



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

7th Sept 2017

WEST COAST PAPER MILLS LIMITED

NSE : WSTCSTPAPR

Sector: PAPER

BSE: 500444

View - BUY

CMP : Rs. 182

Target Price: Rs 240 (In next 12 to 18 mths)

BUSINESS BACKGROUND

West Coast Paper Mills Ltd (WCPML), incorporated in 1955 is the flagship company of S.K. Bangur group. The company is among India's top five paper & paper board's manufacturer in terms of total capacity of 320000 mtpa. WCPML operates in two business segments; Paper/Paperboard (including Duplex Board) at Dandeli and Telecommunication Cables at Mysore.

WCPML also has Wind Mills of 1.75MW capacity in Tamilnadu for power generation. WCPML has a share of 10% in the domestic uncoated paper market

INVESTMENT HIGHLIGHTS

Strong Financials for WCPML as on Q1 FY18 –

WCPML reported a steady set of Q1FY18 numbers with net sales at Rs Rs 410.24 crs, with EBIDTA placed at Rs 82.67 crs from Rs 72.66 crs in Q1 last year. The PAT in Q1 FY18 grew by 307% YoY to Rs 53.70 crs as compared to Rs 13.27 crs in Q1 last year.

For FY17 the company has recorded net sales of Rs 1876 crs, a EBIDTA of Rs 337.83 crs and a PAT of Rs 122.57 crs. WCPML has paid a dividend of 125% for FY17

WCPML enjoys a strong presence in value added segments –

WCPML is amongst India's 5th largest paper producers having a total capacity of 3.30 lac tpa and present largely in the value added segment like copier segment, coated segment and packaging board segments.

WCPML enjoys a market share of over 15% in the copier segments and almost 75% of its topline comes from the value added segment. To mitigate its raw material procurements it has already put a captive plantations facility which has taken care of its increased production.

These product segments accounted for almost 75% of WCPML's total product mix in FY 17. Given the underlying demand drivers for these segments, they are expected to grow at a higher rate than overall industry average.

KEY DATA

FACE VALUE	Rs	2.00
DIVID YIELD %		1.37
52 WK HI/LOW		212/96
NSE CODE		WSTCSTPAPR
BSE CODE		WSTCSTPAPR
MARKET CAP		RS 1208 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	55%
BANKS, MFs & DIIs	-	10%
FIIs	-	3%
PUBLIC	-	32%

KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	8	10	11
EBIDTA Gr%	10	11	12
PAT Gr%	22	23	11
EPS Gr%	22	23	11
EPS (Rs)	23	28	31
ROE %	21	21	19
ROCE %	17	18	18
P/E(x)	8	7	6



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WCPML has adequate self-sufficiencies for major portion of its raw material and power requirements; to improve its cost structure –

WCPML's dependence on open market wood procurement has remained limited to around 25% of its total wood requirements and a majority of its requirement is met through its farm forestry sources and long term government contracts.

WCPML is also self-reliant for majority of its power requirements and sources almost 90% of its power from captive sources. Going forward, as a part of the ongoing expansion cum modernisation programme a major portion of the incremental power requirement of the expanded capacities will be met through liquor fired boilers, thereby limiting the increase in coal consumption of WCPML.

Indian Paper Industry Overview – Fragmented in size

Indian paper industry is highly fragmented with 656 mills established across India. The large integrated players with above 100 MT per day capacity constitute only 32% of the total capacity, suggesting a highly competitive nature of the industry. The small mills which constitute for 34% of the installed capacity are largely present in lower end of the product segments such as kraft paper and news print.

The Indian paper industry can be broadly segregated into Writing and Printing Paper (WPP), Industrial Paper (IP), News Print (NP) and Speciality Paper (SP). Of these, IP segment accounts for 50% of the total paper demand. It is largely driven by the industrial demand for corrugated boxes made of kraft paper. WPP segment which constitute creamwove, maplitho, coated and branded paper account for 30% of the total demand.

As per the Associated Chambers of Commerce and Industry of India (ASSOCHAM) estimates, Indian paper industry witnessed a 10.6% growth in per capita consumption and reached 9.2kgs in FY15. Total volumes at the end of FY16 stood at 9.2 mn tonnes. On the supply side, at the end of FY16, paper production capacity in India was estimated to be at 9.7 mn tonnes with overall 90% capacity utilisation.

Fibre, the primary raw material in paper manufacturing accounts for 40% of the total cost. For fibre, industry is dependent on hard wood and bamboo (40% of the requirement), agro waste (30%) and wastepaper (30%).

Availability of fiber at reasonable cost is a concern for the industry as Indian laws do not permit leasing of land and deforestation. Though many large companies now either have shifted or shifting to contract farming, industry still imports 2 mn tonnes in the form of pulp and wastepaper or 25% of the total pulp requirement per annum.

Steady demand growth prospects for the paper industry to boost WCPML's prospects –

The Indian paper industry has witnessed a Compounded Annual Growth Rate (CAGR) of around 9% over last four years which has been driven by a steady growth in per capita consumption by around 7.5% over this period. Given the low domestic per capita consumption at around 9.1 Kg, as against world average of around 58 Kg and other developing country like China of around 55 Kg; the demand growth potential is huge over medium to long term.

This is expected to be supported by increasing literacy levels, thrust on education sector and strong economic growth leading to increase in consumption from industrial and consumer goods.



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WCPML's presence in high growth product segments of the paper industry to benefit it significantly –

Within the overall paper industry, WCPML's is strong in value added segments such as copier paper, coated paper and industrial packaging boards made out of virgin fibre (Folding Box Board – FBB) which have grown at a CAGR higher than industry average. These products segments accounted for almost 75% of WCPML's total product mix in FY 17. Given the underlying demand drivers for these segments, they are expected to grow at a higher rate than overall industry average.

WCPML is amongst India's 5th largest paper producers having a total capacity of 3.20 lac tpa and is present largely in the value added segment like copier segment, coated segment and packaging board segments.

WCPML enjoys a market share of over 17-18% in the copier segments and almost 75% of its topline comes from the value added segment. To mitigate its raw material procurements it has already put a captive plantations facility which has taken care of its increased production.

Also lower commodity prices have resulted in lower pulp prices, lower power costs have also helped improve margins and coupled with this the prices of value added paper have shown a smart increase in last 6 to 12 months. This is expected to continue as the demand for paper is growing steadily but supply side shortages across the entire industry are expected to continue till end of FY18.

West Coast Paper plans to become debt free in the next two years –

WCPML has progressively reduced its total debt in the last 5 years from Rs ... crs in FY12 to Rs Crs in FY17. In fact last year WCPML was able to reduce its debt by Rs ... crs which saw a gradual reduction in interest cost. The management intends to reduce debt to a minimal level which will further boost the profitability of the company at the net level.

WCPML enjoys a strong balance sheet and both Topline and Bottomline growth is likely to remain steady going ahead –

WCPML enjoys a strong balance sheet with reasonable debt of around Rs 377 crs on the balance sheet as on FY17 as compared to a tangible networth of Rs 639 crs as on March 2017.

More importantly both key operating parameters like ROCE, ROE are placed around 18% and 21% respectively which we believe look attractive but which are likely to remain stable despite the higher volume base as volume growth improves further.

We expect that going ahead overall bottomline growth in the next 2 years starting FY17 onwards should easily touch 20-23% and with reasonable debt and healthy cash flows being generated we expect the company to fund its expansion plans largely from internal accruals making the capital structure healthy. Our expectation is that ROCE and ROE by FY19E and FY20E should touch 17% and 18% and 21% and 20% respectively



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Revenue is expected to touch Rs 2026 crs.

On the bottomline level we expect the company to record a PAT of Rs 150 crs in FY18E. Thus on a conservative basis, WCPML should record a EPS of Rs 23 for FY18E. For FY19E and FY20E our expectation is that earnings traction for WCPML will be strong and remain attractive wherein we expect a EPS of Rs 28 and Rs 31 respectively.

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More importantly WCPML's capital structure as on March 2017 is strong with a very lean debt to equity ratio 0.58:1 as on Mar 2017.

Hence looking at WCPML's dominant market position, strong management bandwidth coupled with a healthy balance sheet make us confident that the stock will soon get re rated looking at its future prospects.

The WCPML stock trades at a P/E of 8x and 7x based on FY18E and FY19E, which looks attractive considering its strong execution capability, consistent financial track record and healthy industry trends in the domestic paper sector.

Hence we believe that the WCPML stock should be purchased at the current price for a price target of around Rs 240 over the next 12 to 15 months.



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FINANCIALS

For the Year Ended March RsCr	FY17A	FY18E	FY19E	FY20E
Net Sales	1876.71	2026.85	2229.53	2474.78
EBIDTA	337.83	370.91	412.46	460.31
EBIDTA %	18.00	18.30	18.50	18.60
Interest	51.57	45.00	37.00	32.00
Depreciation	110.76	120.1	133.00	140.00
Non Operational Other Income	2.37	2.50	2.5	2.5
Profit Before Tax	177.87	208.31	244.96	290.81
Profit After Tax	122.57	150.00	184.00	204.1
Diluted EPS (Rs)	18.57	22.73	27.88	30.92
Equity Capital	13.2	13.2	13.2	13.2
Reserves	625.94	760.94	924.94	1108.04
Borrowings	377.00	327.00	277.00	177.00
GrossBlock	1004.00	1104.00	1204.00	1304.00
Investments	0.82	0.82	0.82	0.82

Source Company our Estimates

KEY CONCERNS

Slowdown in the Paper sector demand and lower sales realisations

Volatility in pricing of raw materials can impact WCPML's profits negatively

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