



The Trick Is To Spot Them At The Larval Stage

Yash Papers

'CHUK' RIDING ON GREEN WAVE

Our Tiny Treasure for the month of March is Yash Papers. The company, which is headquartered in Faizabad, is vertically integrated and is engaged in manufacturing machine glazed varieties of paper. It manufactures mainly three types of paper products, namely, pulp, tableware products under the Chuk brand and paper. Pulp is used mainly for paper-making, moulded products and packaging mould. Under the 'Chuk' brand, it manufactures disposable plates, bowls, containers, lids and egg trays. Also, it produces bleached, unbleached and coloured papers used in packaging, FMCG and stationery sectors.

'Chuk' brand to contribute majorly towards top-line

The company has set up a 11.5 TPD capacity plant for manufacturing compostable tableware product with an investment of Rs 58 crore. This capacity will be ramped up to 23 TPD in FY19. The capex for this plant is met by the company through combination of debt and internal accruals. The commercial production at this plant has started from January 2018. The production capacity of this plant is 7-8 lakh units per day, which can be scaled up to 40 lakh units per day. In 2017, the company had tied up with nine dealers, including Food Panda, Pizza Hut, Paradise Hotels and Costa Coffee, and the company intends to promote this brand in the markets of US, Europe and Australia. Some of the well-known dealers with whom the company has tied up include restaurants and food eateries in Hyderabad and Delhi.

In FY19, this brand might contribute 15-20% towards the total revenue and the company expects it to go up to 50% over the next three years. The EBITDA margin from this segment is expected to be around 25%. The company is expecting revenue of Rs 90 crore from this brand over the next two years.

Proposed deal with Indian Railways

The company is in talks with the Indian Railways to supply meal trays for its onboard catering services under its 'Chuk' brand. It is planning to supply specially designed leak proof containers to the railways. On a trial basis, the company had supplied 1,00,000 pieces to the railways on some specific routes. The Indian Railways will require 5,00,000 pieces of meal trays per day, of which Yash Papers could supply 1,00,000-2,00,000 lakh pieces. These talks are in advanced stage and if the company wins this order, there will be huge impact on the revenue and profitability of the company.

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Time Duration : 1 year

CMP : ₹63.10 (as on 22 March, 2018)

Target Price : ₹87

Expanding capacities of pulp and paper

Recently, the company has entered into an MoU with the state government of Uttar Pradesh for expanding its paper unit III from existing installed capacity of 70 MT to 110 MT. Also, to de-bottle-neck pulp and paper manufacturing capacities, the company has planned to increase the manufacturing capacity from 38,550 TPA to 45,000 TPA. The prices of Kraft paper have soared since past few months. The prices are expected to remain high in the near future. These improved prices are reflecting in the topline and profitability and this is expected to continue going forward.

Easy availability of raw material

The major raw material required for manufacturing paper is bagasse, the waste fibre left over from sugarcane. The company's plant is located in Uttar Pradesh, where sugarcane cultivation is very high and has easy availability. Thus, the company is involved in the process of transforming waste into wealth. Also, it generates energy using another agricultural residue, namely, rice husk. Thus, the company has huge advantage of easy and unlimited availability of raw material. By using these natural raw materials, the end-products are environmental-friendly and easily biodegradable.

Demand for paper and compostable tableware to grow

Demand for paper in India is growing at a rate of 8% per annum. Despite the digitisation wave, the demand for paper is huge, especially in the rural areas due to the high government spending on the Education campaign in the rural areas. Also, the government is trying to reduce the usage of plastics in other industries like packaging to keep the environment safe. The packaging industry in India is the largest user of plastics. Thus, the usage of natural and environment-friendly products have become the need of the hour. Demand for such products is likely to grow going forward and will augur well for companies like Yash Papers. The company provides such products at prices which are cheaper than plastic.

Financial Performance

Since FY15, although the revenue has not grown majorly, the profits have shown a tremendous growth trajectory. The EBITDA margin stood at 5.7% in FY15, which improved to 16.3% in FY17.

Continued On PG 2...

Its PAT has grown at a CAGR of 53.5% over FY15-17 and the PAT margin stood at 3.6% in FY17. The company's debt-equity ratio in FY17 was high at 2.4x, leading to lower interest coverage ratio of 1.6x. As the company is carrying out major capacity expansion plans and setting up new plant, the debt levels are higher. We expect the new plant and expanded capacities would trigger the volumes further, thereby helping company to reduce debts.

During 9MFY18, the revenue grew by 11.6% YoY to Rs 150.1 crore. The operating profit was up by 35.5% YoY due to better operating efficiency. The operating margin stood at 19.8%. Its PAT has jumped by 200.5% YoY to Rs 12.11 crore from Rs 4.03

crore, driven by rise in revenue and lower interest cost.

Valuation

The company is trading at TTM P/E of 15.5x with TTM EPS of Rs 4.14. For FY17, the company had delivered RoE and RoCE of 12.8% and 14.3% respectively. As the government is banning use of plastics to save environment, the demand for compostable products has increased significantly. The dependence of packaging and FMCG sectors on papers, pulp and compostable products is rising. The company's 'Chuk' brand is promising and will contribute majorly to its future growth. We see a potential upside of 38% with target price of Rs 87 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	173.81	173.33	172.27	147.38	116.35
Total Income	175.98	174.53	173.92	149.09	117.93
Total Expenditure	144.77	148.75	146.94	126.21	96.41
PBIDT	31.21	25.79	26.98	22.88	21.53
PAT	6.39	2.85	-6.66	1.94	1.69
Dividend %					
Adj. EPS(Rs)	1.98	0.96	-2.41	0.70	0.61

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	50.11	53.35	-6.07	45.44	10.29
Total Expenditure	40.61	44.07	-7.86	38.22	6.25
PBIDT (Excl OI)	9.51	9.28	2.42	7.22	31.65
PAT	5.06	4.11	23.14	1.59	218.30
PBIDTM% (Excl OI)	18.97	17.40	9.02	15.89	19.38
PBIDTM%	20.68	18.28	13.13	18.31	12.94
PATM%	10.10	7.70	31.17	3.50	188.57
Adj. EPS(Rs)	1.44	1.17	23.08	0.49	193.88

