

CMP: INR 195
Target Price: INR 273
Rating: ACCUMULATE

Stock Info

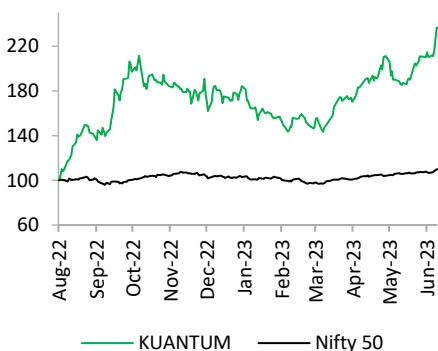
BSE	532937
NSE	KUANTUM
Bloomberg	KAUN:IN
Reuters	KAUN.BO
Sector	Paper
Face Value (INR)	1
Equity Capital (INR Mn)	87.26
Mkt Cap (INR Mn)	17,033
52w H/L (INR)	225 / 91

Shareholding Pattern %

(As on August, 2023)

Promoters	70.31
FII's	0.4
Others	29.3

Kvantum Papers Vs Nifty



Kvantum Papers Ltd. is an Indian paper manufacturing company headquartered in Saila Khurd, Hoshiarpur, Punjab. The plant is fully backward integrated and consists of 4 paper machines with a capacity of 450 TPD, an agro and wood pulp street totaling 380 TPD, a 700 TPD Chemical Recovery Plant and a 38 MW Co- Gen Power plant. The Company is being run under the aegis of Mr. Pavan Khaitan who is the Vice Chairman & MD. The company specializes in the production of a diverse range of paper products, including maplitho, creamwove, copier paper, and various specialty paper offerings that are extensively used in the printing of books, notebooks, annual reports, directories, account books, envelopes, diaries, calendars and more. The company uses agro and wood residues as its raw materials, and it recycles and reuses water and chemicals such as caustic to make paper in a truly sustainable manner.

Demand uptake due to New Education Policy

With the implementation of the new education policy, the company anticipates a significant surge in printing requirements across India. Under the new policy, the syllabus for all grades is being revised, which would necessitate the re-printing of books in all 22 languages of the country. This situation is expected to create a huge demand for paper products. As a result, the company foresees paper product prices remaining on the higher side, based on which the company expects an EBITDA of approximately INR ~28,000 per ton.

Favorable RM Pricing Tailwinds

The prices of key materials like wheat straw have gone down by INR 4,500 per ton, and wood prices have decreased by INR 2,000 per ton. Additionally, there's been about a 12% drop in the prices of chemicals used in production. Moreover, the expenses related to agro pulp have gone down by 16% on a QoQ basis, and the cost of food pulp has also seen a 17% decrease simultaneously. With these positive price changes, the company lowered production costs and enhanced its margins. Fuel and agro-raw material costs are expected to come down further in the next 2-3 months.

Growth led by Volume Expansion

The company has optimized the speeds of PM 3 & PM 4 which has improved the operational efficiency and paper production. The PM 1 & PM 2 machines will be shut down in Q2FY24 for upgrades, resulting in capacity loss. Despite the downtime, the company believes the PM 3 & PM 4 machines can efficiently offset most of the losses. Post upgradation, the capacities of PM 1 & 2 will be increased by 50 tons per day and the company plans to close the year at 1.64 lakh tons. Also, the company has planned for the upgrades of PM 3 & 4 next year which will increase the capacity to 2 lakh tons in FY26.

Outlook

The company anticipates a downturn in demand during Q2FY24, attributing it to the traditionally lean season. However, starting from Q3FY24, there is a projected surge in demand and price escalation in response to the implementation of the new education policy. The company believes to be well positioned to capture the demand through its improved operational efficiencies and production. We have an ACCUMULATE rating on the stock with a target price of INR 273.

Particulars (In INR Mn)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Total Revenue	3128	3437	2742	-9%	14%
EBITDA	1095	1140	608	-4%	80%
EBITDA Margin %	35.0%	33.2%	22.2%	182bps	1281bps
EBIT	978	1025	496	-5%	97%
EBIT Margin %	31.2%	29.8%	18.1%	142bps	1317bps
PAT	651	651	-388	0%	NA
PAT Margin %	20.8%	18.9%	-14.2%	190bps	3498bps
EPS (INR)	7.46	7.45	-4.45	0%	-268%

Source: Company Reports, Arihant Research

Financials

P&L(INRMn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	4,039	8,304	13,096	14,782	16,582	18,446
EBITDA	293	1,189	3,792	4,287	4,892	5,533
EBITDA Margins (%)	7.25%	14.3%	29.0%	29.0%	29.5%	30%
PAT	(127)	134	1,362	1,552	1,774	1,992
PAT Margins (%)	NA	1.6%	10.4%	10.5%	10.7%	10.8%
EPS	1.46	1.54	15.6	17.8	20.3	22.8
P/E	102.7	97.4	9.6	8.4	7.4	6.6

(Source: Arian Research)

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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