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BETTER DAYS AHEAD Recent price hike and demand boom to retain investor interest

Paper Stocks on a Tear as Earnings Outlook Improves

Stellar Returns

STOCK	CMP (₹)	1-MTH RTN (%)	PE RATIO
Shrenik	599.45	62.08	214.86
Shree Rama Newsprint	38.80	53.36	-
Star Paper Mills	284.40	39.55	7.41
JK Paper	164.05	39.20	14.40
Ballarpur Industries	18.45	37.69	-
Pudumjee Pulp	34.60	36.49	19.66
West Coast Paper Mills	314.90	34.72	16.18
Yash Papers	64.85	29.96	32.80
South India Paper Mills	160.00	27.64	19.02
Tamil Nadu Newsprint	462.50	27.22	12.10

SOURCE: ETIG Database



Our Bureau

Mumbai: Shares of Indian paper companies rallied Thursday after manufacturers raised prices amid initial signs of higher capacity utilisation, pointing to further upside for an industry that has battled an overhang of supply in the past three or four years.

"After several years of muted performance, the Indian paper industry is expected to post strong earnings growth in the coming quarters due to full capacity utilisation, increase in demand as a result of the boom in e-commerce industry, the ban on low-grade waste paper in China, and several price increases in the past few months," said Rabindra Nath Nayak, an analyst with Sunidhi Securities.

Rama Newsprint gained 19%, while JK Paper rose 14%. Pudumjee Paper, Shree Shakti, and Perfectpac gained 5% each.

"There were no capacity additions in the past five years, while wood-pulp supply disruptions in Chile have also led to lower supplies of paper globally," said Nayak. In the altered demand environment for the industry, integrated players such as JK Paper, Tamil Nadu Newsprint and NR Agarwal should benefit, said analysts.

After the ban on low-grade mixed waste paper in China, Indian manufacturers using waste paper stand to

benefit on account of lower global prices on excess supply and higher realization for recycled paper; according to analysts. Further, for wood-pulp-based manufacturers, the global shortage has resulted in higher input prices. Hence, Indian companies with self-sourcing wherewithal can benefit from the rising global prices in finished paper.

JK Paper, TNPL and NR Agarwal are good re-rating candidates among paper companies as these can de-leverage their respective balance sheets, with immediate improvement in profitability.

"We expect companies such as West Coast, TNPL and NR Agarwal to benefit owing to their significant presence in the boards segment," said Akul Broachwala, analyst at IIFL. "TNPL and NR Agarwal would post higher EBITDA margin expansion of 250-300bps over FY17-19E, backed by healthy top-line growth, realizations, and benefits of favorable sourcing."

Dinesh Gupta, analyst at Dalmia Securities, believes that stable revenue growth, operating efficiency and effective working capital management will enable JK Paper to generate sizeable cash from operations.

"With steady earnings growth, stable margins and modest capex, JK Paper has been generating positive free cash flows...and, as a result, the company has relatively higher pricing flexibility," Gupta said.