

### Embarking on the Next phase of growth

We met the management of Kvantum Papers (KPL) to get a perspective on the business and its future growth strategies. This leading agro and wood-based paper manufacturer began commercial operations in 1980 in the economically backward village of Hoshiarpur (Punjab) with 30TPD. Having successfully concluded their backward integration project in March 2021, their current production capacity is 450 TPD. Kvantum specialises in the manufacture of uncoated paper for use in printing and writing, copiers, and specialty applications. Over time, the company has expanded its product portfolio and brands, and it now sells its products under a variety of brand names, including Kvantum Gold, Kappa Premium, Kopy+, Kosheen, Kresto, Kosmo Litho, and K-One. Given its location in the foothills of the Shivalik range, KPL has been strategically utilising agro residues (like wheat straw, *sarkanda*, and bagasse) along with wood chips, veneer waste, and bamboo to produce high quality paper. Its fully integrated manufacturing facility, spread across 259 acres, helps it gain an advantage in terms of better operational efficiency and higher product offering. In FY23, KPL generated 85% of its revenue from the domestic market and 15% from exports to more than 30 countries.

#### Strong distribution network complements a varied product offering

- KPL manufactures a wide range of wood free writing and printing paper (WPP, from 42gsm to 200gsm) including maplitho, cream wove, copier paper.
- It also produces value-added specialty products like azure laid papers, parchment paper, cartridge paper, ledger paper, stiffener paper, coloured paper, and base paper for various specialty paper products like paper cups, paper straws, and thermal rolls.
- Its products find application in the printing of books, notebooks, calendars, diaries, newspaper supplements, pamphlets, computer stationery, etc. This diverse product mix provides comfort on KPL's revenue stream.
- It has a pan India network of more than 100 dealers, the majority of which are located in Delhi, Haryana, Uttar Pradesh, Madhya Pradesh, Punjab, West Bengal, and Maharashtra. It also exports its paper overseas.
- Over the years, the company has established a strong customer-base which ensures repeat orders. It caters primarily to clients in the academic segment like Kokuyo Camlin, McGraw Hill, the S Chand Group, and Navneet Education.
- Most operations are located within 1,000km of its plant in Punjab. Delhi/Punjab/Uttar Pradesh/Haryana/West Bengal/Rajasthan contributes 37%/13%/10%/9%/6%/4% to revenue, with the rest from other states.
- As manufacturing is based on pre-orders from its dealer network, it enjoys lower working capital days (23 days).

#### Raw material mix and easy availability to support cost management

- KPL utilises agricultural residue (like wheat straw, kans grass, and bagasse), wood chips, wooden logs, and bamboo as its main raw material. It combines its own agri residue and wood with imported pulp to produce better quality fibre for paper production. It has access to abundant raw material as its plant lies in the agriculture-rich belt of Punjab.
- Given its more than three decade ties with dealers engaged in the sale of wheat straw, it experiences no major procurement problems. To ensure uninterrupted production, it has widened its supply chain to ensure regular availability of raw materials, spares, and other inputs.
- Its social farm forestry programme includes wood plantations of 7,000 acres. The management is targeting planting of one crore saplings per annum in the next two-to-three years.
- The company's EBITDA margin was affected in recent quarters by lower-priced imports from neighbouring countries, even though it has handled the rise in pulp prices better than its competitors.
- KPL mainly uses environment-friendly agro pulp (50% of total inputs) to produce paper. Wheat straw constitutes 90% of agro pulp. Even the wood is procured mostly as wood chips and veneer, which is a waste product of the plywood industry.
- Due to a higher supply of wheat straw in the rabi season, prices are relatively lower. This helps mitigate the impact of high wood pulp prices.
- Generally, wood pulp costs 30-40% higher than agro pulp. Imported softwood pulp cost 30-40% more than local wood pulp. The company has spent years perfecting its R&D processes, and now it is capable making high-quality products using a combination of agro and wood pulps on its four paper machines.

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues (INR Cr)	830	1,310	1,207	1,310	1,795
Rev growth (%)	105.6	57.7	(7.8)	8.5	37.0
EBITDA (INR Cr)	120	380	342	402	583
Net Profit (INR Cr)	13	124	192	211	341
P/E (x)	118.3	16.1	8.3	7.5	4.7
EV/EBITDA (x)	19.2	5.3	5.6	5.1	3.3
RoACE (%)	1.6	12.0	19.9	18.1	20.3
RoAE (%)	1.6	11.0	18.3	17.2	23.1

Source: Company, Nuvama Wealth Research

CMP INR 182

Rating: Not Rated

Date: March 01, 2024

Bloomberg:	KAUN:IN
52-week range (INR):	112/226
M-cap (INR cr):	1,586
Promoter holding (%)	70.31

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#### Capacity addition and machine upgradation to drive margin

- Apart from the consistent increase in capacity addition and upgradation, KPL initiated a backward integrated project worth INR444cr in FY19. Completed in FY21, this transformative effort was undertaken for upgradation, replacement, and addition of machinery across its pulping facilities, chemical recovery, and co-gen power plant along with increase in production capacity to 1,50,000 TPA.
- Optimising the integration of the chemical recovery plant, co-gen power, and the hardwood pulp mill led to a significant improvement in EBITDA margin. Increased wood pulp production capacity reduced dependency on imported hardwood to sub-5% in FY23 from 17% in FY21.
- Additional benefits of caustic recovery and co-gen power generation resulted in cost reductions and operating efficiencies in the pulp making process.
- The treatment of black liquor helps regenerate up to 95% of caustic soda in the recovery process. This new chemical recovery system uses a sodium sulphate process rather than soda-based pulping to improve the quality of fibre (strength) and brightness of the pulp. This improved pulp ensures better paper quality, which command a higher net realisation and drive profitability.
- Increased capacity at the co-gen power plant (INR4/unit) has helped reduce dependency on the more expensive grid power (INR6–7/unit).
- Following the expansion of production capacity to 675TPD from the existing four paper machines. For its next round of expansion, the company may consider to install a new specialty/tissue paper machine.
- It has incurred a capex of ~INR40cr till January 31. The management revised the project capex to INR735cr and informed the exchanges that the overall cost has not yet been finalised.

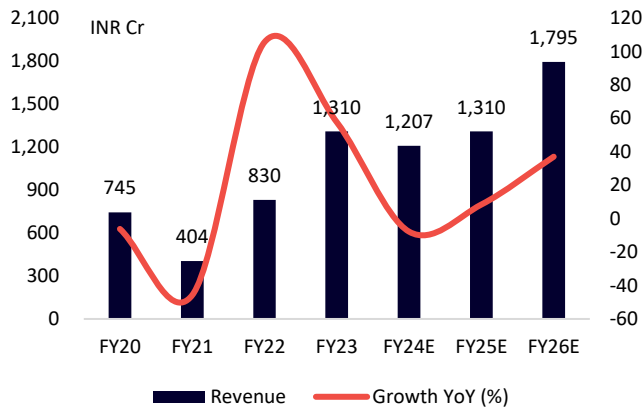
#### Outlook and view

- KPL is a major player in the growing paper industry with an experienced management team and resourceful promoters, an established supplier and distributor network, a diverse product portfolio, and a manufacturing plant situated close to a raw material source. Multiple upgrade plans, capacity expansion, and process improvement have helped boost EBITDA margin in recent years.
- The company is one of the key beneficiaries of rising demand for paper due to the implementation of the National Education Policy (NEP). We expect NEP to boost demand in the printing and writing (P&W) segment by 9-10% CAGR over the next three-to-four years. A higher revenue share from the speciality paper segment (30% from 20%) can help drive growth and profitability in the coming years.
- New specialty paper products are expected to boost margin by INR4,000–5,000/t from current levels.
- Global pulp prices fell sharply in H12023 from the record highs seen in 2022. However, pulp prices rose 35% from their lows in Q1FY24 and is currently trading at USD650/mt.
- Countries such as China and Indonesia have significant excess paper production capacity which enables them to offload their inventory at very low prices in India. These imports attract no duty under the India-ASEAN FTA and the Asia Pacific Trade Agreement (APTA).
- This has caused a delay in the passing on of lower input cost to customers by Indian paper manufacturers. We expect paper prices to stabilise in Q4FY24, followed by an increase in Q1FY25.
- Players such as KPL, who use a balanced blend of inputs (wood and agro pulp), are better positioned than pure wood pulp-dependent players to effectively control costs. With timely capacity addition, operational efficiency, and cost optimisation measures, KPL is well positioned to capitalise on growth opportunities in the paper industry.
- We expect a revenue/PAT CAGR of 11%/40% over FY23–26E. The stock is trading at 7.5x/4.7x FY25E/FY26E earnings versus its 10-year average of 10x. We do not have active coverage on KPL but maintain a positive outlook.

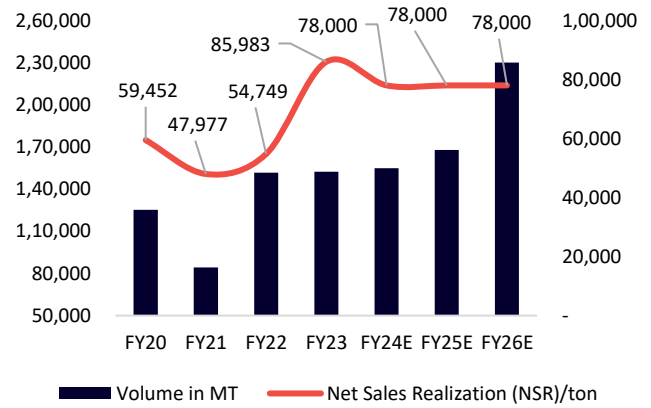
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### Focus Charts

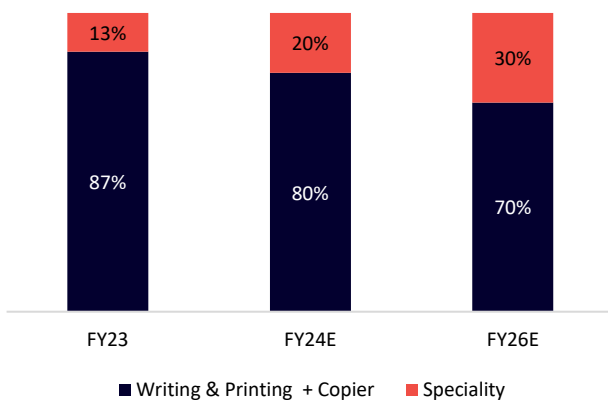
**Exhibit 1: Revenue expected to accelerate in FY26.....**



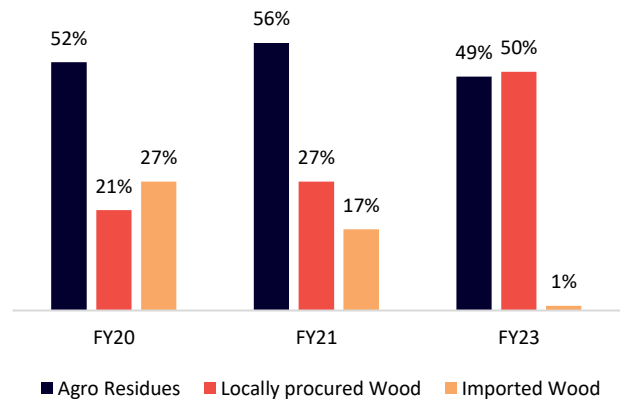
**Exhibit 2: ...with new capacity addition and faster absorption**



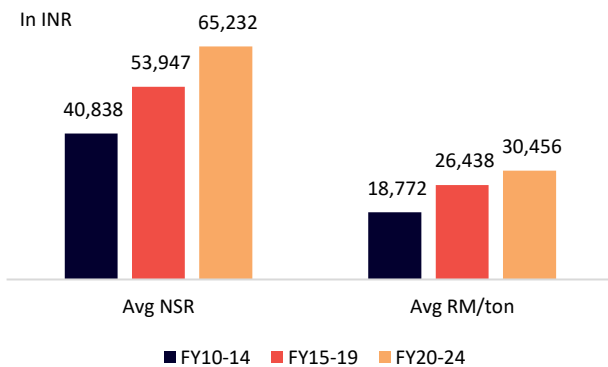
**Exhibit 3: Revenue mix shifting towards high margin speciality paper**



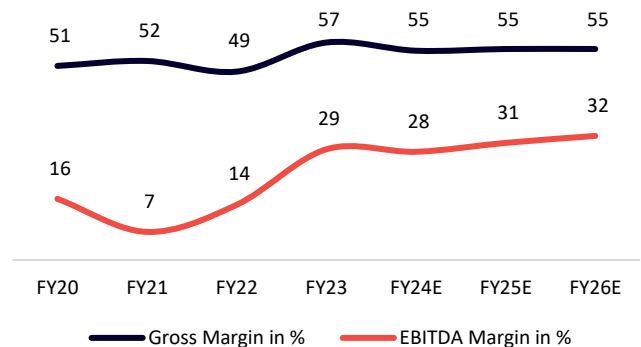
**Exhibit 4: Perfectly blending Raw material to maintain quality and margin**



**Exhibit 5: Realisation and RM cost /ton trend**



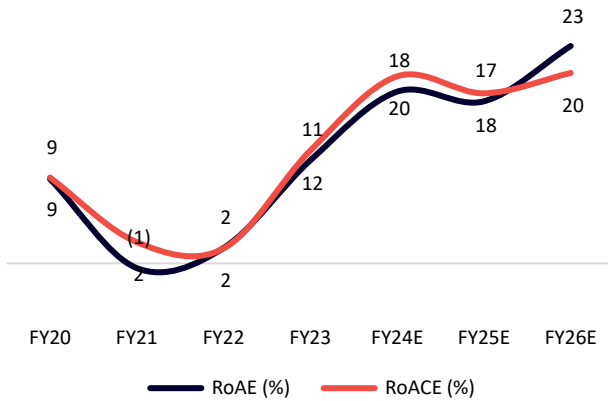
**Exhibit 6: Increasing speciality contribution and cost savings to boost margin**



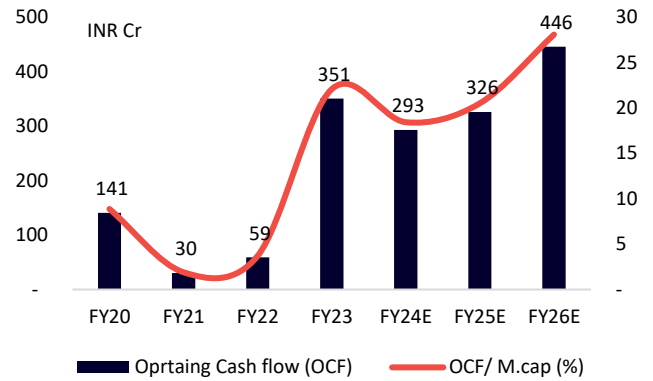
Source: Company, Nuvama Wealth Research

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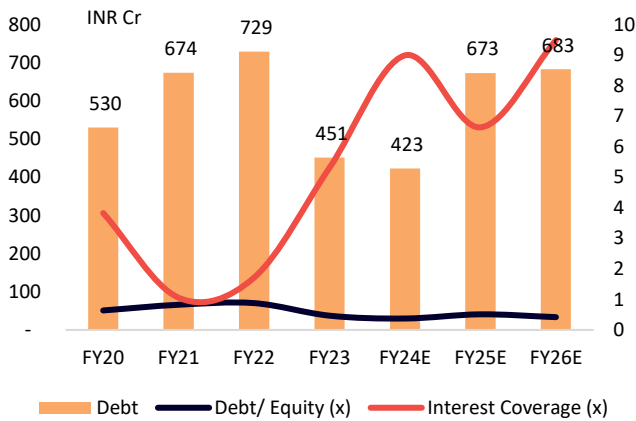
**Exhibit 7: Healthy Return ratios**



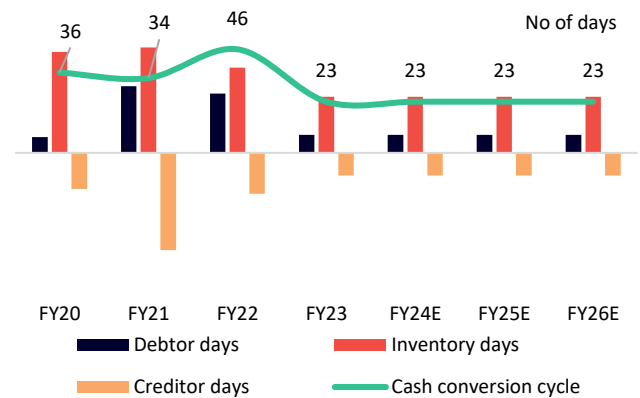
**Exhibit 8: Cash flow to remain strong**



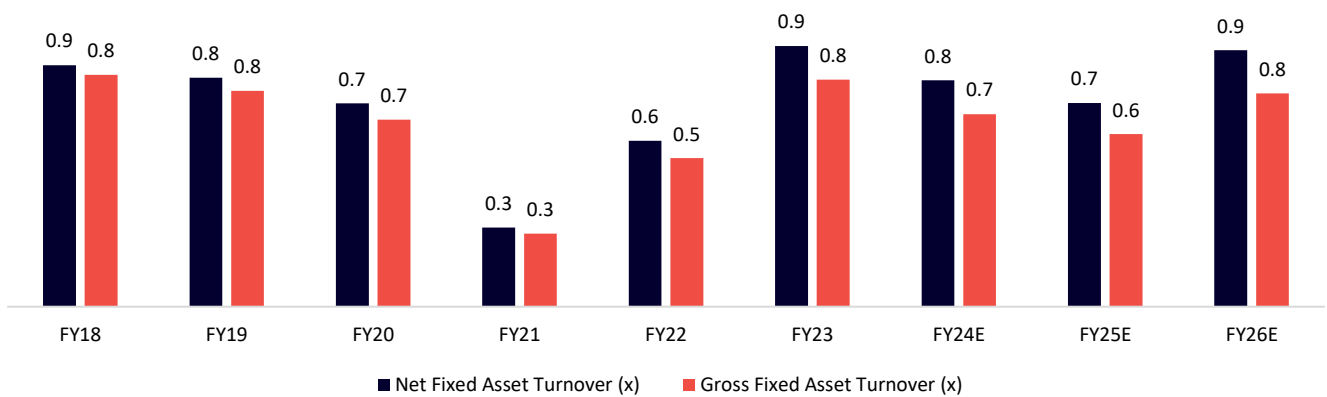
**Exhibit 9: leverage ratios remain comfortable despite rising debt**



**Exhibit 10: Tight working capital cycle**



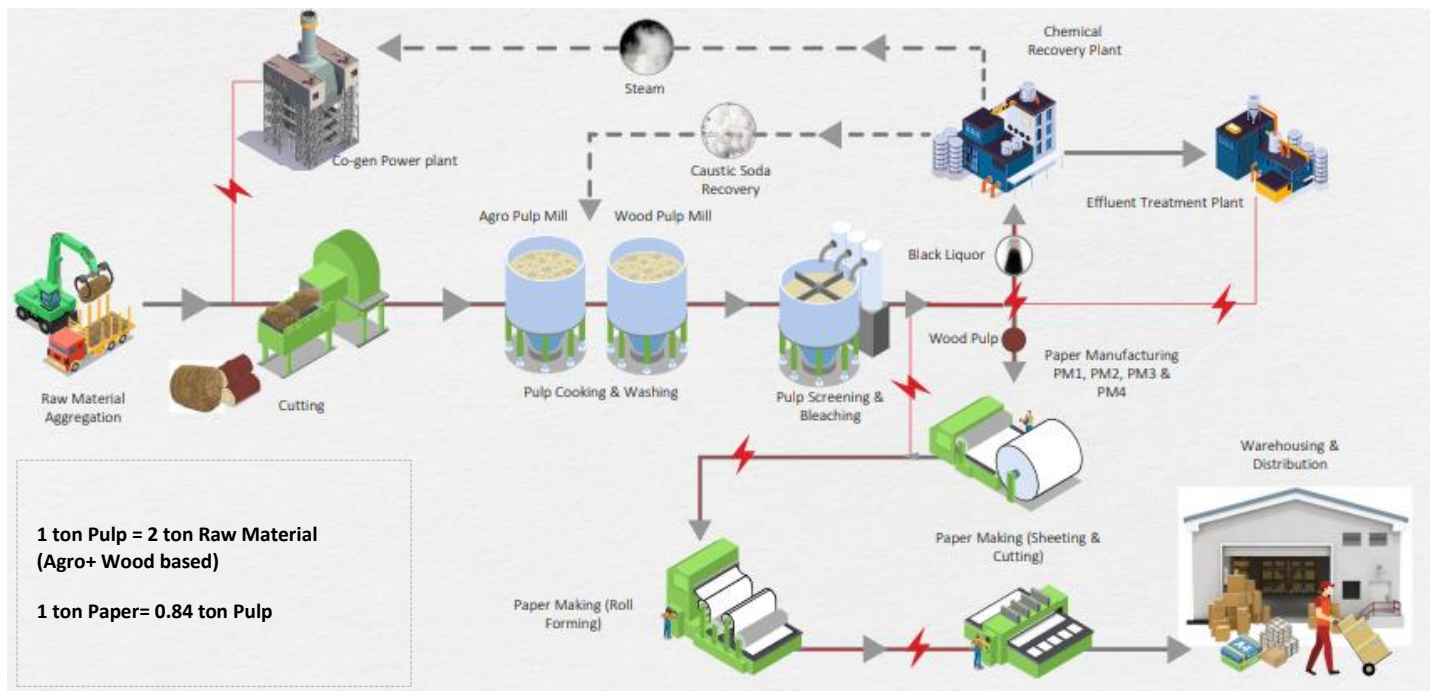
**Exhibit 11: Increasing asset base to reduce asset turn in short term**



Source: Company, Nuvama Wealth Research

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### Kuantum's Paper manufacturing process



### Manufacturing Capability

	Pulping Facilities	Paper Machines	Chemical Recovery Plant	Co-Gen Power Plant
<b>Segment</b>				
<b>Capacity</b>	<b>Total Capacity: 380 TPD</b> • Agro based pulp: 200 TPD • Wood pulp: 180 TPD	<b>Total Capacity: 450 TPD</b> • Machine 1 - 25 TPD • Machine 2 - 50 TPD • Machine 3 - 115 TPD • Machine 4 - 260 TPD	<b>Total Capacity: 700 Solids TPD</b> • New CRP : 500 Solids TPD • Existing CRP : 200 Solids TPD	<b>Turbines : Total 38 MW</b> • New : 20 MW & 8 MW • Existing Turbines : 10 MW <b>Boilers : Total 190 TPH</b> • New : 130 TPH • Existing : 60 TPH
<b>Description</b>	Kuantum combines its own agro and wood along with imported pulp in order to produce better quality fiber for paper production.	The different configurations of the four paper machines allow Kuantum to manufacture a wide variety of surface-sized, non surface-sized and value-added specialty products.	The new Chemical Recovery Plant of 500 TPD from Andritz for the treatment of Black Liquor process has boosted the overall capacity to 700 solids TPD. Operating at high efficiency, the plant recovers over 95% of Caustic, enabling cost reduction, margin improvements, and reusing for subsequent production runs.	The two new turbines of 20 MW and 8 MW from Siemens, have taken the total Co - Gen power capacity to 38 MW. A new Boiler of 130 TPH from ISGEC has been installed making the total capacity 190 TPH. Efficiency in power operations has helped in cost optimization.

The cost structure for the paper industry, is dominated by raw materials (mainly wood pulp/wastepaper) and energy costs. Given the significant power consumption in the entire manufacturing process, the captive power generation facilities set up to meet the power requirements remain a key determinant for the profitability of a mill.



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## Product Category

Printing & Writing Paper + Copier = 80% of the revenue

Its product portfolio covers high-quality Agro and Wood based Maplitho, Copier, Specialty and Creamwove papers.

Category	Brand	GSM Range
MAPLITHO	KOSHEEN	54-120
	KRESTO	52-120
	KOSMO LITHO WHT	54-150
	KOSMO LITHO CRM	54-150
COPIER	K.ONE	65-80
	KALEELA*	72
	KONQUER	65-75
	KODEXA FS	80
CREAMWOVE	KAPPA PREMIUM	52-100
	KUANTUM GOLD	42-100
	KUANTUM GOLD HB	46-100
	KOPY+	46-80
	KOPY+ HB	46-80



Speciality Paper Product range = 20% of the revenue

Brand	GSM Range
KUANTUM BOND	85-100
KRAYO*	49-68
KOSMO LITHO*	60-90
KREDA	58-95
KOSMO CARTRIDGE WHT	60-170
KOSMO CARTRIDGE CRM	60-170
KOSMO PARCHMENT	80-105
KOSMO STIFFNER AF	80-130
KOSMO STIFFNER	60-200
KOSMO ENFOLD WHT	58-150
KOSMO ENFOLD LHT	58-150
KOSMO PREMIUM WHT	60-200
KOSMO PREMIUM CRM	60-200
KOSMO KODEXA	58-90
KOSMO KUPSTOCK	120-200
KOSMO KARD	68-200
KOSMO KARD YLD	68-200
KOSMO THERMIC	40-80
KOSMO SIPPS	60-120





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## A Glimpse of the Kvantum plant visit

### Wheat Straw Yard



### Agro & Wood - Pulp Mill Section



### Rewinder Section



### Finishing House - Cutting Section



### Storage Area



### ETP - Effluent Treatment Plant



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### Technical Collaborations with multiple overseas players

#### **The company has a collaboration with Tanovis AG (formerly Granit Recherché Development SA) for the Lignin Precipitation Plant**

- Tanovis AG, is a Swiss company with global operations. It is in the business of providing process technologies & innovative products on lignocellulosic biomass.
- Tanovis AG is today known to produce high-purity lignin based renewable products, encompassing industrial, health & nutrition fields.
- Set up first-of-its-kind in the world – A Full Scale Lignin Precipitation System, to separate the non-bio degradable lignin from the black liquor.

#### **The company has a collaboration with Specialty Minerals Inc.**

- KPL, have a first-of-its-kind backward integrated PCC (Precipitated Calcium Carbonate) Plant in an Agro based operations in the world, set up in collaboration with Specialty Minerals Inc.
- Specialty Minerals Inc., USA is a multi-national company operating plants in over 20 countries, producing high performance minerals for use in various product manufacturing processes. Specialty Minerals Inc is the world's largest manufacturer of Precipitated Calcium Carbonates.
- Specialty Minerals Inc has dedicated an investment of around INR 254.53mn towards establishing the PCC plant within the company premises.
- Precipitated Calcium Carbonate manufactured is used as a filler during production of paper.

#### **Kvantum Papers Ltd. announced a significant step forward in its digitalization efforts with the launch of "Project Nirmaan" in collaboration with BTG, a global leader in process control solutions**

- Project Nirmaan will allow KPL to enter a new era of integrating AI into plant operations, building on the success of "Project Neev," which involved the deployment of BTG's data management tool dataPARC in 2023. Project Nirmaan will combine BTG's unique Advanced Process Control solutions with extensive subject matter expertise to optimise critical unit operations in terms of quality, efficiency, and cost.
- This project will be carried out in phases over a two-year period across various unit operations at the Kvantum site, leveraging the expertise of both BTG and Kvantum resources. The overall goal is to instill the mindset of continuous improvement and benchmarking against global industry standards.



## Embarking on the Next phase of growth

### Management Team - Kvantum Paper Ltd

Name	Designation	Details
Mr. Jagesh Khaitan	Chairman	He was earlier the Vice Chairman and MD of Amrit Banaspati Co. Ltd. and remained President of Indian Vanaspati Producers Association IVPA. His entrepreneurial spirit and passion have been one of major drivers for the company's growth. He has been the recipient of the prestigious award 'UDYOG RATNA' honored by PHD Chamber of Commerce & Industry, in the year 2005, towards his excellent and dedicated contribution to the State of Punjab.
Mr. Pavan Khaitan	Vice Chairman and Managing Director	Pavan Khaitan is a graduate in Commerce from Panjab University and a qualified Chartered Accountant. He joined the company in 1997 as the CEO and has been spearheading various initiatives that have rationalized the cost, enhanced quality, focused on specialty paper and ultimately optimizing the resources to their fullest. Also, he has been recently appointed as Vice President of the Indian Pulp & Paper Technical Association (IPPTA). He has been instrumental in undertaking projects including debottlenecking and overall upgradation of the paper mill.
Mr. Sushil Kumar Khetan	CEO Operations	A seasoned Chartered Accountant, Company Secretary and a dynamic professional with 3 decades of rich experience in the area of Paper Mill Operations, Paper and Paperboard Projects. A strategic planner with proven ability to improve operations, impact business growth & maximize profits through achievement in cost reductions, productivity, efficiency and quality improvements, internal control and finance management.
Mr. Roshan Garg	CFO	A qualified Chartered Accountant & Company Secretary by profession, he has 30+ years of work experience in Corporate Finance and Accounts in the manufacturing sector. He has been associated with the company since 2002 and has driven improvement in Corporate Governance and the financial accountability structure as well.
Mr. Sanjay Khosla	CMO	An MBA in Marketing, he has total 28 years of experience in Sales and Marketing, exclusively in the Pulp & Paper industry. He has been with Kvantum since the past 23 years and has been successful in creating a loyal network of 100+ dealers as well as a demand pull for our products in the market.

### Key Risk

#### Highly competitive industry along with susceptibility of margins to volatile raw material prices:

The paper industry is highly fragmented, with stiff competition from both organised and unorganised players. This limits the manufacturers' pricing power and puts additional pressure on profitability. Additionally, the industry is affected by economic cycles. Furthermore, KPL primarily uses agricultural raw materials sourced from domestic markets. Agro-based raw materials are limited in use due to seasonal availability, resulting in high price volatility. The company uses a wide range of raw materials that are perfect substitutes for one another, so raw material availability is not a perceived risk. Moreover, the company has insulated itself against this by implementing backward integration and increasing the capacities of pulp, paper, and co-generation power plants, as well as by establishing a chemical recovery plant.

#### Stringent pollution control norms

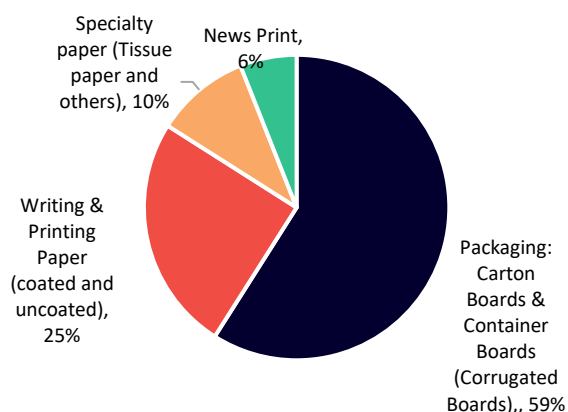
Paper industry is one of the most polluting industries, as identified and categorized by Central Pollution control Board (CPCB) as it is one of the largest users of fresh water. With water used in nearly every step of the manufacturing processes, the paper industry produces large volume of wastewater and residual sludge waste, presenting number of issues in relation to wastewater treatment, discharge and sludge disposal. KPL has an adequate Effluent treatment Plant (ETP) in place with capacity to treat the wastewater produced by the company.

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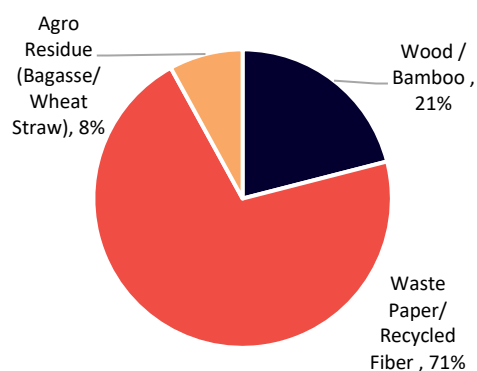
#### About Paper Industry

- According to the Indian Paper Manufacturers Association (IPMA), consumption is likely to touch 30MT by March 2027. To reduce dependency on plastics, there is a growing demand from sectors such as FMCG and retail for innovative packaging solutions. Paper stocks can benefit from the rise in e-commerce as well as demand for ready-to-eat and packaged foods.
- Despite a lot of challenges like the COVID-19 pandemic, an economic recession wrought about by the conflict between Ukraine and Russia, and raw material shortages, India has emerged as the fastest growing market in terms of consumption (currently at 6–7%), with per capita consumption likely to grow by 10–12% over 2023–30. India’s per capita paper consumption is ~19kg and is likely to grow to 28–30kg by 2030. This implies that domestic production will touch 40mt by 2030 from 20mt, or an additional 2mt each year to maintain the gap between supply and demand.
- As per industry experts, In terms of segment-wise consumption of paper grades (as per FY23), newsprint constitutes 6% (1.4mt), W&P/speciality paper 35% (8.4mt) and kraft and packaging paper board 59% (14.16mt). Considering the YoY growth rate, we need an additional newsprint, W&P/speciality paper, and kraft and packaging paper board manufacturing capacity of ~120,000tpa, ~700,000tpa, and ~1,180,000tpa, respectively. This is difficult to achieve as there are very few paper mills opting to modernise, rebuild, or establishing new projects to boost productivity. Demand supply gap can give good opportunity to domestic player who are adding capacity as it is expected to get absorb faster than past year.
- India is the fastest growing market for paper globally, with paper consumption poised for a big leap forward in sync with economic growth. Traditionally, the cycle in the paper industry used to span three-to-five years. After the lifting of COVID-related restrictions, the cycles have become much shorter and sharper, with an upcycle and down cycle in the same year. CAGR may increase as there is a lot of plastic substitution with the ban on single-use plastics and the medium-term opportunity arising from implementation of the NEP. Plastic substitution will create an additional demand of 2–3lk tpa, a growth of 1.5–2%.

Product wise categorization



Production in terms of Raw Material Used



Most of the paper mills are in existence for a long time and hence present technologies fall in a wide spectrum ranging from oldest to the most modern.

The mills use a variety of raw material viz. wood, bamboo, recovered fibre, bagasse, wheat straw, etc. In terms of share in total production, approximately 21% is based on wood, 71% on recycled fibre and 8% on agro-residue.

The geographical spread of the industry, as well as market, is mainly responsible for the regional balance of production and consumption.

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#### Paper Players with Production Capacities

Mill Name	Production Capacity	Actual Production	Utilisation	Turnover	NSR
ITC Ltd -PSPD	9,80,000			9,081	
JK Paper	7,61,000	7,76,513	102%	6,232	80,257
TNPL	6,00,000	5,88,828	98%	5,180	87,971
Century Pulp & Paper	4,81,130	4,55,225	95%	3,571	78,445
Bindals Paper Mills	4,70,600	3,97,459	84%	2,215	55,729
West Coast paper	3,20,000	3,14,919	98%	2,605	82,720
Emami Paper Mills	3,40,000	2,96,594	87%	2,308	77,817
N R Agarwal Industries	2,88,000	2,70,941	94%	1,766	65,180
Andhra Paper	2,41,000	2,50,292	104%	2,098	83,822
Seshasayee Paper & Boards	2,55,000	2,41,145	95%	2,083	86,380
Satia Industries	2,19,000	2,09,910	96%	1,884	89,753
Kvantum Papers	1,64,500	1,52,304	93%	1,313	86,209
Trident (paper& Chemical division)	1,75,000	1,48,145	85%	1,343	90,654
Ruchira Paper	1,44,000	1,46,758	102%	803	54,716
Silverton Pulp & paper	1,80,000	1,39,858	78%	866	61,920
Naini Paper	1,25,000	1,26,415	101%	1,114	88,122
Shreyans Industries	94,000	92,996	99%	866	93,122
Orient Paper	1,00,000	79,993	80%	943	1,17,885
Star paper Mills	75,000	67,000	89%	514	76,716
Pudumjee paper	72,000	57,600	80%	759	1,31,771

Source: Industry, Nuvama Wealth Research



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#### Most of the companies have improved their B/S

Debt to Equity	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
JK Paper	1.7	1.3	0.8	0.8	0.8	1.1	1.0	0.7
TNPL	1.8	1.7	1.5	1.2	1.3	1.7	1.4	1.0
West Coast Paper - Standalone	1.4	0.7	0.4	0.3	0.6	0.5	0.3	0.1
Andhra Paper	1.1	0.8	0.4	0.0	0.0	0.0	0.0	0.0
Seshasayee Paper	0.7	0.3	0.2	0.1	0.0	0.0	0.0	0.0
Kvantum Paper	0.4	0.5	0.5	0.5	0.7	0.8	0.9	0.5
Satia Industries	3.0	1.3	1.3	0.7	0.7	0.8	0.7	0.6
Orient Paper	1.1	0.2	0.1	0.0	0.0	0.1	0.1	0.2
N R Agarwal Inds	3.7	2.3	1.3	1.0	0.5	0.4	0.3	0.3
Pudumjee Paper	0.6	0.3	0.3	0.3	0.3	0.2	0.2	0.1

<b>Average</b>	1.5	0.9	0.7	0.5	0.5	0.6	0.5	0.3
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Net Debt to EBITDA	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
JK Paper	4.8	2.8	1.8	1.0	1.6	4.0	2.4	0.9
TNPL	4.7	3.8	5.9	2.9	3.6	10.4	6.2	1.8
West Coast Paper - Standalone	2.9	1.3	0.9	0.3	1.5	3.3	0.7	-0.2
Andhra Paper	3.6	2.1	0.9	-0.1	-0.6	-2.7	-1.1	-1.0
Seshasayee Paper	2.7	0.7	0.0	-0.7	-1.2	-1.9	-2.0	-0.9
Kvantum Paper	3.2	2.3	1.8	2.1	4.6	22.6	6.2	1.3
Satia Industries	5.7	2.2	2.3	1.2	1.5	2.5	2.2	1.0
Orient Paper	4.4	1.6	0.8	0.2	0.5	NM	NM	1.6
N R Agarwal Inds	5.2	2.1	1.8	1.6	0.9	1.2	1.0	0.9
Pudumjee Paper	4.0	0.8	0.8	1.4	0.3	-0.7	0.3	0.1

<b>Average</b>	4.1	2.0	1.8	1.1	1.4	4.3	1.8	0.4
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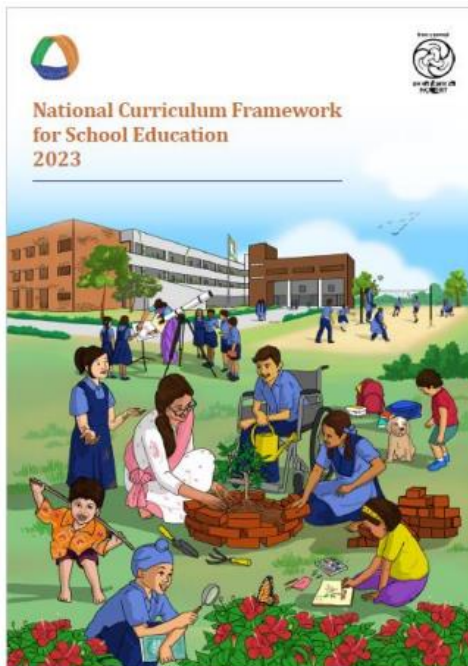
Source: Industry, Nuvama Wealth Research

In the last five to seven years, an amount of over INR25,000cr has been invested in new efficient capacities and induction of clean and green technologies by the paper companies.

Debt levels are expected to remain elevated in the near term, owing to ongoing and upcoming debt-financed capex undertaken by a few companies for capacity expansion in the packaging segment. The paper industry is expected to increase its manufacturing capacity, with capex remaining in the 7-10% range of total sales. Credit metrics are expected to improve beginning in FY25, driven by the expected returns from the commercialisation of incremental packaging paper capacities.

## Embarking on the Next phase of growth

### New Education Policy: boost revenue in the short to medium term



After a long gap of 18 years, the National Curriculum Framework for School Education - 2023 was announced in August 2023.

This is the first ever integrated Curriculum Framework for children between ages 3-18 in India. It is a direct outcome of the 5+3+3+4 curricular and pedagogical structure that National Education Policy (NEP) 2020 has come out with for School Education. This is in follow-up to the NCF of the Foundational Stage (NCF-FS) which was released in October 2022.

Completely replacement of textbooks on account of this new curriculum can be a huge opportunity for paper companies with a higher realisation.

We expect Implementation NEP can fuel Printing and writing paper demand, which can fuel P&W paper CAGR from 3-4% to 9-10% over 2-3 years.

### IMPACT OF NCF 2023 ANNOUNCEMENT

#### New Content Creation

- With the timely announcement of the NCF for School Education in August 2023, we have been able to move forward in the creation of new content adhering to the new NCF.
- We have already started launching new books which are adhering to the new syllabus, and we are ready with our new content for the upcoming sales season.

#### FY24 promotion season to see mixture of new and old syllabus content

- The ongoing promotion & sales season of October, 2023 – March, 2024 would see sales from both old syllabus and new syllabus books depending upon the adoption of new curriculum books by schools.
- We expect 30%-40% schools to adopt the new curriculum this year.

#### Strong runway of growth for at least 2-3 years

- Since the New Curriculum is being developed after a gap of 18 years, it would substantially reduce the second-hand book market, and which would spur volumes.
- There is an increase in number of subjects/domains which would require additional books to be studied by the student for achieving their learning outcomes.

Source: S Chand Presentation, Nuvama Wealth Research

### Embarking on the Next phase of growth

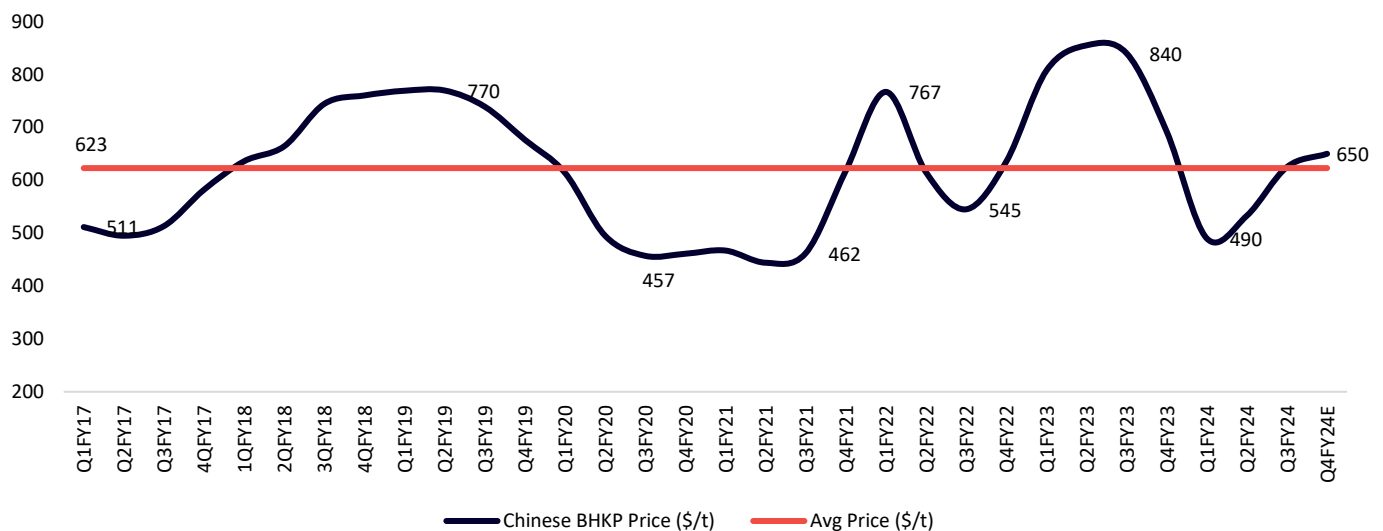
#### What is pulping in Wood pulp prices?

Global pulp prices fell sharply in H12023 from the record highs seen in 2022. However, pulp prices rose 35% from their lows in Q1FY24 and is currently trading at USD650/mt. Countries such as China and Indonesia have significant excess paper production capacity which enables them to offload their inventory at very low prices in India. These imports attract no duty under the India-ASEAN FTA and APTA. This has caused a delay in the passing on of lower input cost to customers by Indian paper manufacturers. We expect paper prices to stabilise in Q4FY24, followed by an increase in Q1FY25.

Even as the domestic industry struggles with the challenge to produce paper at competitive costs, mills are taking advantage of APTA and importing higher raw materials (paper pulp) at lower cost. The cost of procuring wood in India is upwards of USD100/t vis-à-vis USD60/t in other countries, which can be harmful over the medium to long term. Raw material supply will determine if the upshift in the industry is sustainable, especially after the headwind of inflating raw material prices and the sudden increase in imports which has endangered many small and medium paper mills.

The government's initiatives for imposing anti-dumping duties on paper imports, especially from China will remain a crucial factor for Indian Paper Industry.

With rising US and European paper demand, pulp prices are recovering from Q1 lows



Source: Industry, Nuvama Wealth Research

As per industry source, Globally, big pulp players like Suzano are taken multiple price hikes (in last 3-4 months). The announcement could indicate an increase in paper demand in Europe and North America, following a depreciated scenario in CY 2023. Pulp prices have risen 35% from their lows in Q1FY24 (avg) (currently: USD 650/MT vs Q1FY24: USD 490/MT).

Further Due to the Red Sea issue, prices for imported recovered fibres, various wastepaper grades, and pulp grades are expected to rise from current levels.



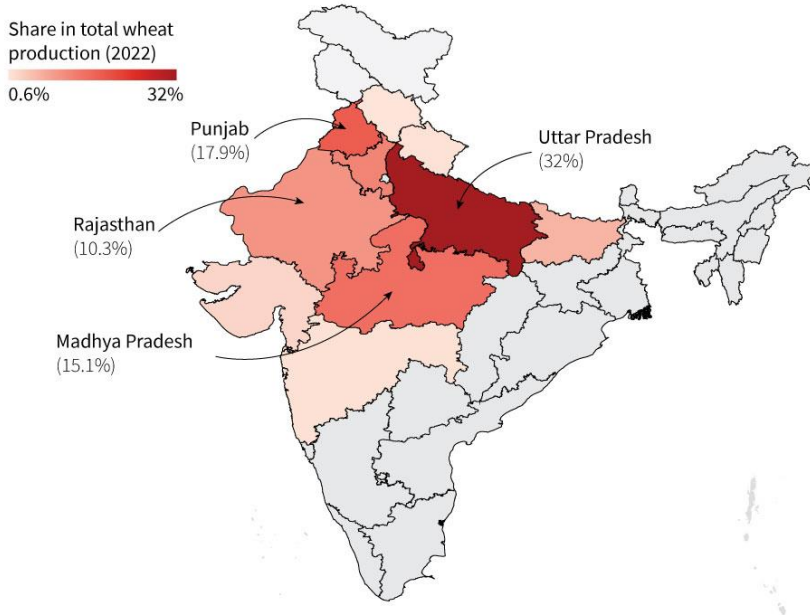
### Embarking on the Next phase of growth

#### How KPL is benefiting from using agro based pulp?

Strategic location in Punjab (among top 3 wheat producing state) with abundant availability of raw materials such as Wheat Straw, Sarkanda & Bagasse, allows them to get steady supplies at stable prices.

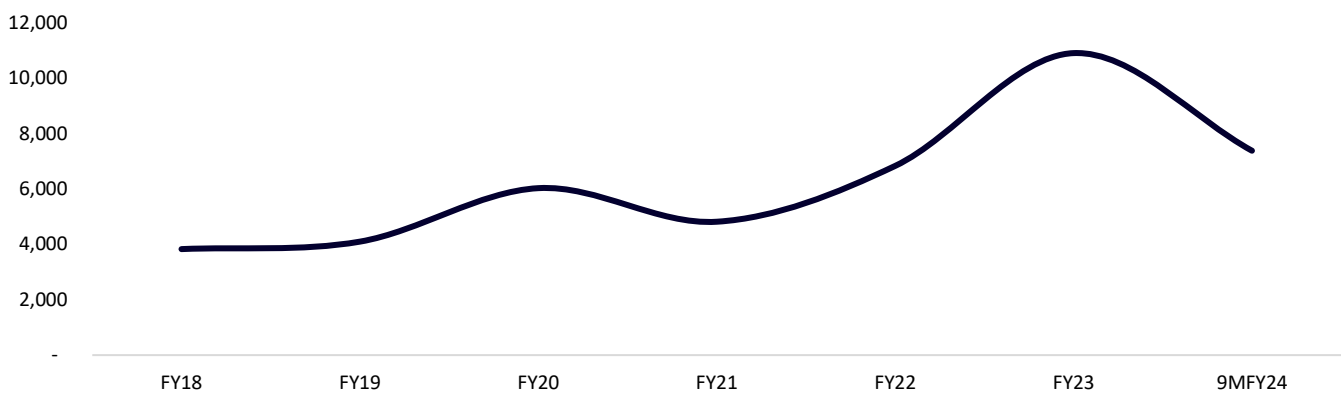
#### Share of key states in India's wheat output

Ten states, all of them in the northern and western parts of the country, accounted for over 98% of India's wheat production in 2022



Source: US Dept. of Agriculture | Reuters, March 2, 2023 | By Sumanta Sen

#### Wheat Straw Price (INR/ ton)



Source: Industry, Nuvama Wealth Research

- Rates for FY 23-24 are till Dec'23 and we expect them to settle in line with FY 21-22, given that prices have already dropped in Jan & Feb of 2024.
- FY 22-23 was an outlier year, which was on account of movement of wheatstraw as fodder to the neighbouring state of Rajasthan due to drought conditions.

### Embarking on the Next phase of growth

The table below outlines the generation and usage of Wheatstraw in the state of Punjab.

Wheat Straw Generation and Consumption in Punjab (Qty Lac MT)					
Sr. No	Particulars	UOM	VALUE	%age	Data Sources
A	<b>Generation of Wheat Straw</b>	<b>Lac MT</b>	<b>174.4</b>		Punjab Agriculture Dept
B	<b>Consumption Pattern</b>				
1	Fodder Consumption in Punjab	Lac MT	149.36	85.60%	Punjab Animal Husbandry Dept
2	Industrial Consumption	Lac MT	11.86	6.80%	Market
3	Supply to Other States as Fodder	Lac MT	8.4	4.80%	Market
4	Wastage after Storage	Lac MT	1.74	1.00%	Market
<b>B</b>	<b>Total of Wheat Straw Consumption</b>	<b>Lac MT</b>	<b>171.36</b>	<b>98.30%</b>	
<b>Shortage / Surplus Wheat Straw (Lac MT)</b>		<b>Lac MT</b>	<b>3.04</b>	<b>1.70%</b>	

Wheat straw costs 30-40% less than wood pulp. Since it's a rabi crop, prices remain lower during January to March, helping players like KPL that use agro pulp to reduce RM cost resulting better margin performance.

EBITDA margin	FY18	FY19	FY20	FY21	FY22	FY23	Q1FY24	Q2FY24	Q3FY24
China BHKP (\$/t)	701	739	507	498	641	799	490	535	625
JKP	22%	27%	28%	20%	25%	31%	30%	25%	22%
WCPM	21%	26%	21%	11%	19%	33%	35%	26%	21%
TNPL	13%	16%	18%	9%	9%	19%	25%	16%	11%
Kvantum	21%	20%	16%	7%	14%	29%	35%	27%	26%

Source: Company, Nuvama Wealth Research

Manufacturing Presence	North	West	East	South	Product-mix	Uncoated	Coated	Packaging Board	Corrugated Packaging	Tissue
JKPAPER	-	Yes	Yes	Yes	JKPAPER	Yes	Yes	Yes	Yes	-
Century	Yes	-	-	-	Century	Yes	-	Yes	-	Yes
TNPL	-	-	-	Yes	TNPL	Yes	Yes	-	-	-
WCPM	-	-	-	Yes	WCPM	Yes	-	Yes	-	-
APL	-	-	-	Yes	SPB	Yes	-	-	-	-
Kvantum	Yes	-	-	-	Kvantum	Yes	-	-	-	-

Source: Company, Nuvama Wealth Research

Embarking on the Next phase of growth

### Financials

Year to March (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
Income from operations	830	1,310	1,207	1,310	1,795
Direct costs	279	373	546	586	803
Gross Profit	552	936	661	723	991
Employee costs	60	69	76	84	92
Other expenses	372	487	243	238	316
Total Operating expenses	710	930	865	908	1,212
EBITDA	120	380	342	402	583
Depreciation and amortisation	46	45	53	64	71
EBIT	74	334	289	338	512
Interest expenses	70	71	38	61	61
Non-operating Income	4	4	5	5	5
Extraordinary Income	-	(63)	-	-	-
Profit before tax	8	203	256	282	456
Provision for tax	(6)	67	65	71	115
Profit after tax (before MI)	13	136	192	211	341
Share of Minority in profits	-	-	-	-	-
Profit after tax	13	136	192	211	341
Adjusted Profit after tax	13	124	192	211	341
Shares outstanding	9	9	9	9	9
Adjusted EPS	2	14	22	24	39

#### Common size metrics- as % of net revenues

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	85.5	71.0	71.7	69.3	67.5
Depreciation	5.6	3.5	4.4	4.9	3.9
Interest expenditure	8.4	5.5	3.2	4.6	3.4
EBITDA margins	14.5	29.0	28.3	30.7	32.5
Net profit margins	1.6	9.4	15.9	16.1	19.0

#### Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	105.6	57.7	(7.8)	8.5	37.0
EBITDA	303.4	216.1	(9.9)	17.4	45.2
PBT	NA	NA	(3.8)	10.1	61.5
Net profit	NA	NA	55.2	10.1	61.5
EPS	NA	NA	55.2	10.1	61.5



### Embarking on the Next phase of growth

Balance Sheet					(INR cr)
As on 31 <sup>st</sup> March	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	9	9	9	9	9
Reserves & surplus	822	958	1,124	1,309	1,624
Shareholders funds	830	967	1,132	1,317	1,632
Total Debt	729	451	423	673	683
Other Long Term Liabilities	25	29	29	29	29
Deferred Tax Liabilities	1	117	117	117	117
Minority interest	-	-	-	-	-
Sources of funds	1,586	1,564	1,701	2,136	2,461
Gross block	1,566	1,616	1,756	2,126	2,356
Depreciation	165	209	262	326	396
Net block	1,401	1,407	1,494	1,800	1,960
Capital work in progress	29	31	31	31	31
Total fixed assets	1,430	1,437	1,525	1,831	1,990
Investments	26	36	36	36	36
Inventories	87	90	83	90	123
Sundry debtors	61	29	26	29	39
Cash and equivalents	17	17	83	207	350
Loans and advances	56	80	74	80	108
Total current assets	247	252	302	441	657
Sundry creditors and others	36	26	34	36	50
Provisions and others	55	100	92	100	137
Total CL & provisions	91	125	125	136	186
Net current assets	156	127	177	305	471
Misc expenditure	-	-	-	-	-
Uses of funds	1,586	1,564	1,701	2,136	2,461
Book value per share (INR)	95	111	130	151	187

Cash flow statement					
Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating Profit After Tax Before WC changes	126	313	277	331	468
WC Changes	(67)	38	15	(5)	(22)
CFO	59	351	293	326	446
CFI	(36)	(56)	(135)	(365)	(225)
CFF	(22)	(294)	(92)	163	(78)
Total Cash Flow	0	1	65	124	143

### Embarking on the Next phase of growth

#### Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
ROAE (%)	1.6	11.0	18.3	17.2	23.1
ROACE (%)	1.6	12.0	19.9	18.1	20.3
Debtors (days)	26.6	8.0	8.0	8.0	8.0
Current ratio	2.4	1.7	2.1	3.0	3.3
Debt/Equity	0.9	0.5	0.4	0.5	0.4
Inventory (days)	38	25	25	25	25
Payable (days)	18	10	10	10	10
Cash conversion cycle (days)	46	23	23	23	23
Debt/EBITDA	6.1	1.2	1.2	1.7	1.2
Adjusted debt/Equity	0.9	0.5	0.4	0.5	0.4

#### Valuation Parameters

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	2	14	22	24	39
Y-o-Y growth (%)	NA	NA	55	10	62
Diluted P/E (x)	118	16	8	8	5
Price/BV(x)	1.9	1.6	1.4	1.2	1.0
EV/Sales (x)	1.9	1.2	1.3	1.2	0.9
EV/EBITDA (x)	19	5.3	5.6	5.1	3.3
Diluted shares O/S (in Cr)	8.7	8.7	8.7	8.7	8.7
Basic EPS	2	14	22	24	39
Basic PE (x)	118	16	8	8	5

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