



West Coast Paper Mills Ltd

20/12/2017

BUY
CMP **Rs. 299.55**
Target Price **Rs 390.00**

BSE Code	500444
NSE Code	WSTCSTPAPR
Market Cap (Rs crore)	Rs.1977.03
52 Week High/Low	315.85/124.20
Industry	Paper & Paper Products
Face Value	Rs 2.00
Shares O/S	6.60 (Cr)

EPS* 28.71

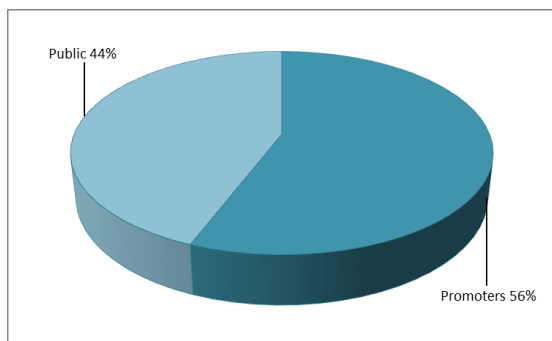
Book Value* 109.17

P/E 10.43

P/B 2.74

Note *: On TTM basis

Shareholding Pattern as on Sept' 2017



Research Analyst :Astha Jain

Co has shown strong financial performance in FY17. Co has posted Rs 128.50 Cr PAT in FY17 as against loss of Rs 47 Lacs in FY16. Topline of co has jumped by 4% as production of Paper, Paperboard and Hardwood Pulp was at 3,13,311 MT which is at 98% capacity utilization during the year against 3,06,960 MT in the last year (i.e 96% capacity utilization).

Co has reduced its debt as evident from the fact that co's debt to eq ratio has lowered significantly from 1.27 in FY16 to 0.59 in FY17. Also, co has proposed mill development plan worth of Rs 500 Cr in order to increase its capacity, approval of which will lead the increase in company's revenue significantly.

The conventional raw material i.e. pulpwood is required in the production process of the company. In order to ensure long term availability of raw material, the company continues to focus on Captive Plantation Project and on social forestry. Total cultivated/plantation area is around 49425 acres of land so far within a radius of 200250 km from Dandeli, as to enhance the availability of pulpwood. Co is also using clonal forestry. Clonal technology is a strategy adopted in tree improvement programme to capture and exploit the best recombinations in a shortest possible time.

Looking at the upcoming demand and competition in OFC market, cable division of company has also augmented the facility with new Colouring, Secondary and Stranding machines and equipping with the new state-of-art Optical testing machines. Further, co have started manufacturing of FRP and Glass Roving in the same plant as a backward integration. This will lead co in increasing revenue from this segment.

The manufacturing facilities of West Coast Paper Mill spread across 240 acres are located at Dandeli in Karnataka. The location of the mill in the heart of thick forests at Dandeli is perfectly suited for a paper mill with the river Kali flowing in close proximity. The region also provides abundant manpower supply. Along with the inherent advantages, the facility has excellent road infrastructure connecting it to key wood supplying markets and also smooth dispatching of paper/paperboard.

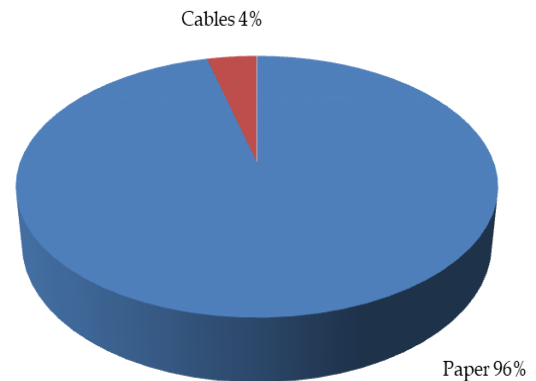
Valuation

The company is currently trading at 10.43x of TTM eps of Rs 28.71 while it is trading at 10.20x of FY18E eps of Rs 29.37 & 9.50x of FY19E EPS of Rs 31.50. On the back of capacity expansion, co's focus on deleveraging its balance sheet & strong demand in paper sector, co will stand to benefit going forward. Along with its reasonable valuation at current level makes it strong investment candidate. Hence, we recommend "Buy" on the stock with price target of Rs 390 (appreciation of almost 30%) for long term investment.

Business Overview

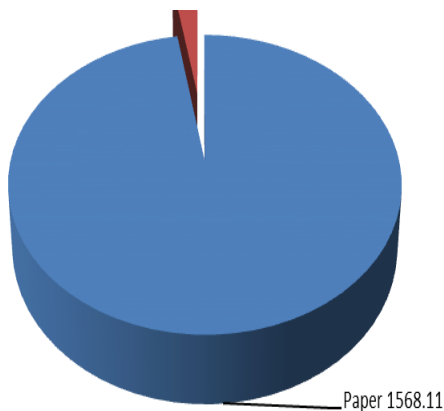
West Coast Paper Mills is one of the oldest & largest producers of paper for printing, writing & packaging in India. It is in manufacturing of paper, paperboard and coated duplex board. The company is flagship company of Kolkata based- SK Bangur Group. The Company operates in two business segments - Paper / Paperboard (including Duplex Board) at Dandeli and Telecommunication Cables at Mysore, apart from having Wind Mills of 1.75 MW capacity in Tamilnadu for power generation. In Paper Segment, the product-line features many well-established brands- ranging from 52 to 600 GSM- of commercial to premium grades of paper and boards, spread out across six different product segments: Writing, Printing, Business stationery, Specialty, Industrial and Packaging. Co also manufactures optical fiber cables at Mysore, Karnataka having installed capacity of 83500 Km.

Segment Wise Revenue Contribution



The Company operates six versatile machines with an installed capacity of 3,20,000 TPA, latest addition being the 500 TPD state of the art Voith Paper Machine, with which the quality standards of the Company products have risen to international standards. Further, with the installation of the world's most renowned **Bielomatik** online cut-pack converting line, the quality standards of co's copier papers have been elevated to the level of global benchmarks.

Segment Assets (In Rs Cr)



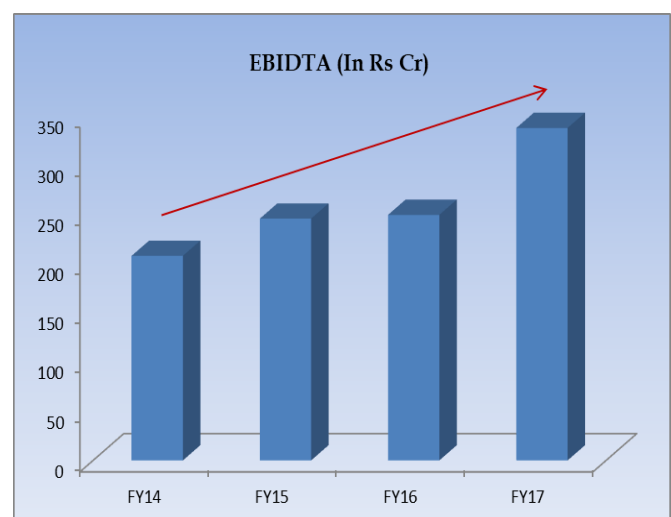
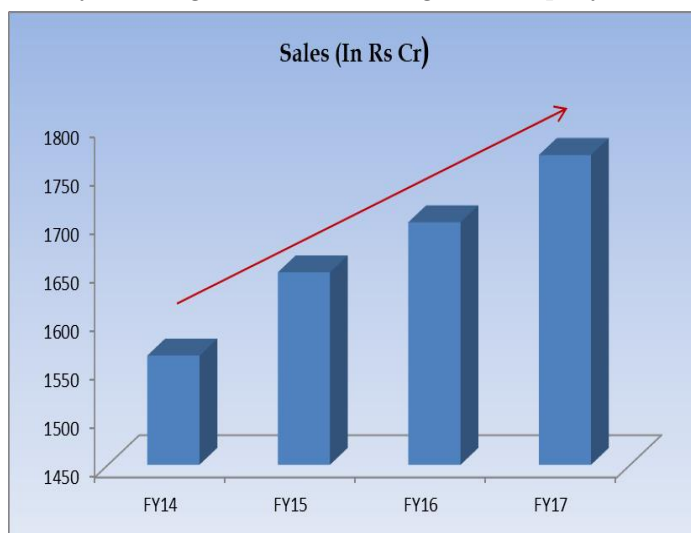
The company uses Eucalyptus, Casuarina, Subabul and other Hardwood as a raw material. It procures these raw materials from Andhra Pradesh, Tamil Nadu and Pondicherry. It imports a small quantity of raw materials for production of specialty papers. In order to meet power requirement the company has set up 4 turbines with capacity totalling to 74.8 MW, 3 multi-fuel based power plants of 11.84 MW. There are three waste heat recovery boilers of 2 TPH capacity each to recover waste heat from multi-fuel based power plants. Co has set up 6 wind mills totaling to 1.75 MW in Tamil Nadu & power generated is sold to TNEB/other company. The company also supplies power of 8,500 KVA to the Karnataka Power Transmission Corporation. The company has many first to add to its credentials. It was first in Asia to install twin-wire Papriformer paper machine; first to have well equipped research centre attached with a paper mill; and first in India to establish the use of sulphuric acid as a protective agent in conventional bleaching, amongst others. The company exports its products to Malaysia, Egypt, Middle East, Kenya, Indonesia, Fiji, Mauritius and Greece, amongst others.

Wide product portfolio with fully integrated manufacturing facility

WCPM presents a range of quality printing & writing paper from 52 to 140 gsm that suits the entire needs of modern print-houses that demand high quality paper for commercial to premium printing at a reasonable price. It also provides a range of high quality machine-glazed paper and boards offered in grammage ranging from 80 to 300 Gsm, that has a special position in the market. WESCO Natural Greeting Card is popular in the greeting and wedding card segment. WESCO CB Base is used in the making of paper cup base. WCPM offers WESCO brand premium printing paper to suit high-end printing applications. Company enjoys the distinction of being a strong player in some of the value added, customised and niche product segments for high-end applications. WESCO Brand MICR Cheque Paper, Bond, Parchment, Azure Laid, Super Shine, Duraprint, Alkali-Resistant paper, etc. are very popular and most sought after grades in the industry. WCPM presents the finest Range of premium office paper of international standards, tailor-made to suit all kinds of high-end office printers. WESCO is a one-stop paper house for quality, variety and affordability. The range is made available in A4, A3 and folio size in 65, 70, 75, 80 & 100 gsm. The conventional raw material i.e. pulpwood is required in the production process of the company. In order to continue ensure long term availability of raw material, the Company continue to focus on Captive Plantation Project and on social forestry. Total cultivated/plantation area is around 49425 acres of land so far within a radius of 200250 km from Dandeli, as to enhance the availability of pulpwood. The company is also distributing seedlings to the farmers at concessional rates so that plantations are taken up by them without any commitment for its supply to the company. This will increase the overall availability of raw material for the industry. The Company's strong pan-India distribution network with over 70 dealers operating from almost every state ensures effective reach of the products and services to the end users across the country. Of which, around 75% of the Company's dealers have been associated with the Company for over 15 years.

Proposed Mill Development plan worth of Rs 500 Cr

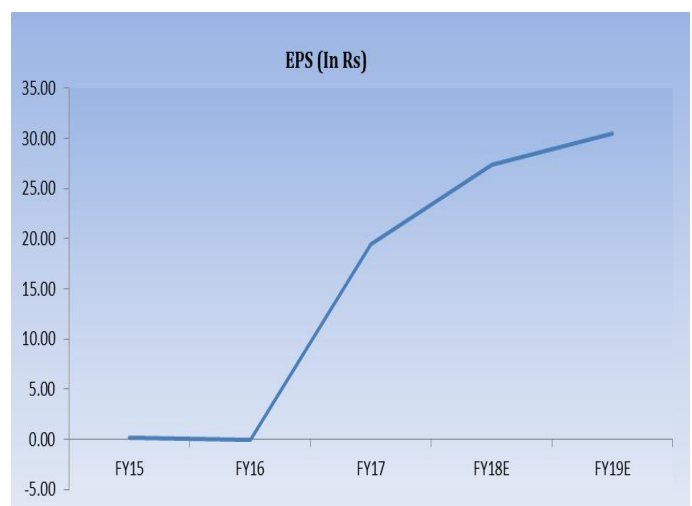
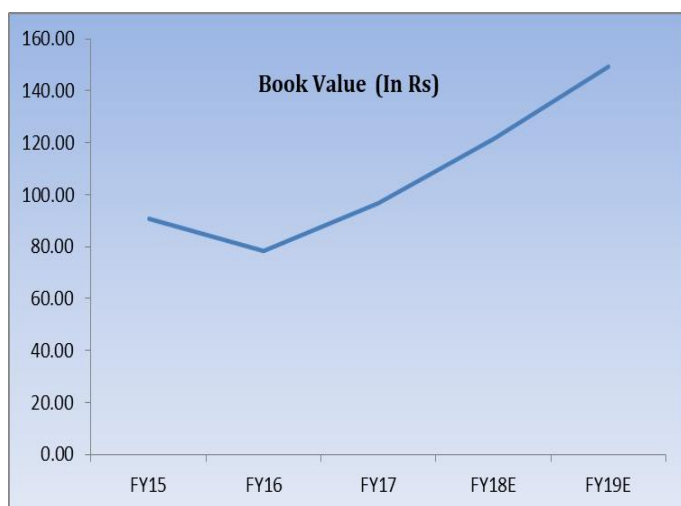
Co has proposed Mill Development Plan (MDP) which comprises of (i). installation of two new tissue paper machines with aggregate capacity of 72,000 TPA, (ii). Modernisation/Augmentation of few existing paper machines to enhance the existing installed capacity from 320,000 TPA to 378,000 TPA, (iii). Augmentation of existing pulp mill from 725 TPD to 785 TPD, (iv). Installation of additional 135 TPH boiler, (v). Installation of new 35 MW steam turbine. It will be developed with a capital cost of Rs. 500 Cr. Final approval of this plan will result in increase in company's capacity significantly thus positively effecting the financial strength of company.



Strong Demand Scenario in Paper & Cable Segment

Despite the continued focus on digitisation, India's demand for paper is expected to rise 53 per cent in the next few years, primarily due to a sustained increase in the number of school-going children in rural areas. Growing consumerism, modern retailing, rising literacy (continued government spending on education through the Sarva Shiksha Abhiyan) and the increasing use of documentation will keep demand for writing and printing paper buoyant. Import pressures are likely to be continued and could result in pricing pressures on paper products particularly copier and maplitho segments. However, the company has well diversified product base which partially insulates it from the import and other cyclical impact. The company has developed and introduced some new products and varieties like Wesco Bond, Wesco Supershine, Wesco Duraprint, B2B 64 gsm copier etc. to capture new markets with beer product mix. Further, continued thrust on manufacturing different variants of cup stock paper having double digit growth prospects augurs well for maintaining the market share in this competitive segment. With optimum capacity utilisation, good demand outlook, moving into environmental friendly and value added products, the company is expected to sustain its growth prospects.

According to "India Optical Fiber Cables Market Forecast & Opportunities, 2020", optical fiber cables market in India is expected to surpass US\$ 424 million by 2020. Nationwide connectivity projects launched by the Government such as National Optical Fiber Network (NOFN) and National Fiber Spectrum (NFS), National Knowledge Network (NKN) and the 4G in the country are bound to boost data transmission volumes, thereby making expansion of OFC installations critical for supporting the planned network expansions. In addition, next generation technologies such as LTE and FTTx, which require last mile connectivity, would also propel the demand for optical fiber cables in the coming years. India optical fiber cables (OFC) market is expected to grow robustly due to expansion of telecom infrastructure throughout the country over the next five years. Being the second largest telecom market worldwide, India exhibits high data traffic owing to increasing penetration of smart phones and growing demand for broadband services, thereby creating significant demand for OFC installations. Consumers are increasingly shifting towards internet driven applications like HDTV, video on demand and high-speed file sharing. To address the soaring demand for high speed data transmission, the government of India along with telecom giants is investing substantial capital in upgrading the country's telecom infrastructure. The existing network of copper cables is being over hauled by using advanced fiber optic technology. All these factors are consequently providing a considerable thrust to the OFC market in India. Looking at the upcoming demand and competition, cable division of company has also augmented the facility with new Colouring, Secondary and Stranding machines and equipping with the new state-of-art Optical testing machines. Further, co have started manufacturing of FRP and Glass Roving in the same plant as a backward integration. This will help company in increasing its revenue from this segment.



Consolidated P& L Statement

Rs Crore

Particulars	FY15	FY16	FY17	FY18E	FY19E
Total Revenue	1648.37	1700.04	1769.34	1875.50	1988.03
Growth(%)	---	3.13	4.08	6.00	6.00
Expenditure	1402.65	1450.51	1431.28	1444.14	1530.78
EBITDA	245.72	249.53	338.06	431.36	457.25
Growth (%)	---	1.55	35.48	27.60	6.00
EBITDA Margin(%)	14.91	14.68	19.11	23.00	23.00
Other income	2.66	7.67	2.37	2.51	2.66
Depreciation & Amortization	122.20	114.36	110.98	117.64	124.70
EBIT	126.18	142.84	229.45	316.23	335.21
EBIT Margin(%)	7.65	8.40	12.97	16.86	16.86
Interest	69.85	75.81	51.57	39.36	38.17
Exceptional Item	-51.60	-53.24	0.00	0.00	0.00
PBT	4.73	13.79	177.88	276.87	297.04
Tax	3.62	14.26	49.38	83.06	89.11
PAT	1.11	-0.47	128.50	193.81	207.93
Minority Interest	0.00	0.00	0.00	0.00	0.00
Consolidated PAT	1.11	-0.47	128.50	193.81	207.93
Growth (%)	---	--	--	50.82	7.29
NPM (%)	0.07	-0.03	7.26	10.33	10.46
Equity Capital	13.21	13.21	13.21	13.21	13.21
Equity Shares	6.60	6.60	6.60	6.60	6.60
EPS	0.17	-0.07	19.47	29.37	31.50

Ratios

Particulars	FY15	FY16	FY17	FY18E	FY19E
Return on Equity (%)	0.19	-0.09	20.10	23.75	20.65
Return On Capital Employed (%)	9.74	12.35	22.57	28.17	27.82
Book value per share	90.57	78.27	96.84	123.63	152.56
Debt/Equity	1.17	1.24	0.59	0.38	0.20

Consolidated Balance Sheet

Rs. Crore

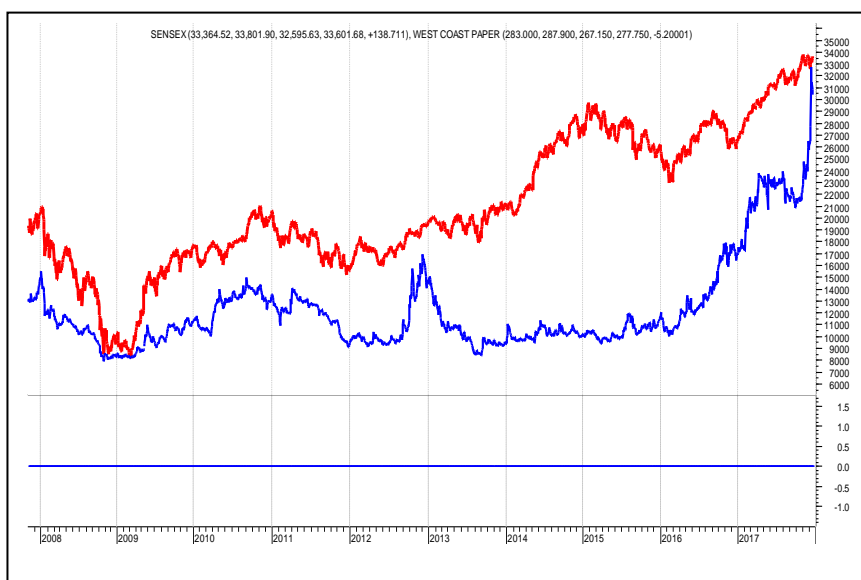
Particulars	FY15	FY16	FY17	FY18E	FY19E
Share Capital	13.21	13.21	13.21	13.21	13.21
Reserves & Surplus	584.56	500.59	623.17	799.99	990.92
Sh App/Warrants	0.00	2.78	2.78	2.78	2.78
Total Debt (Long Term+ Short Term Borrowings)	697.35	640.25	377.38	306.67	197.85
Other Long Term Liabilities & provisions	33.36	90.09	98.73	104.70	110.55
Net Deferred tax Liability	72.33	85.68	135.05	143.21	151.21
Sources of funds	1400.81	1332.60	1250.32	1370.56	1466.52
Net Fixed Assets	1148.99	1127.43	1030.26	1043.90	1131.96
Non-Current Investments	46.71	0.83	0.83	0.83	0.83
Other Non-Current Assets	65.21	63.39	85.43	90.56	98.86
Inventories	483.25	375.05	282.67	327.70	327.12
Sundry debtors	124.99	118.04	128.31	148.75	148.49
Cash and bank balance	13.13	12.62	23.28	26.99	26.94
Other current assets	1.60	3.44	6.00	6.96	6.94
Loans and advances	41.39	28.37	51.11	59.25	59.15
Current Investment	0.00	1.51	1.51	1.75	1.75
Total current assets	664.36	539.03	492.88	571.39	570.38
Current liabilities and provisions	524.46	398.10	359.09	336.11	335.52
Net current assets (Ex Cash)	126.77	128.31	110.51	208.29	207.92
Uses of Fund	1400.81	1332.58	1250.31	1370.57	1466.51

Quarterly Financial Highlights

Rs. Crore

Particulars	Q2FY18	Q2FY17	Q1FY18	YoY%	QoQ%
Revenues	421.53	471.52	410.24	(10.60)	2.75
Expenditures	338.18	391.80	327.56	(13.69)	3.24
Operating Profit	83.35	79.72	82.68	4.56	0.81
Net Profit	47.79	25.44	53.71	87.82	(11.02)
PBIDTM% (ex OI)	19.77	16.91	20.15	16.96	(1.89)
NPM %	11.34	5.40	13.09	110.09	(13.37)
EPS*	7.23	3.85	8.13	87.79	(11.07)

Past Price movement of the stock





www.hemsecurities.com

research@hemsecurities.com

HEM SECURITIES LIMITED

MEMBER-BSE,CDSL,SEBI REGISTERED CATEGORY I MERCHANT BANKER

Sebi Registration No For Research Analyst: INH100002250

MUMBAI OFFICE: 904, A WING. 9TH FLOOR, NAMAN MIDTOWN, SENAPATI BAPAT MARG,

ELPHINSTONE ROAD, LOWER PAREL ,MUMBAI -400013

PHONE- 0091 22 49060000

FAX- 0091 22 2262 5991

JAIPUR OFFICE: 203-204, JAIPUR TOWERS, M I ROAD, JAIPUR-302001

PHONE- 0091 141 405 1000

FAX- 0091 141 510 1757

GROUP COMPANIES

HEM FINLEASE PRIVATE LIMITED

MEMBER-NSE

HEM MULTI COMMODITIES PRIVATE LIMITED

MEMBER-NCDEX, MCX

HEM FINANCIAL SERVICES LIMITED

NBFC REGISTERED WITH RBI

Disclaimer & Disclosure: This document is prepared for our clients only, on the basis of publicly available information and other sources believed to be reliable. Whilst we are not soliciting any action based on this information, all care has been taken to ensure that the facts are accurate, fair and reasonable. This information is not intended as an offer or solicitation for the purchase or sell of any financial instrument and at any point should not be considered as an investment advice. Reader is requested to rely on his own decision and may take independent professional advice before investing. Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited, Directors and any of its employees shall not be responsible for the content. The person accessing this information specifically agrees to exempt Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and further agrees to hold Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The companies and its affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material may from time to time, have long or short positions in, and buy or sell the securities there of, company (ies) mentioned herein and the same have acted upon or used the information prior to, or immediately following the publication.

Disclosure of Interest Statement

1. Analyst Ownership of the Stocks	No
2. Hem & its Group Company Ownership of the Stock	No
3. Hem & its Group Company Director Ownership of the Stock	No
4. Broking relationship with Company covered	No

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

