veerappan:** 2,572 crores of total debt we have on a standalone basis, on a consolidated basis we have 3,035 crores.
- Harsh Shah:** And cash?
- KR Veerappan:** Cash will be around Rs. 900 to 1,000 crores.
- Harsh Shah:** 900 to 1000 crores of cash on a consolidated basis and 3,572 crores of debt on a consolidated basis. Is it right?
- A.S. Mehta:** No, 3,035 not 3,500. So, in fact last year when I was making comment on this net debt, I said that by end of March '23 our target is to reduce the net debt by 2,000 crores I mean to 2,000 crores but I think now we are already achieved this in this quarter.
- Harsh Shah:** And it will further go down as we end the year?
- A.S. Mehta:** Of course, it should.
- Moderator:** The next question is from the line of Rajesh from B & K Securities.
- Rajesh:** I had a couple of questions. You gave the market share data for coated paper and packaging board in slide #5 and you mentioned the packaging board market share is 19%. This I understand you are talking about just the VFB market which is about 1 million ton. So, where you're talking about?
- Ashok Gupta:** Rajesh ji can you repeat that what the market share you are talking about, packaging board?
- Rajesh:** I am saying on today's call you have given some market share data on packaging board 19% so you are referring to the Virgin Fiber Board market only right here?
- KR Veerappan:** Yes, virgin fiber board.
- A.S. Mehta:** Yes, virgin fiber only.



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- KR Veerappan:** That is the only board we are making Rajesh.
- Rajesh:** My next question is you are addressing a million-ton market where other people also expanding now from what we hear. So, this opportunity side will actually go away in a couple of years. Over a longer-term basis have you identified any of the market segments that you would like to make an investments because writing and printing paper or say kraft paper or something you would not like to enter at this stage which leaves the large part of the market not accessible for you. So, any other segments, area over a 5-years' time frame you have identified in terms of future growth? That is my first question.
- A.S. Mehta:** See your question is right. In fact, that is the reason we have already entered into the business of corrugation through wholly owned subsidiary and the first plant is being put up in Ludhiana and in this fiscal year itself we will start production there. So, this is a new business we are entering and when we are entering, that is just a one first plant. Once we learn this trade and then we will expand. Our major investment is going to be either the corrugation or the packaging board. When the market further grows, we will see how do we increase our board production and we'll see if we need to put up one more machine so we'll decide in course of time.
- Rajesh:** Could you give us some color of the corrugated market in terms of the margin profile? Will it be margin diluted in terms of currently where we are?
- A.S. Mehta:** That's a different business but is not a very capital-intensive business. So, and it's a very growing business. We need to enter into this business because ultimately unless we participate in the growth what will we do? Tomorrow you are going to ask the same question to me that sir why are you stagnating? Ultimately, we need to be partnering the growth story and the corrugation is growing pretty well.
- Rajesh:** Low CAPEX and high ROC, is that a right assumption to make for the corrugated business? Though it may be EBITDA margin low?
- A.S. Mehta:** That's what I'm saying that we had just entered into it. We need to learn this trade; we need to further sharpen our understanding. Because at this point of time it's very difficult to say that it will be high capital employed, I mean the high ROC business or whether it is a low capital business it will depend. Let's first operate the first plant, learn from this and then we'll see the other plants. How do we reduce the CAPEX, how do we improve our profitability? That will depend on our learning from the first plant.
- Rajesh:** My second question is on the rated capacity. We have seen historically also the JK Paper the old plants particularly Odisha etc. has gone up to 106%-107%-109% utilization. Is it conceivable that on our 7.61 lakh ton we can actually practically do up to 8 lakh tons or somewhere around there? I don't want an exact figure. I just want the direction in terms of where we can go?



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- A.S. Mehta:** No of course our aspiration is to do 8 lakh tons next year. Yes.
- Moderator:** The next question is from the line of Danesh Mistry from Investor First Advisors.
- Danesh Mistry:** Actually, one of my questions was answered by you through the previous caller's question but I had one more question which is on the NSR which is there. Number one is that if you can explain to us little bit how is this pricing decided? Is it versus import parity or something like that? Second up to what level do you think we can continue to take it up? Are we facing any pushback from the customers or the industry as of now basically, in pharma and food and all of that?
- A.S. Mehta:** The pricing decision is always based on the many parameters. It is not just one that we make it at par with the imported products. No. As I said that right now the landed cost of imported product maybe higher but we are not keeping our price that way. So, the prices are decided based on the demand supply scenario, affordability and also R&D. Certainly customer would always resist any higher price increase or any higher price. I mean you and me, we will also resist for any products we are buying in the market because resistance is one because anybody would like to purchase at the cheapest level and would like to sell at a highest level because this is what it happens. We always keep our price moderate keeping in mind the input cost, keeping in mind our own desirability of the profit margin and also the imported material cost or prices in the global market. All these factors are kept in mind and that is why we keep our price like this. As I said earlier also in a different question, I don't find any reason for further sizable price correction because at this level it gives a decent margin, descent ROC so I mean why should we increase the price even if the global prices move up unless there is a further spot push.
- Danesh Mistry:** In terms of in the industry are we seeing any new capacity additions coming up in the next 2 years, next 2-3 years or so?
- A.S. Mehta:** The industry capacity addition will go on when there is a robust demand but there is no major capacity announcement right now in the public domain. We can only keep track of the capacity announcement available in the public domain. At this point of time, we don't find any major capacity announcement by any major player but in the country, there are many-many small players and they keep doing something which may not be in the public domain.
- Danesh Mistry:** But there would not be a major part of the overall industry then between the small players?
- A.S. Mehta:** Collectively it's a smaller player and collectively do many things. It can become sizable but they are not in the public domain. But any major paper company those who are part of the IPMA Associations, there are 17-18 companies, major companies are part of this association and I find no major CAPEX announcement by any of them.
- Moderator:** The next question is from the line of Akhil Parekh from Centrum Broking.



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Akhil Parekh: My first question is on the cost item, right. If I look at it on a per-ton basis for FY22 there are certain line of items which are short of significantly say employee cost per-ton or other expenses per ton and power and fuel per ton. So, going forward in '23 probably do we see any certain line of items where we can see a pull-off in terms of sales per ton?

Ashok Gupta: In terms of tonnage that some items like power, fuel and other expenditure may be higher because we have taken a shut in this quarter as well as that some expenses relating to our export that is occurring in other expenditure. Company is conscious wherever the reduction is possible, we are taking our efforts to do it but it is in the same line where the volume growth or product mix that it is to be incurred. Power and fuel because of coal prices some impact is there and also in raw material, chemical prices so impact is appearing in other line item also.

Akhil Parekh: Even in employee cost part tonnage wise if I look at it, historically it has been below Rs. 6,000 or rather I would say FY19 was a peak of cycle was at around Rs. 5,000 per ton but now is up by almost up to Rs. 6,400 per ton. So, how do we see that line of item basically for next 2 years?

Ashok Gupta: You are comparing on a consolidated basis or a standalone basis?

Akhil Parekh: I am comparing on a standalone basis.

Ashok Gupta: No, you have to compare with a consolidated basis, then you will get a right picture because whatever volume of Sirpur that also happens from JK Paper as well. And also, that whatever employee cost because of new packaging board line has come so you have to take it on a consolidated basis and you will get a right picture. In terms of the percentage if you see there is a reduction, if you see that compared to the previous corresponding quarters there is a reduction from 7.5% to 6.5%. So, there is no reason that the absolute number it will go up but if you compare that with June quarter because of COVID situation or that all these factors also you have to built up while calculating your per ton.

Akhil Parekh: My second question is on the our NSR growth if I look it for the first quarter of '23 vis-à-vis FY22 its up by almost 15% odd and plus if I look at our volume run rate it looks like we probably can end this year at around 7,50,000 tons, would that assumption be right? Like if we assume say sales realization growth of 15% for this year vis-à-vis last year and plus the volume at around 7,50,000 tons basically for FY22?

Ashok Gupta: Volume growth already we have declared our capacity with overall consolidated about 7.6 lakhs tons and currently as sir has mentioned that we are running our plant at a full capacity. The volume should be around to that level and price realization growth as of now we can't give you that guidance in the same quarter that growth will continue. This is the market factor which in the current quarter has been reflected.

Akhil Parekh: Has there be any price correction in the brown paper, kraft paper?



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A.S. Mehta: We are not in the brown paper so we don't want to give any comment on this. It will be unfair on our part to tell you I mean the pricing of the brown paper.

Thank you so much and everybody is showing keen interest and hope that we have clarified all the questions and the explanations whatever you wanted.

Ashok Gupta: Thank you Archana ji and thank you all for participating in the call and we will be certainly interacting with you wherever we get that opportunity. Thank you all.

Moderator: Thank you. Ladies and gentlemen on behalf of IDBI Capital Markets & Services that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.