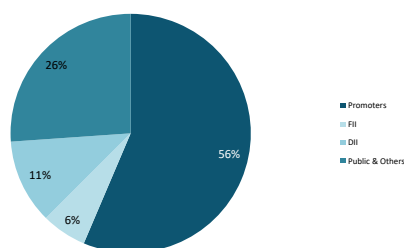


Key Share Data

Face Value (INR)	2.0
Equity Capital (INR mn)	132.1
M.Cap (INR mn)	22258.5
52-w k High/Low (INR)	415/223
Avg. Daily Vol	29174
BSE Code	500444
NSE Code	WSTCSTPAPR
Reuters Code	WSTC.NS
Bloomberg Code	WCPM:IN

Shareholding Pattern (Sept 30, 2018)

Key Financials (INR Million)

Particulars	FY17	FY18	FY19E	FY20E
Net Sales	17,693.4	17,102.0	20,025.4	22,001.8
Growth (%)	4.1%	-3.3%	17.1%	9.9%
EBITDA	3,378.5	3,628.5	4,906.2	5,478.4
PAT	1,285.0	2,231.5	3,145.1	3,921.8
Growth (%)	26977.6%	73.7%	40.9%	24.7%
EPS (INR)	19.5	33.8	47.6	59.4
BVPS (INR)	96.8	127.0	165.0	209.9

Key Financials Ratios

Particulars	FY17	FY18	FY19E	FY20E
P/E (x)	17.3	10.0	7.1	5.7
P/BVPS (x)	3.5	2.7	2.0	1.6
Mcap/Sales (x)	1.3	1.3	1.1	1.0
EV/EBITDA (x)	7.6	6.8	5.0	4.3
ROCE (%)	22.3%	22.6%	24.6%	24.7%
ROE (%)	20.1%	26.6%	28.9%	28.3%
EBITDA Mar (%)	19.1%	21.2%	24.5%	24.9%
PAT Mar (%)	7.3%	13.0%	15.7%	17.8%
Debt - Equity (x)	0.6	0.3	0.2	0.1

Source: Company, SKP Research

Price Performance WCP vs BSE Smallcap

Analysts: Vineet Agrawal

Tel No: +91-22-49226006

e-mail: vineet.agrawal@skpsecurities.com

Company Background

The West Coast Paper Mills Ltd (WCP), promoted by Mr S.K. Bangur, CMD, is amongst India's leading manufacturers of paper & paper products at its integrated paper plant at Dandeli in Karnataka with an installed capacity of 320,000 TPA. Product portfolio includes various types of printing, writing and value-added papers. Its telecommunication cables business contributes ~5% to revenue.

Investment Rationale
Topline to grow with a CAGR of ~13.4% during FY18-FY20E

- During Q2FY19, total income increased by ~20% y-o-y to Rs 5,048.2 mn on account of better performance of paper division, the sales of which improved by 21.1% y-o-y on account of higher volumes and better realizations. However, revenue from cable segment declined by 6.6% to Rs 222.1 mn. During H1FY19, topline grew by 19.2% to Rs 9,635.7 mn of which majority contribution was made by paper segment at Rs 9,168.6 mn.
- We expect the domestic paper cycle to remain buoyant as no major capacity additions are in sight and Rupee depreciation has made imports costlier, providing domestic manufacturers with significant pricing power and margin improvements. Additionally, developments like closure of major paper capacity in China, ban on import of low grade waste paper in China, wood pulp supply disruptions in Brazil, Chile and Indonesia on account of environmental concerns and maintenance shutdowns, has led to higher global pulp and paper prices. It has also resulted in stiff decline in global supply of recycle grade newsprint, paper and paperboard with consequential improvement in realizations, benefiting Indian manufacturers.
- We expect WCP topline to touch ~Rs 22 bn by FY20 with a CAGR of ~13.4% due to optimum capacity utilization and better realizations of paper segment.**

Margins expected to stabilize ~24.9%

- During Q2FY19 EBITDA margins improved by 690 bps y-o-y at 26.7% on account of lower domestic wood prices and change in raw material procurement mix. Raw materials' cost as a percentage of sales declined by 470 bps to Rs 2,575.5 mn while, other expenses as a percentage of sales declined by 110 bps to Rs 807.8mn. EBITDA margin improved by 580 bps to 26.3% during H1FY19.
- Going forward we expect EBITDA margins to stabilize at ~24.9% on the back of better product mix, higher realisations and optimum utilization of capacity.**
- During H1FY19, finance cost increased by 6.1% y-o-y to Rs. 207.8 mn, due to forex loss and change in accounting policy to 'IndAS'. PAT margins during Q1FY19 and H1FY19 stood at 17.5% and 17.9% respectively. With long-term debt re-payment on cards, stabilising raw material prices and better realizations, **we expect PAT margin to remain at ~18% by FY20E.**

Planned capex provides long term visibility

- WCP has made an expansion plan (growth and modernization) spread over next four-five years to meet the rising demand in the paper and cable division.
- In paper division WCP has done capex of Rs. 1.5 bn in FY18 and further capex of Rs. 1.8 bn is planned for FY19 to increase production, improve quality, reduce costs and introduce new specialty products etc.
- In cables division WCP has planned a capex of Rs. 1.1 bn spread over three years for setting up a greenfield project for backward integration (secure raw material required for optical fibre cable). It has started EPC project of cable laying with small test order in Uttarakhand, and is expecting good business going forward.

VALUATION

- WCP is running at ~90% capacity utilisation. Robust sales growth may happen with rise in volumes and paper price in the next couple of years. Margins are expected to maintain at current levels with stability in raw material prices and increasing more value added products. With consistently reducing debt, WCP is looking at organic/inorganic growth opportunities.
- Ban on single use plastic products and their replacement by paper products have just started in a couple of states in India. If this trend were to extend to the rest of the country, which it should in line with the global trend, this could give a major boost to companies like WCP, which already produces products like paper cups.
- Although the long term big picture of the paper sector and WCP appear to be quite positive, we have currently valued the stock on the basis of EV/EBITDA of 5.5x of FY20E EBITDA and recommend a "Buy" with a target price of Rs 446 (~32% upside) in 15 months.**

Q2FY19 & H1FY19 Standalone Result Review

(All data in Rs mn unless specified, Y/e March)

Particulars	Q2 FY19	Q2 FY18	% Change	Q1 FY19	% Change	H1FY19	H1FY18	% Change
Net Sales	5048.2	4215.3	19.8%	4596.8	9.8%	9635.7	8080.5	19.2%
Total Expenditure	3698.2	3381.8	8.6%	3406.3	8.6%	7104.4	6420.2	9.6%
Raw Material Consumed	2575.5	2349.7	9.6%	2251.5	14.4%	4827.0	4281.8	12.7%
% to Sales	51.0%	55.7%	--	49.0%	--	50.1%	53.0%	--
Purchase of traded goods	1.2	0.0	--	16.7	--	17.9	0.0	--
% to Sales	0.0%	0.0%	--	0.4%	--	0.2%	0.0%	--
Employee Expenses	313.7	312.3	0.4%	316.1	-0.8%	629.8	612.1	2.9%
% to Sales	6.2%	7.4%	--	6.9%	--	6.5%	7.6%	--
Other Expenses	807.8	719.8	12.2%	821.9	-1.7%	1629.7	1526.3	6.8%
% to Sales	16.0%	17.1%	--	17.9%	--	16.9%	18.9%	--
EBIDTA	1350.1	833.5	62.0%	1190.6	13.4%	2531.3	1660.3	52.5%
EBIDTA Margin	26.7%	19.8%	--	25.9%	--	26.3%	20.5%	--
Depreciation	424.8	280.1	51.7%	393.5	8.0%	818.3	542.1	50.9%
EBIT	925.2	553.4	67.2%	797.1	16.1%	1712.9	1118.2	53.2%
EBIT Margin	18.3%	13.1%	--	17.3%	--	17.8%	13.8%	--
Other Income	24.9	7.5	230.6%	92.0	-72.9%	126.4	38.4	228.8%
Interest	103.0	116.1	-11.3%	104.8	-1.7%	207.8	195.9	6.1%
Exceptional Items	0.0	0.0	--	0.0	--	0.0	0.0	--
Forex Difference	0.0	0.0	--	0.0	--	0.0	0.0	--
Tax	-37.7	-33.0	14.0%	-56.0	-32.7%	-93.7	-54.3	72.6%
Extraordinary Items	0.0	0.0	--	0.0	--	0.0	0.0	--
Prior period taxes written bk.	0.0	0.0	--	0.0	--	0.0	0.0	--
Minority Interest	0.0	0.0	--	0.0	--	0.0	0.0	--
Share of Associate Company	0.0	0.0	--	0.0	--	0.0	0.0	--
Reported Profit After Tax	884.9	477.9	85.2%	840.3	5.3%	1725.2	1015.0	70.0%
PAT Margin	17.5%	11.3%	--	18.3%	--	17.9%	12.6%	--
Diluted EPS (Rs)	13.4	7.2	85.3%	12.7	5.3%	26.1	15.4	70.1%

Segment Revenues	Q2 FY19	Q2 FY18	% Change	Q1 FY19	% Change	H1FY19	H1FY18	% Change
Paper and Paper Board	4813.8	3976.6	21.1%	4368.0	10.2%	9168.6	7920.6	15.8%
Contribution(%)	95.6%	94.3%	--	95.0%	--	95.4%	95.2%	--
Telecommunication Cables	222.1	237.9	-6.6%	228.8	-2.9%	444.9	396.3	12.2%
Contribution(%)	4.4%	5.6%	--	5.0%	--	4.6%	4.8%	--
Others	1.2	0.8	--	0.0	--	1.2	0.8	57.1%
Total	5037.2	4215.3	19.5%	4596.8	9.6%	9614.7	8317.7	15.6%

Segment Results	Q2 FY19	Q2 FY18	% Change	Q1 FY19	% Change	H1FY19	H1FY18	% Change
Paper and Paper Board	940.5	523.6	79.6%	871.3	7.9%	1811.8	1142.3	58.6%
EBIT Margin (%)	19.5%	13.2%	--	19.9%	--	19.8%	14.4%	--
Telecommunication Cables	24.0	58.3	-58.9%	42.0	-43.0%	66.0	66.4	-0.7%
EBIT Margin (%)	10.8%	24.5%	--	18.4%	--	14.8%	16.8%	--
Others	-0.2	1.7	-113.5%	0.0	--	-0.2	0.7	-132.0%
EBIT Margin (%)	--	--	--	--	--	-18.2%	89.2%	--
Total	964.2	583.6	65.2%	913.3	5.6%	1877.6	1209.4	55.2%

Source: Company, SKP Research

Chart 1: Overall Revenues

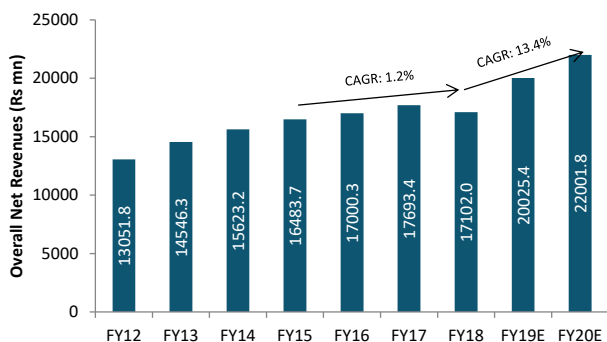


Chart 2: Segment-wise Revenue Contribution

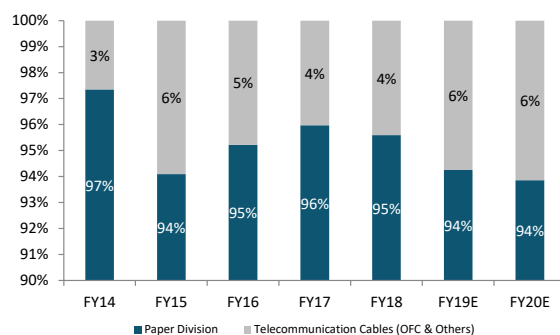


Chart 3: EBITDA & EBITDM – Consolidated

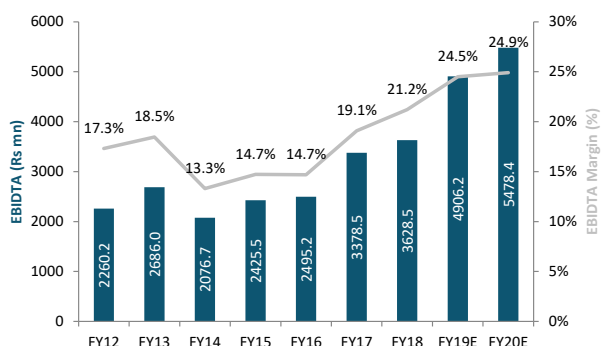


Chart 4: PAT & PATM – Consolidated

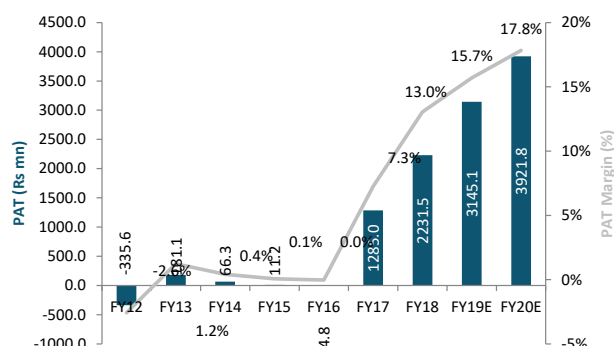


Chart 5: ROE & ROCE

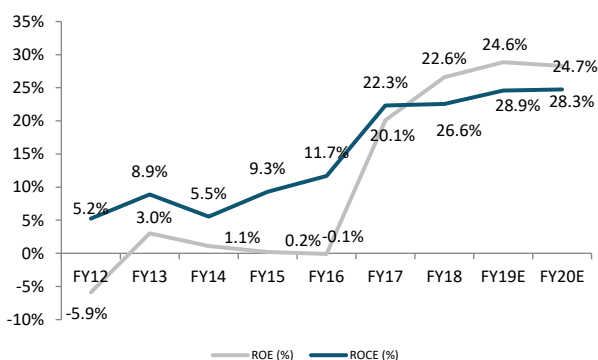
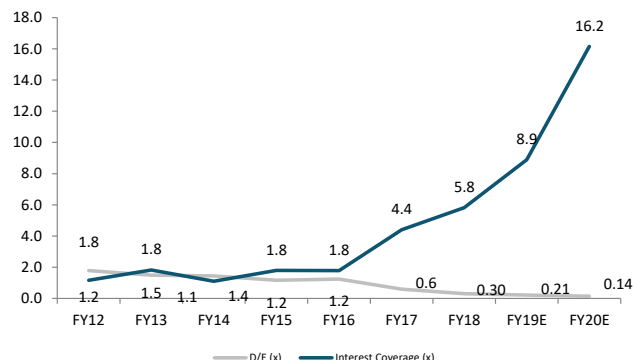


Chart 6: Debt Equity and Interest Coverage



Source: SKP Research Desk

KEY CONCERNS

1. **Competition from unorganised players:** As mentioned earlier, that Indian paper industry is highly fragmented with ~825 small to large mills. Any increase in the competitive intensity from unorganized segment may be detrimental for the company.
2. **Scarcity of wood pulp:** Availability of wood pulp is a matter of concern not only for WCP but to the whole industry for past many years, though its availability has improved significantly, which has led to the drop in the prices of wood chips. WCP procures majority of its wood chips domestically. It has to look towards imports from South Africa and captive plantation for rest of the requirement.

Since ~95% of the revenues of the Company is dependent upon paper and duplex board, any upward movement of wood chips prices or unavailability may hamper the business performance of the company.

3. **Unfavorable forex fluctuations:** Apart from domestic market, WCP also procures wood chips from South Africa, any unfavorable currency fluctuations may affect negatively on the business of the Company.
4. **Unfavorable crude price movement:** Crude based chemicals constitutes 12% to the total raw material cost of the Company. Thus, any unfavorable movement in the prices of crude may be detrimental for the profitability of the Company.

VALUATION

- WCP is running at ~90% capacity utilisation. Robust sales growth may happen with rise in volumes and paper price in the next couple of years. Margins are expected to maintain at current levels with stability in raw material prices and increasing more value added products. With consistently reducing debt, WCP is looking at organic/inorganic growth opportunities.
- Ban on single use plastic products and their replacement by paper products have just started in a couple of states in India. If this trend were to extend to the rest of the country, which it should in line with the global trend, this could give a major boost to companies like WCP, which is already produces products like paper cups.
- Although the long term big picture of the paper sector and WCP appear to be quite positive, we have currently valued the stock on the basis of EV/EBIDTA of 5.5x of FY20E EBIDTA and recommend a “Buy” with a target price of Rs 446 (~32% upside) in 15 months.

Consolidated Financials:

Exhibit: Income Statement

Particulars	FY17	FY18	FY19E	FY20E
Total Income	17,693.4	17,102.0	20,025.4	22,001.8
Growth (%)	4.1%	-3.3%	17.1%	9.9%
Expenditure	14,314.9	13,473.5	15,119.2	16,523.3
Material Cost	10,191.7	9,091.6	10,112.8	11,110.9
Purchase of Traded Goods	0.00	11.93	40.05	44.00
Employee Benefit Exp	1,183.4	1,232.6	1,301.7	1,342.1
Power & Fuel	1,504.5	1,685.3	2,202.8	2,420.2
Other Expenses	1,435.3	1,452.2	1,461.9	1,606.1
EBITDA	3,378.5	3,628.5	4,906.2	5,478.4
Depreciation	1,107.7	1,162.2	1,656.0	1,579.2
EBIT	2,270.8	2,466.2	3,250.2	3,899.2
Other Income	23.7	182.3	260.3	264.0
Interest Expense	515.7	423.7	365.4	241.4
Profit Before Tax (PBT)	1,778.8	2,224.8	3,145.1	3,921.8
Income Tax	493.8	-6.7	0.0	0.0
PAT Before Extraord Items	1285.0	2231.5	3145.1	3921.8
Extraordinary Items	0.0	0.0	0.0	0.0
PAT After Extraord Items	1,285.0	2,231.5	3,145.1	3,921.8
Diluted EPS	19.5	33.8	47.6	59.4

Exhibit: Cash Flow Statement

Particulars	FY17	FY18E	FY19E	FY20E
Profit Before Tax (PBT)	1,778.8	2,224.8	3,145.1	3,921.8
Depreciation	1,107.7	1,162.2	1,656.0	1,579.2
Interest Provided	543.3	408.5	365.4	241.4
Chg. in Working Capital	1,334.0	(52.5)	(1,374.5)	(266.8)
Direct Taxes Paid	(220.4)	(518.2)	-	-
Other Charges	(232.7)	37.5	(506.4)	(192.3)
Operating Cash Flows	4,310.7	3,262.3	3,285.7	5,283.3
Capital Expenditure	(302.1)	(1,491.4)	(2,000.0)	(2,600.0)
Investments	(0.0)	-	-	(500.0)
Others	38.8	104.8	-	-
Investing Cash Flows	(263.3)	(1,386.6)	(2,000.0)	(3,100.0)
Changes in Equity	-	0.0	-	-
Inc / (Dec) in Debt	(3,345.6)	933.6	(223.9)	(425.0)
Dividend Paid (inc tax)	(79.5)	(198.7)	(636.0)	(954.0)
Interest Paid & Others	(515.7)	(2,674.1)	(365.4)	(241.4)
Financing Cash Flows	(3,940.8)	(1,939.2)	(1,225.3)	(1,620.4)
Chg. in Cash & Cash Eqv	106.6	(63.5)	60.4	562.9
Opening Cash Balance	126.2	138.7	100.8	161.2
Closing Cash Balance	232.8	75.2	161.2	724.1

Source: Company Data, SKP Research

Exhibit: Balance Sheet

Particulars	FY17	FY18	FY19E	FY20E
Share Capital	132.1	132.1	132.1	132.1
Reserve & Surplus	6,259.3	8,257.3	10,766.4	13,734.2
Shareholders Funds	6,391.4	8,389.4	10,898.5	13,866.3
Term Loan	2,937.3	2,102.9	2,320.9	1,895.9
Short Term Loan	836.5	441.9	-	-
Total Debt	3,773.7	2,544.8	2,320.9	1,895.9
Deferred Tax (Net)	1,350.5	141.5	141.5	141.5
Other Long Term Liab	928.8	1,395.8	1,501.9	1,540.1
Total Liabilities	12,444.5	12,471.6	14,862.9	17,443.9
Net Block inc. Capital WIP	10302.7	10550.3	10894.3	11915.0
Investments	8.3	10.0	10.0	510.0
Other Non - Current Assets	833.70	267.94	700.89	880.07
Inventories	2,826.7	3,428.9	3,804.8	4,180.3
Sundry Debtors	1,283.1	1,189.3	1,401.8	1,540.1
Cash & Bank Balance	232.8	100.8	161.2	724.1
Loans & Advances	24.4	53.5	120.2	132.0
Other Current Assets	582.3	301.4	414.3	453.8
Current Liabilities & Prov	3,649.6	3,430.7	2,644.6	2,891.6
Total Assets	12,444.5	12,471.6	14,862.9	17,443.9

Exhibit: Ratio Analysis

Particulars	FY17	FY18	FY19E	FY20E
Earning Ratios (%)				
EBITDA Margin (%)	19.1%	21.2%	24.5%	24.9%
PAT Margins (%)	7.3%	13.0%	15.7%	17.8%
ROCE (%)	22.3%	22.6%	24.6%	24.7%
ROE (%)	20.1%	26.6%	28.9%	28.3%
Per Share Data (INR)				
Diluted EPS	19.5	33.8	47.6	59.4
Cash EPS (CEPS)	36.2	51.4	72.7	83.3
BVPS	96.8	127.0	165.0	209.9
Valuation Ratios (x)				
P/E	17.3	10.0	7.1	5.7
Price/BVPS	3.5	2.7	2.0	1.6
EV/Sales	1.5	1.4	1.2	1.1
EV/EBITDA	7.6	6.8	5.0	4.3
Dividend Yield (%)	0.0%	0.7%	2.4%	3.6%
Balance Sheet Ratios				
Debt - Equity	0.6	0.3	0.2	0.1
Current Ratio	1.4	1.5	2.2	2.4
Fixed Asset Turn. Ratios	1.8	1.7	1.9	2.0

Exhibit: Recommendation -History Table

Date	Rating	Issue Price	Target Price	Upside Potential	Period (months)
28-Sep-16	BUY	109	174	60%	18
25-Nov-16	BUY	131	171	31%	15
13-Feb-17	BUY	160	209	31%	18
08-Jun-17	ACCUMULTE	195	212	9%	--
21-Aug-17	BUY	190	231	22%	18
15-Nov-17	BUY	200	232	16%	15
22-Feb-18	BUY	270	424	57%	18
05-Jun-18	BUY	258	435	69%	18
17-Sep-18	BUY	368	473	29%	15
Dec 4, 18	BUY	337	446	32%	15

Source: SKP Research

Exhibit: Recommendation -History Chart



Source: BSE, SKP Research

Note:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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Analyst ownership of the stock	NIL
Served as an officer, director or employee	NIL

SKP Securities Ltd

Contacts	Research		Dealing	
	Mumbai	Kolkata	Mumbai	Kolkata
Phone	022 4922 6006	033 4007 7000	022 4922 6000	033 4007 7400
Fax	022 4922 6066	033 4007 7007	022 4922 6066	033 4007 7007
E-mail	IRD@skpsecurities.com		skp.sec@bloomberg.com	

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