

# Management discussion and analysis



## Global economic review

The global economy grew slower by 70 bps at around 2.9% in 2019 compared to 2018. Global trade also grew a mere 0.9% in 2019 due to trade tensions and slower economic growth. The pandemic COVID-19 is projected to shrink global growth significantly in the foreseeable future. As a

result of the novel corona virus pandemic, the global economy is expected to de-grow significantly in the current financial year.

(Source: World Economic Outlook, April 2020, CNN, Economic Times, trading economics, Statista, CNBC)

## Global economic growth over five years (in %)

	World output	Advanced economies	Developing and emerging
2015	3.5	2.3	4.3
2016	3.4	1.7	4.6
2017	3.9	2.5	4.8
2018	3.6	2.2	4.5
2019	2.9	1.7	3.7

(Source: IMF)

## Indian economic review

The Indian economy slowed to 4.2% in 2019-20, compared to 6.1% in 2018-19. In 2019-20, GDP growth slowed, which contributed to an increase in fiscal deficit on account of lower aggregate demand, lower fiscal revenue, lower economic activity and higher fiscal expenditure on account of measures to address the economic slowdown.

India emerged as the fifth-largest world economy in 2019. India jumped 14 places to 63 in the 2020 World Bank's Ease of Doing Business ranking. The country climbed 79 positions in five years and was among the top 10 performers for the third year running.

The nominal exchange rate (the Indian rupee or INR vis-à-vis the US dollar) exhibited sizable two-way movements during October-December 2019. The INR came under intensified and sustained depreciation pressures beginning mid-January, reflecting a generalised weakening of emerging market currencies amidst flights to safety. Accordingly, the baseline assumes an average of ₹75 per US dollar.

The nominal per capita net national income was estimated to be ₹1,34,226 in 2019-20, up 6.1% from ₹1,26,521 in 2018-19. Retail inflation climbed to a six-year high of 7.59% in January, breaching the RBI's upper band of 6% while settling at 5.91% in March 2020. Growth in nominal rural wages for

agricultural and non-agricultural labourers, remained subdued, averaging around 3.4% and 3.3%, respectively during 2019-20 so far (until January 2020), reflecting a continued slowdown in the construction sector.

The outbreak of COVID-19 and the subsequent lockdown enforced in the country are expected to moderate demand. Intensification of social distancing is expected to lead to supply side as well as demand side shocks. Supply chain disruptions could hurt domestic production in sectors dependent on imported inputs such as pharmaceuticals, autos, chemicals, power, etc.

## Key government initiatives

**National infrastructure pipeline:** To achieve a GDP of US\$ 5 trillion by 2025, the government announced National Infrastructure Policy with an investment plan worth ₹102 trillion in five years. It laid down the vision of the government in terms of job creation: about 50 million people are expected to leave farming from 2012 to 2030, the transition being underway.

**Corporate tax relief:** Indian companies were unable to compete globally, with the cost of capital and corporate income tax (CIT) being significantly higher than overseas competitors. In view of this, the government reduced corporate tax rate to 22% from 30%; it announced a new tax rate of 15% for new domestic manufacturing companies, strengthening the Make-

in-India initiative. The new effective CIT would be 25.17%, inclusive of a new lower surcharge of 10% and cess of 4%. India's CIT is now closer to the global average CIT of 23.03%.

## Global paper & packaging industry overview

The global paper, paperboard and packaging market was expected to grow at a CAGR of 5% between 2019 and 2023 to US\$ 84.54 billion by 2024 (pre-COVID estimate). Almost 40% of this growth was expected to come from the Asia-Pacific with a growing demand for paper and paper products used in education, sanitation, packaging and communication.

The biggest production shares of paper and paperboards are accounted for by North America, Western Europe and East

Asia. E-commerce is likely to drive the global paperboard market; the global e-commerce market is expected to double by 2023, expanding at 12.9% y-o-y to US\$ 6.7 trillion. Paper packaging plays a critical role in the food and beverage industries for containing, protecting and preserving food products. Paper packaging is not just economical but environment-friendly as well, influencing product sale, consumption, use and disposal.

Global paper prices declined through 2019 following a decline in demand. North American pulp prices declined in October 2019 due to the ongoing push from U.S. buyers to drop contract prices closer to the net levels seen in domestic spot markets. Pulp prices dropped from a high of US\$ 800 per metric tonne in January 2019 to US\$ 470-510 per metric tonne in November 2019.

## Growth of India's GDP in 2019-20

	Q1, 2019-20	Q2, 2019-20	Q3, 2019-20	Q4, 2019-20
Real GDP growth (%)	5.2	4.4	4.1	3.1

(Source: Economic Times, CSO, Economic Survey, IMF, RBI, Franklin Templeton, PIB)

## Pulp price trends

Producer Price Index for Pulp, Paper and a Allied Products: Wood Pulp



### Opportunities

- E-commerce sector growth strengthened the demand for packaging solutions
- The tissue paper segment is gaining traction on the back of enhanced hygiene awareness
- Following a plastic ban in some countries, paper bag and packaging are gaining traction
- Trade and commerce are driving the copier, writing and printing paper segments
- Literacy growth is driving demand for writing and printing paper
- With increased home food delivery, packaging paper use has increased

### Threats

- Increasing digitalisation has had an adverse impact on paper demand
- The industry has been increasing its share of exports but tariff barriers and protectionist subsidies for competitive products have given birth to an uneven playing field. Export duties and taxes on wood exports are raising concerns. For instance, fibrous raw material represents the highest share of production costs
- There is a myth that increasing paper consumption could moderate global green cover

(Source: Bloomberg, Businesswire, Marketwatch, Gordon Brothers)

## Indian paper and pulp industry overview

India accounts for 4% share of the global paper production even as it accounts for nearly 18% of the global population. The size of the Indian paper industry was estimated at ₹ 70,000 crores in 2019-20, contributing ₹5000 crores to the exchequer. The industry provides direct employment to 5 lac people and indirect employment to 15 lac individuals.

India is the fastest growing paper market, the increasing demand addressed by imports, leading to a relative under-utilisation of domestic manufacturing capacity. The Indian paper industry operated at only 80% of its overall manufacturing capacity, considered low for a capital-intensive and continuous process industry. Owing to this, paper imports increased 19.69% to ₹4941 crores in H1 2019-20 compared to ₹4128 crores during same period in the previous year.

The Indian paper market can be classified on the basis of raw material and application. On the basis of raw materials used, the market can be categorised into waste and recycled paper, wood and agro residue, of which the waste and recycled paper segment is expected to grow faster owing to growing concerns about felling trees to produce pulp. On the basis of application, the market can be classified into writing and printing paper, paperboard and packaging, newsprint and specialty paper. Of this, the biggest share is accounted for by the paperboard and packaging segment, which is expected to grow on the back of rising growth in the e-commerce sector. The growing use of paper in food packaging is also expected to strengthen offtake. Writing and printing paper accounts for the second biggest share of the sector on the back of growing policy-induced literacy.

## Key numbers driving the paper industry in India

### Industry position

>13

Average per capita consumption of paper in India (in kg)

57

Global average of per capita consumption of paper (in kg)

### Food packaging

~3-4

Number of times a month that the average Indian eats out

>1

Number of food deliveries per day in India (in million)

### Education

~15

Number of schools in India (in lac)

935

Number of universities in India

39,931

Number of colleges in India

### E-commerce

665

India's total internet user base in 2019 (in millions)

829

India's projected total internet user base by 2021 (in millions)

US\$ 49

Overall transaction value of Indian e-commerce market in 2019 (in billions)

US\$ 91

Projected overall transaction value of Indian's e-commerce market by 2023 (in billions)

## SWOT analysis of Indian paper industry

### Strengths

- Fastest growing paper market
- Production of a wide paper variety range
- Enhancing farmer incomes
- High employability
- Recyclability of waste paper

### Weakness

- Low capacity utilisation
- High water requirement
- Capital-intensive
- Decrease in forested areas
- Most plants funded through debt
- Growing requirement of scale to survive

### Opportunities

- Huge growth headroom
- Room for socio-economic development
- Growing demand from some downstream sectors
- Innovative product create possibilities
- Use of clonal development centres
- Ban on plastic creating an alternative paper market

### Threats

- Increasing raw material costs
- Rising competition
- Digitalisation replacing paper use
- Technological obsolescence
- COVID-19 outbreak pandemic affecting demand

## Demand drivers

### Demography and finance

#### Urbanisation

By 2030, approximately 40% of the global population could reside in urban India (34% today), catalysing paper demand.

#### Age

Approximately 66% of India's population is below 35 years; the median age of the country is estimated at ~28 years (global average 30). This youthful population is driving the use of writing and printing paper by students and through e-commerce.

#### Increasing incomes

The nominal per-capita net national income in 2019-20 was estimated at ₹1,35,050, a rise of 6.8% compared to ₹1,26,406 during 2018-19, strengthening paper demand.

#### Rising literacy levels

Government initiatives (Sarva Siksha Abhiyan and Mid-Day Meal Scheme) helped strengthen India's literacy rate from 65% in 2001 to 74% in 2011 to ~78% in 2018.

### Downstream sector

#### Newspaper circulation

The readership of newspapers increased from 407 million readers in 2017 to 425 million readers at the end of the first quarter of 2019, strengthening the demand for newsprint

#### E-commerce boost

The e-commerce sector is expected to grow on the back of urbanisation and internet penetration, strengthening packaging paper demand

#### Health and hygiene awareness

With increasing hygiene awareness in urban and rural India, the demand for medical grade paper (tissue) is gaining traction

#### Education

The Union Budget 2019-20 allocated ₹94,853.64 crores for the education sector, a y-o-y increase of ~₹10,000 crores over 2018-19. Of this, ₹56,536.63 crores was estimated for school sector and ₹38,317.01 crores for higher education. With increasing spending on education by the Government, the writing and printing paper market is estimated to grow further.

## COVID-19 impact on the Indian paper industry

- Being a capital-intensive sector, a liquidity crunch owing to the virus outbreak could extend lockdowns and affect sectoral offtake
- More than 40% of India's pulp requirement comes from imports. Owing to the virus outbreak in various countries, global trade has come to a stand still, which has had an adverse impact
- 11% of Indian produce is exported, standstill following the virus outbreak
- India's manufacturing sector is affected; real manufacturing GVA is expected to fall 5% in 2020-21 owing to a shutdown of factories.

(Source: CRISIL)

## Products review

### Office and copier paper

The Company boasts of a diversified portfolio of office and copier paper across the value chain, covering the economic to premium segments. These varieties find growing downstream application in printers, fax machines and photocopiers.

#### Strengths

**Frontrunner:** JK Paper has been a market leader of copier paper on the back of impeccable quality and awareness campaigns directed towards breaking the myth that links the consumption of paper and declining green cover.

**Brand recall:** Leveraging a rich legacy coupled with the qualitative excellence and customer-centricity of the Company, JKPL has created a superior brand recall with a pan-Indian presence in the country and an international footprint across 62 countries.

**State-of-the-art facilities:** The Company leverages its integrated state-of-the-art plants, empowered by cutting-edge technology to produce superior quality copier paper.

#### Highlights, 2019-20

- Manufactured 2,13,486 tonnes of copier and office paper
- Exported 34,259 tonnes copier and office paper
- Forayed into retail distribution to strengthen customer-centricity

### Packaging boards

The packaging board market in India has been growing rapidly on the back of a growing demand from the FMCG, food & beverage, pharmaceutical and textile sectors. Further, with increasing internet penetration, the e-tail market built traction. The Company offers a range of high-end coated packaging boards to service downstream needs.

#### Strengths

**Strategic location:** The Company produces packaging board at its Unit CPM in Gujarat, proximate to the key markets in Western India, the biggest revenue-contributing zone for the segment.

**Qualitative excellence:** On the back of continuous R&D measures coupled with cutting-edge technologies, the Company has developed qualitatively consistent products

#### Highlights, 2019-20

- Sold over 95,399 tonnes (Including exports) of packaging boards in the year under review
- Exported 412 tonnes of packaging board in the year under review

### Office and copier paper

Coated paper is a niche sector in India with 67% demand addressed by global players. JK Paper is one of only two Indian companies manufacturing coated paper. The Company leverages its ability to provide customised products. Depending on international prices, the Company imports coated paper that find application in magazines, books, brochures, posters and wedding cards, among others.

#### Strengths

- The Company has established respect for a superior quality of customised products
- The Company provides timely product delivery and proactive after-sales service

#### Highlights, 2019-20

- Sold 49,086 tonnes of coated paper

### Maplitho and speciality papers

The Company produces uncoated writing and printing paper, which find downstream applications in MICR cheque paper, parchment, ledger and bond varieties, among others. The Company produces quality customised maplitho paper.

#### Strengths

- Diversified portfolio of maplitho paper 54 GSM to 160 GSM
- Superior customer focus arising out of customised products
- Longstanding relationship with publishers and print houses

#### Highlights, 2019-20

- Sold 93626 tonnes of maplitho and speciality paper
- Launched JK Ecosip, JK Sublime, JK Oleoff, JK Digi Roll, JK Pharma Print, JK Devine, JK Cup Stock, colour printing and photocopy paper and anti fungal boards (for soap wrapping) during the year under review.

## Functional review

### Raw material management

JKPL is a responsible paper manufacturer with its own plantation and clonal development centre, which makes the Company self-dependent. In the past, JK Paper sourced wood from as far as 1200 kms owing to the scattered nature of raw materials, increasing logistics costs. Over the years, the Company increasingly invested in raw material

management and emerged as one of the cost leaders in the industry aided by the Company's increased sourcing of hardwood from within a 200-kilometre-radius of its manufacturing facilities. As of 31st March, 2020 the plantation area of the Company was estimated at 173,000 hectares across Gujarat, Maharashtra, Chhattisgarh, Odisha

and Andhra Pradesh. The Company's farm forestry initiative proved to be a game-changer. This not only enhanced sustainable livelihoods across rural districts but also provided farmers with consistent incomes and prospects of equitable realisations. The proportion of resources derived by the Company from the farm forestry initiative increased fast.

### Human resources

JK Paper believes that in an industry marked by the limited availability of skilled manpower, human resources management plays a vital role. The Company enjoys a strong brand as an employer enjoying high retention. During the year under review, the

Company focused on employee training in behavioural skills, business excellence, managerial skills, advanced management, leadership skills, customer orientation, safety, values and code of conduct.

The Company was accredited by Great

Places to Work, rating it among India's 30 leading manufacturing companies. The Company's customer-centricity (internal and external), helped strengthen retention to 92%; it emerged among 25 leading Indian companies across the Employee Trust Index.

## Procurement

JK Paper extensively focused on procurement over the past few years. On the back of this extensive focus, the Company initiated plantations and clonal development centres, which have not only made the Company self-dependent, but also reduced its sourcing from as

far as 1200 kms ten years ago to a 200 km radius. Further, the Company has maintained a longstanding relations with farmers, which has helped reinforce sustainability. This extensive focus on procurement has reduced the gestation period of clonal saplings from 5 years

to as low as 2.5 years for some varieties, which, in turn has increased tonnage and cash generation. This has helped the Company become an established farm forestry player, with optimised costs procurement, giving cost advantage over peers.

## Product development

JK Paper has the most diversified product portfolio in the industry, the Company emerging as the segment leader in premium office papers, packaging boards, speciality papers and security papers. To enrich the product basket and mitigate challenges posed by the smaller paper machines of being actively exposed to competition from large machines, which enjoy economies of scale, the Company undertook a customer-centric approach. JKPL actively engage with customers to understand their needs better and become a solution provider. Furthermore, the small paper machines also enjoy a specific

advantage of being flexible enough for shorter customisable runs, validating our customer-centricity and strengthening our brand recall.

JK Paper is also a responsible producer and the Company's objectives have been in line with the latest trends of increasing focus towards recyclability and eco-friendliness. On the back of increasing awareness and striving to diligently follow stringent environment norms helped the Company emerge wood and carbon-positive.

Riding on the back of new mandates of FSSAI coupled with the increasing

focus on food grade and food safety packaging, the food packaging industry is seeing a paradigm shift from plastics to paper with oil and water resistance aided by moisture and oxygen barrier and heat sealable capabilities. JKPL is positioned to take advantage of this shift and has been launching new products in this niche category to capture higher value. In the year under review the Company produced new products, namely JK Pharma Print, JK Devine, JK Carry, JK OleOff, JK Ecosip and JK HSMT, among others. The Company is also working on new products under various stages of development.

## Risk management

**Economic risk:** Any slowdown in the economy on account of economic or general health reasons could have an adverse impact on the Company's operations.

**Mitigation:** Despite the slowdown, India's economic performance is expected to outperform G20 economies in 2020-21.

**Competition risk:** The entry of new players can moderate the Company's market share.

**Mitigation:** On the back of robust brand recall, superior product quality and customer-centricity, JKPL has established itself as one of the largest and most respected paper companies in the country (leadership in the copier segment). The growing focus sustainability has enhanced financial stability. A wide and deep distribution network coupled with timely service at the last mile have strengthened competitiveness and market share.

**Digitisation risk:** In a rapidly digitising world, paper demand could decline.

**Mitigation:** The Company is servicing customers with superior, customised and differentiated products. Besides, the Company's retail distribution focus should help create new markets.

**Compliance risk:** Inability to comply with statutory norms could invite censure.

**Mitigation:** The Company's operations are compliant with Indian and global norms. The Company's certifications (ISO 9001:2008, ISO 14001:2004 and ISO 45001) indicate stringent compliance with contemporary qualitative, environment and safety norms. The Company continues to be carbon- and wood-positive, validating its commitment to green and responsible processes.



**Raw material risk:** Raw material scarcity can affect profitability.

**Mitigation:** The Company has access to adequate plantations near its plants (Rayagada and Songadh), ensuring local wood sourcing. The Company supplies clonal saplings to farmers, making it possible to generate livelihoods, local prosperity, buyback flexibility, lower logistic costs and local sourcing.

**Resource risk:** Excessive use of water, power and coal can affect profitability.

**Mitigation:** The Company reduced water consumption, using low water-consuming technologies coupled with effective effluent and sewage treatment, emerging among the lowest water-consuming paper companies in India. The Company moderated coal and power consumption using cutting-edge technologies and alternative fuels.

## Financial highlights (₹ crores)

	2019-20	2018-19
Gross Sales	3,254.20	3469.19
Net Sales	3,014.13	3233.64
Profit before interest and depreciation and Tax (EBIDTA)	984.96	926.05
Profit before depreciation and tax (PBDT)	862.15	803.65
Profit before tax (PBT)	718.59	678.35
Profit after Tax (PAT)	492.71	437.20

## DETAILS OF SIGNIFICANT CHANGES ( i.e. change of 25% or more compared to the immediate previous financial year

S. No.	Particulars	Definition	UOM	2019-20	2018-19	% Change	Remark for variation
(i)	Inventory Turnover	Inventory / Gross Turnover	Days	50	34	-48%	Due to COVID-19 pandemic

The Company recorded a 6% growth in its EBIDTA and clocked the highest-ever Profit after Tax (PAT) of ₹492.71 crores, a y-o-y growth of 12.7%.

During the year under review, the Company repaid debt and improved its performance, resulting in a long-term rating upgrade to AA-/STABLE. The Company's fixed rate

borrowings stood at 33% as on March 31, 2020. Approximately 16% of the Company's gross borrowings of ₹1,370 crores were in foreign currency. Of this, 100% foreign currency loans covered interest rate variations and 74% covered foreign exchange fluctuations using a mix of approaches (Forward Contracts, Call Options and Spread Contracts).

The Company's net debt-equity ratio stood at 0.40x during the year under review compared to 2.03x in 2014-15, providing the Company the flexibility to address the cyclical impact on operations.

The Company strengthened investor engagements through quarterly investor conference calls and meetings.

## Internal control systems and their adequacy

The Company's internal audit system has been continuously monitored and updated to ensure that assets are safeguarded, established regulations are complied with and pending issues are addressed promptly. The audit committee reviews reports presented by the internal auditors on scheduled intervals. The committee makes note of the audit observations and takes corrective actions, if necessary. It maintains constant dialogue with statutory and internal auditors to ensure that internal control systems are operating effectively.

## Cautionary statement

This statement made in this section describes the Company's objectives, projections, expectation and estimations which may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those either expressed or implied. Important factors that could make a difference to the Company's operation include among others, economic conditions affecting demand/supply and price conditions, variation in prices of raw materials, changes in Government regulations, tax regimes, economic developments and other incidental factors.