

West Coast Paper Mills Ltd

Industry	CMP	Recommendation	Add on dips to	Sequential Targets	Time Horizon
Paper & Paper Products	Rs. 188	Buy at CMP and add on declines	Rs. 170-174	Rs. 215-237	1-2 quarters

HDFC Scrip Code	WESCOAEQNR
BSE Code	500444
NSE Code	WSTCSTPAPR
Bloomberg	WCPM IN
CMP April 07 2017	Rs. 188
Equity Capital (Rs cr)	13.2
Face Value (Rs)	2.0
Equity Share O/S(crs)	6.6
Market Cap (Rs crs)	1241.7
Book Value (Rs)	90.6
Avg. 52 Wk Volumes	88255
52 Week High	196.0
52 Week Low	71.30

Shareholding Pattern % (Dec 31, 2016)	
Promoters	55.7
Institutions	14.8
Non Institutions	29.5
Total	100.0

Fundamental Research Analyst

Abdul Karim

abdul.karim@hdfcsec.com

West Coast Paper Mills Ltd (WCPM) is one of the leading paper manufacturers in India with presence in all major segments like Office Papers, High End Packaging Boards, and Coated Papers etc, acknowledged in India as well as abroad. WCPM is among India's top five paper manufacturers in terms of the scale of operations. WCPM is engaged in manufacturing and selling of paper and paper products including Printing and Writing Paper, Premium Printing Paper, Security and High value grade paper. Company has well established brands across all grades of paper and boards ranging from 52 to 600 Gsm (Grams per Square Meter).

Investment Rationale:

- Vertically integrated company with pan India presence,
- Captive technology based plantation could help to maintain its margins going forward,
- Efficient product portfolio with strong pan India distribution network,
- Data revolution in IT and Telecom Industry could boost WCPM's Cable business rapidly,
- Easy access to resources could help to maintain/boost profitability going forward,
- Favorable demand and supply is likely to improve realization going forward,
- Sound Financial Profile and consistent Dividend Payout,
- Capex Plans could provide growth visibility over the medium term.

Concerns:

- Paper industry is cyclical in nature,
- Competitive intensity from local players and imports from ASEAN countries and China,
- High working capital requirements,
- Environmental changes for the industry,
- Government's focus on digital and paperless initiatives:

View and Valuation:

WCPM has been able to maintain its utilization at ~96% over the last 5 years in Paper business and expects to see growth in utilization while exercising efficient production practices. Rise in paper prices over the past two quarters augurs well for margins till it decides on expansion plans. WCPM plans to expand value added products could also result in better realization and margins going forward. It also plans to reduce its debt burden in next 1-2 years, which could add to its net margins. It has recently firmed up plans for capex which once implemented could result in better visibility for growth. We feel investors could buy the stock at the CMP and add on dips to Rs. 170-174 band (~8x FY1E EPS) for sequential targets of Rs 215 (10x FY19E EPS) and Rs 237 (11x FY19E EPS). At the CMP of Rs 188 the stock trades at 8.8x FY19E EPS.

Financial Summary:

Particulars (Rs cr)	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	437.7	438.6	-0.2%	443.9	-1.4%	1648.4	1700.0	1760.7	1856.0	1946.2
Operating Profit	88.7	64.7	37.2%	79.7	11.3%	245.7	252.8	316.9	348.9	361.0
APAT	37.4	15.3	144.1%	25.4	47.1%	52.7	62.1	100.4	129.5	141.8
Diluted EPS (Rs)	5.7	2.3	144.1%	3.9	47.1%	8.0	9.4	15.2	19.6	21.5
P/E (x)						23.6	20.0	12.4	9.6	8.8
EV/EBITDA (x)						7.8	7.4	5.7	4.9	4.5
RoE (%)						8.8%	10.4%	14.6%	16.3%	15.5%

(Source: Company, HDFC sec)
Company Profile:

West Coast Paper Mills Ltd (WCPM) is one of the leading paper manufacturers in India with presence in all major segments like Office Papers, High End Packaging Boards, and Coated Papers etc, acknowledged in India as well as abroad. WCPM is engaged in manufacturing and selling of paper and paper products including Printing and Writing Paper, Premium Printing Paper, Security and High value grade paper. Company has well established brand across all grades of paper and boards ranging from 52 to 600 Gsm (Grams per Square Meter).

The Company operates six versatile machines with an installed capacity of 3,20,000 ton per annum, with which the quality standards of the Company products have risen to international standards. WCPM is accredited with the prestigious FSC certification by the Forest Stewardship Council acknowledging the efforts on its farm forestry measures under the forest conservation program. Company has employed 2,379 individuals as on 31 March, 2016.

Business Overview:
Product Overview:
Paper Business:

Printing & Writing Paper
 MG Variety
 Premium Printing Paper
 Security & Hi-Value Grade Papers
 Business Stationery
 Cup Stock & Coated Duplex Boards

Printing & Writing Paper:

WCPM provides printing and writing paper from 52 to 140 Gsm for entire needs of modern printing houses. This high bright, strong, stiff and bulkier paper offers excellent surface, optical and physical properties to suit all kinds of commercial grade printing & writing applications.

MG Variety

WCPM presents a range of high quality machine-glazed paper and boards offered in grammage ranging from 80 to 300 Gsm. The posters and boards made of 100% virgin wood fibre are popular for their quality, durability and reliability and are well received by the customers. Product is offered in four standard colors viz; Yellow, Green, Blue & Pink besides in Buff and Natural Shade.

Premium Printing Paper

WCPM provides WESCO brand premium printing paper to suit high end printing application. The range that comes in 58 to 90 gsm possesses high strength with uniform profile ensuring excellent reel quality to cope with higher print, meeting the demands of modern print shops.

Security & Hi-Value Grade Papers

WCPM enjoys the distinction of being a strong player in some of the value added, customized 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.

Business Stationery

WCPM presents the finest Range of premium office paper of international standards, tailor-made to suit all kinds of high-end office printers. Reel-cut and packaged, using state-of-the-art automated precision cut-pack system that ensures dimensional perfection and crisp packing it provides value addition to the customer. 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.

Cup Stock & Coated Duplex Boards:

WCPM presents a wide range of WESCO brand Specialty and value added products to the packaging industries viz Cup Stock varieties, Folding Box Board & Single and Double Coated Board with Grey Back & Kraft Back. At WCPM, paper and boards are manufactured using eco-friendly production process, maintaining highest level of quality standards.

Optical Fibers Cable business:

Cable division is run by its Mysore based subsidiary West Coast Optilinks (formerly known as Sudarshan Telecom). The company has the capacity to produce 50,000 Km of optical fibre cable and 1.5 million CKM of PIJF copper telephone cables per year.

Plantation:

The rubber plantation estate of this company is spread over 1,800 acres at Mukkom, Calicut (Kozhikode) Kerala. Seven lakh Kgs of Single and Double Centrifuged Natural Rubber Latex and Natural Dry Rubber-ISNR 10 & 20 are processed and manufactured by Kilkotagiri and Thirumbadi Plantations Limited.

Brands and end users under High Value grade Papers:

Brands	Range	End Users
MICR Cheque Paper:	95Gsm	Used for customized water-marked security-paper in printing cheque leaves, security bonds.
WESCO Bond	85 & 100Gsm	For Corporate & Business Stationery, Presentations, Manuscript writing, Brochure, Pamphlets, letter heads, Resume, etc.
WESCO Parchment Paper	105-120Gsm	Used in the high-end applications as for making agreements, certificates etc.
WESCO Super Shines.	90-140Gsm	Used for high end Commercial Printing, Diaries, Annual Reports, Journals, Architectural Drawing & high end Envelop,
WESCO Duraprint	80-140Gsm	Used for high end shopping bags, gift bag/envelop, gift wrapping, Wall calendars etc.
Azure Laid	70-110Gsm	Most preferred and traditionally used Ledger paper over the years.
Cartridge Paper	90-140 Gsm	Used for making drawing books for children and in the Chart paper for draft plans etc.
Nova Print.	54 to 90 Gsm	Offered in white and natural shades is well accepted in the book publication segment for the shade, stiffness and print quality.

(Source: Company, HDFC sec)

Brands and End Users under Business Stationery grade paper:

Brands	Range	End Users
B2B	70 GSM (Multi-purpose Office Paper)	Best suited for hi-speed copying, inkjet , laser and general-office-stationery
Copy Gold	75 GSM (A Versatile Multi-functional Paper)	Super-bright Paper with excellent dimensional stability for hi-speed, hassle-free copying and printing.
Copy Plus	80 GSM (Premium Business Paper)	A premium, multi-functional paper for hi-end office needs.
WESCO Bond	80 & 100 GSM	Used for Business Proposals, Corporate Stationery, letter heads, Resume & Presentations
Documate	65 GSM (Multi-purpose Office Paper)	Suitable for economical photocopying, desk top printing

(Source: Company, HDFC sec)

Brands and End Users under Cup Stock & Coated Duplex Boards

Brands	Range	End Users
WESCO PRIME	160-230	Wall & Base for all sizes of Printed / Unprinted Paper Cups Suitable for Hot & Cold Beverages
WESCO BASE	165-230	
WESCO LINER	165-230	
WESCO ECO LINER	165-230	
WESCO HB GREETING	170-250	Suitable for Wedding & Greeting Cards
WESCO FOLDING BOX BOARD	190-250	High end packaging for Pharmacy product and Garments, Greeting, Wedding & Invitation card, etc.
COATED DUPLEX BOARD GREY BACK (LWC/DLX)	230-570	Match box, Agarbatti, Garment, Sweet Boxes, Foot Wear Packaging Boxes
DUPLEX BOARD COATED SUPER GREY BACK (HWC)	230-400	Carton boxes , boxes with high stiffness/strength, Garment Inserts, fruit boxes
DUPLEX BOARD KRAFT BACK (LWC/DLX)	400-600	

(Source: Company, HDFC sec)

Group Company/units:
West Coast Optilinks (formerly known as Sudarshan Telecom), Mysore:

West Coast Optilinks is a unit of West Coast Paper Mills Ltd. It is a leading producer of telecom cables in India. The state-of-the-art manufacturing facility of West Coast Optilinks is located at the Hi-Tech electronics zone in Mysore (140 Km from Bangalore).

Gloster Cables Limited:

Gloster Cables Ltd is a leading manufacturer of PVC & XLPE power & control cables (It&ht). Plant is located at Hyderabad, Andhra Pradesh.

Jayshree Chemicals Limited (JCL):

JCL is involved in Chlor Alkali manufacturing business for about 50 years. This business was hived off due to commercial considerations. All the major activities of the company now include Wind Power generation, Import Export business, and other miscellaneous activities.

Kilkotagiri and Thirumbadi Plantations Limited. (Formerly known as The Thirumbadi Rubber Company Ltd.)

The rubber plantation estate of this company is spread over 1,800 acres at Mukkom, Calicut (Kozhikode) Kerala. Seven lakh Kgs of Single and Double Centrifuged Natural Rubber Latex and Natural Dry Rubber-ISNR 10 & 20 are processed and manufactured by Kilkotagiri and Thirumbadi Plantations Limited.

Fort Gloster Electric Limited:

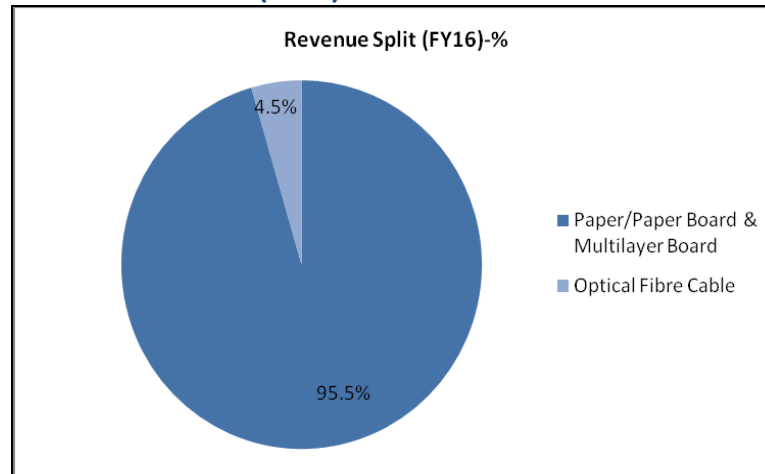
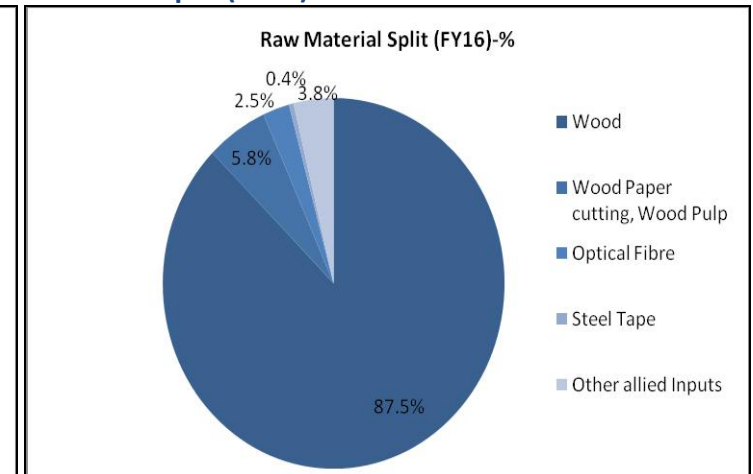
Company is fans and electrical appliances company with a rapidly expanding product line. Marketed under the brand name Gloster, a premium range of Ceiling, TPW, Exhaust, Farratta and Ventilating Fans, as well as its rich repertoire of Home Appliances like Mixer Grinders, Juicer Mixer Grinders, Water Heaters, Iron and Immersion Heaters have found very good acceptance among the dealers and customers. Gloster is at present available across 14 states in India.

Operating Metrics:

Segments	Unit	FY12	FY13	FY14	FY15	FY16
Installed Capacities						
Paper/Paper Board & Multilayer Board	Tones/pa	320000	320000	320000	320000	320000
Optical Fibre Cable	Km/pa	50000	50000	50000	50000	50000
Production						
Paper/Paper Board & Multilayer Board	Tones/pa	308230	317808	310002	300514	306960
Optical Fibre Cable	Km/pa	20184	20242	20686	30438	42989
Sales, Volume						
Paper/Paper Board & Multilayer Board	Tones/pa	305818	321018	298682	302978	315146
Optical Fibre Cable	Km/pa	20308	20161	21053	30368	40545
Capacity Utilization						
Paper/Paper Board & Multilayer Board		96.3%	99.3%	96.9%	93.9%	95.9%

Optical Fibre Cable		40.4%	40.5%	41.4%	60.9%	86.0%
Realization						
Paper/Paper Board & Multilayer Board	/ton	43570.26	46706.03	53928.26	51360.82	51508.51
Optical Fibre Cable	/Meter	16.48	20.67	20.79	30.28	18.88

(Source: Company, HDFC sec)

Sales Contribution (FY16)

Raw material Split (FY16)


(Source: Company, HDFC sec)

Exports:

WCPM has stepped up its exports to more than 35 countries across Asia Pacific, Middle-East, the Mediterranean and the African sub continents which are a testimony to its global acceptance for its quality products meeting international standards.

Exports -Value

Particulars, Rs in Cr	FY15 Cr	% of Total Sales	FY16 Cr	% of Total Sales	Growth-%
Paper	28.1	1.8%	32.4	2.0%	15.4%
Cable	0.5	0.6%	0.8	0.7%	46.2%
Overall	28.6	1.7%	33.2	1.9%	15.9%

Exports -Volume

Particulars,	FY15 MT	Realization -FY15	FY16 MT	Realization -FY16	Growth-%
Paper (MT)	5348	52580.40	6182	52474.93	15.6%
Cable (Km)	733	7094.13	735	10340.14	0.3%

(Source: Company, HDFC sec)

Industry Overview:

Consumption of paper in India is just about 3% of the global production of paper, which means that the average Indian consumes only about 13 kg of paper every year against a global average of over 57 kg. Indonesia consumes 33 kg of paper per capita while Japan consumes more than 220 kg per capita. The paper industry has huge potential to grow as the per the lower capital consumption in India comparing with other developing and developed nations. The estimated turnover of the industry is Rs 50,000 crore (\$8 billion) approximately and its contribution to the exchequer is around Rs 4,500 crore. The industry provides employment to more than 0.5 million people directly and 1.5 million people indirectly.

Out of total Paper Mills, about 80 units accounts for production share of about 60% and balance units mostly comprising of small Paper Mills with production share of 40%. Wood based Industry accounts for 31% of production while waste paper and agri residue accounts for 47% & 22% respectively. Capacity-wise Industrial Paper accounts for about 40%, Printing & Writing Paper 35%, Specialty Paper 6% and Newsprint 19% of total production.

Key growth drivers in the Industry:

- In the coming years, the sector is poised to grow with decent pace on account of massive spurt in demand for writing and printing paper. The domestic demand for paper is set to surpass supply, with the growing emphasis on education and alternative uses of paper. The demand for upstream market of paper products, like, tissue paper, tea bags, filter paper, light weight online coated paper, medical grade coated paper, etc., is growing up. These developments are expected to give fillip to the industry.
- The operating capacity of the industry currently stands at around 13 million tonnes. During 2015-16, domestic production was estimated to be around 12.2 million tonnes. As per industry guesstimates, over all paper consumption has now touched 13.9 million tonnes and per capita consumption is pegged at slightly below 10 kg. So far, the growth in paper industry has mirrored the growth in GDP. Demand of paper has been growing around 8% per annum for some time.
- Demand for better quality packaging of FMCG products marketed through organized retail, rising healthcare spends, over-the-counter medicines and increasing preference for ready-to-eat foods are the key demand drivers for paperboard.
- India is the fastest growing paper market globally, growing at over 7 per cent and projected to grow at over 4 per cent per annum till 2030 to 27 million tonnes by 2030. The industry has made an investment of over Rs 20,000 crore in last 5 years and it needs investments of Rs 90,000 crore to add new capacities by 2030. Demand of paper in India is expected to grow by 53% in next six years as the educational demand for paper is constantly on the rise.
- The market for writing and printing paper is expected to grow by about 6 per cent annually over the next five years. As a result, market for printing and writing paper will expand from the current 4.8 million tonnes in 2015-16 to about 5.8 million tonnes per year by 2018-19.

Investment Rationale:**Vertically integrated company with pan India presence:**

WCPM is one of the few players in the paper manufacturing industry to have direct access to the entire value chain right from plantation, pulp, manufacturing and consumer markets. The company also has an established presence in all the other three major growth segments like Copier, Coated and high end and packaging board. The Company's manufacturing facilities are strategically located to provide easy access to raw materials and ports for inputs. Company has pan India Distribution network. Over the few decades, its brand has been developed led by consistent delivering quality products and services beyond the customer's expectations.

The Company has also focused on social forestry and has so far cultivated more than 45,000 acres of land within a radius of 250-300 kms so as to enhance availability of wood.

Apart from this, company installed 34.5 MW TG Set supplied by M/s BHEL in the year 2010 and now the Total Captive Power Plant Capacity is 74.5MW.

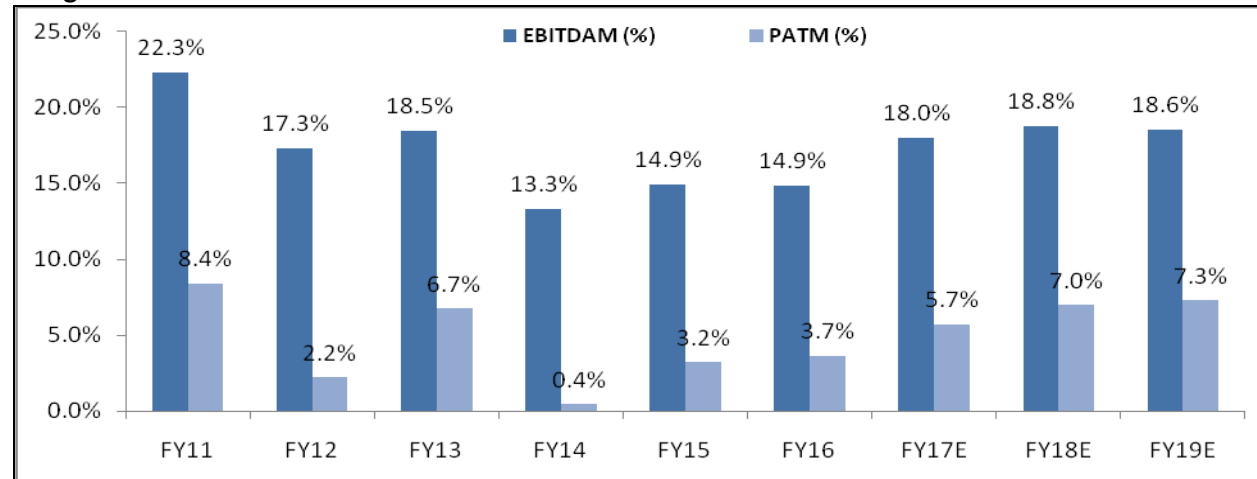
Captive technology based plantation could help to maintain its margins going forward:

WCPM works pro actively towards the promotion of technology based plantations and company has been successful to use captive plantation techniques to increase the productivity and sustainability of plantations. WCPM has been implementing following key strategies to boost its margins over the periods:

- Over the year, company has effectively adopted the Clonal Technology Program and increasing the green cover over land affected by deforestation. Clonal technology captures and exploits the best combinations of plant genes in the shortest possible time.
- Company aims to produce high quality seeds through plantation program. It will help in the faster and healthier growth of trees in captive plantations. Company uses well established sources and practices of plant breeding of trees.
- Over the years, WCP has made investments in state-of-the-art metso fiber-line (environment friendly & energy efficient), modernizing pulp mills and chemical recovery plants, resulting in overall operational efficiency and lower operational cost (reduction in consumption of utilities like water, steam & power etc).
- Company aims to increase the effectiveness of land in surrounding districts using tree improvement techniques for agro-forestry. Company likes to help rural communities to enhance the productivity, suitability, and sustainability of their land use.
- WCPM has constantly been pursuing the up gradation of its technologies for augmenting production that has enabled to offer uniform quality of customized, automated products and services to the Pulp and Paper and Energy Industry globally.
- 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.

Wood and Wood Pulp are key raw materials for WCPM and easy availability could boost its margins going forward. We expect Company could maintain its EBITDA Margin at 18-19% and PAT margin at 7-7.5% in next 2 years.

Margins-%



(Source: Company, HDFC sec)

Efficient product portfolio with strong pan India distribution network:

West Coast product-line features in well-established WESCO brand Paper & Boards, commercial to premium grades ranging from 52 to 600 GSM, catered to across six different product segments: Writing, Printing, Specialty, Industrial, and Packaging and Business stationery. Over the Period, WCPM has increased the production of value added grades, viz. the Copier papers, WESCO brand premium printing papers, MICR Cheque papers, Parchment, Azure laid, the MG based and Cup Stocks & the Duplex range for the Packaging industry.

WCPM has embarked on the manufacture of ready-to-use branded copier papers in the fast growing business stationery segment. In addition to existing 250 MT/day Bielomatik on-line automated cut-pack systems, the Company has recently enhanced copier conversion capacity with the addition of a new 100 MT/Day Line-o-Matic copier conversion line.

The Company has a strong pan-India distribution network with over 70 dealers and 6 zonal offices which helps to maintain its presence across the country, of which, around 75% of the Company’s dealers have been associated with the Company for over 15 years. Customer focused R&D supported by the relentless efforts of its Marketing network ensure high credibility and reliability for the company in domestic as well as export markets. The Company’s sustained focus on product customization, new product development, presence in fast growing segments, brand-led customer pull and increasing exports have rationalized its customer loyalty and off-take.

Data revolution in IT and Telecom Industry could boost WCPM’s Cable business rapidly:

With the Indian telecom sector entering the next phase of growth characterized by the data revolution, the OFC industry is looking up. Investment in OFC networks are being driven by the growing demand for broadband services, proliferation of

next-generation broadband technologies like LTE and increasing deployments for the last-mile connectivity (FTTH). The tele-density registered a CAGR of 23% from 2007 to 2014 and is expected to reach 100% by 2020 as per TRAI guidelines. Besides telecom, other sectors that will also contribute significantly to OFC demand are power, railways, oil and gas.

There are 17 OFC manufacturers having a total capacity of more than 1.5 million cable km. 3 more companies are also planning to enter into the segment. Looking at the upcoming demand and competition, Cable Division has also augmented the facility with new Colouring, Secondary and Stranding machines and equipping with the new state-of-art Optical testing machines. Further, WCPM has started manufacturing of FRP and Glass Roving in the same plant as a backward integration. Indian OFC market was estimated at around USD 200 million in 2014 growing at CAGR of 13% which is further expected to grow at higher CAGR of around 16% from 2015 to 2020 and reach USD 420 million by 2020.

Nationwide connectivity projects launched by the Government such as National Optical Fiber Network (NOFN) and National Fibre Spectrum (NFS), National Knowledge Network (NKN) and the anticipated 4G Rollout 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.

With robust existing infrastructure, competent technical manpower and expansion plans underway WCPM's cable division is well poised to increase its market share in emerging demand scenario.

Easy access to resources could help to maintain/boost profitability going forward:

WCPM is located at Dandeli town in Uttara Kannada District in Karnataka on 240 acres of leasehold land. The mill is connected through a broad gauge railway line on Miraj-Bangalore section at Alnavar Junction, with railway lines that run up to the factory.

Wood: In order to manufacture some specialty papers, WCPM imports pine wood pulp in small quantities. Its paper mill consumes about 9,50,000 MT of raw material per year. For raw material, company is dependent-to a great extent-upon the private cultivators in Karnataka, Tamil Nadu, Andhra Pradesh, and Pondicherry.

Water: WCPM requires about 68000 KL of water per day, which is drawn from the river Kali. Company uses pure and potable water having low iron content for manufacturing paper.

Power: WCPM uses both self-generated and purchased power for production purposes. Complete self-sufficiency has been achieved in power generation. Company also has surplus power capacity up to 20 MW. Apart from self generation, it has the provision for grid connectivity of 8250 KVA and its captive power generating capacity is 74.80 MW.

Steam for manufacturing paper is met by four coal fired FBC boilers with a steam generating capacity of 330 Mt/Hr and two chemical recovery boilers with a capacity of 258 Mt/Hr.

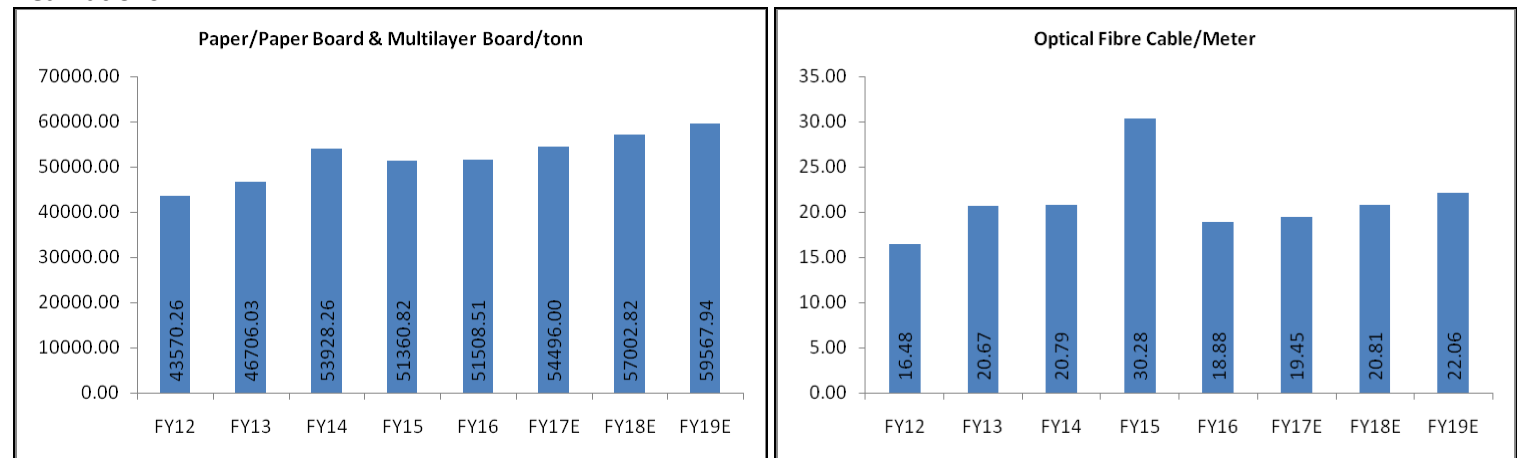
For quality control and research on raw material and processes, company has a fully equipped research lab near the Paper mill. The Central laboratory carries out detailed analysis of water, process materials, effluent stack gases, and intermediate

product. Apart from this company has set up a separate Center for research and development purposes in order to carry out research on various activities using modern facilities.

Favorable demand and supply is likely to improve realization going forward:

Post FY14, there has been stagnant demand of paper and paper products over the last two years. Now, demand-supply situation has been improving in the wood based writing and printing segment. This has helped ease pricing pressure which was earlier prevalent as a result of adverse demand-supply situation, given significant capex between FY10-FY14. Apart of this, cost pressures due to competition for wood sourcing have also eased and benefitted WCPM as input cost reduction hasn't been passed on, translating in stable realizations. Closure of unviable units has contributed to the up move in realizations during H1FY16.

Realizations:



(Source: Company, HDFC sec)

Favorable demand supply situation is likely to continue to benefit WCPM over the medium term to long term across all brands. Apart from this, Company has entered into long term contract for the supply of imported woodchips for the year 2015-16.

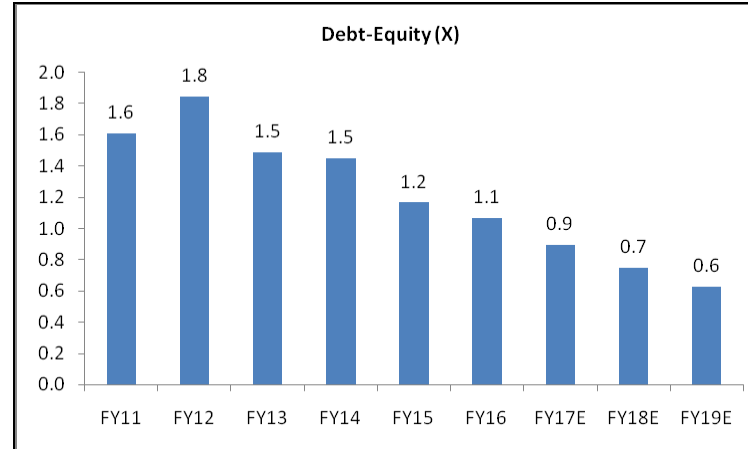
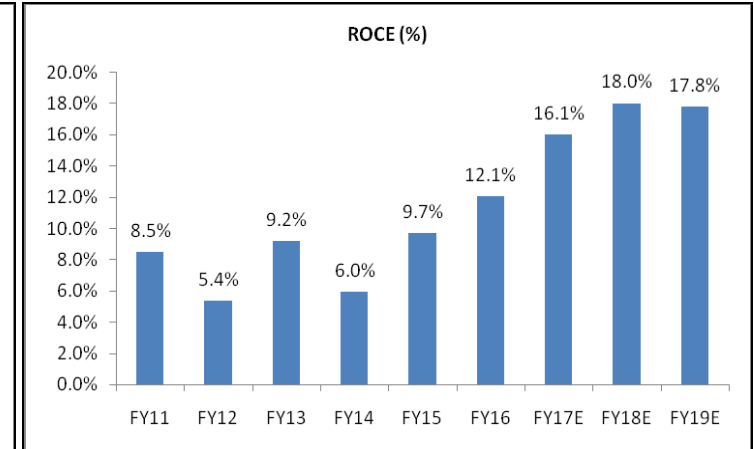
Sound Financial Profile and consistent Dividend Payout:

WCPM has registered 3.1% (YoY) revenue growth in FY16 to Rs 1700 cr, while the profit after tax (PAT) during the same period has grown by 18% (YoY) to Rs 62 crore. Debt to Equity has declined from 1.8x of FY12 to 1.1x in FY16 and company plans to reduce its debt in next two years.

Total debtors as of March 31, 2016 stood at Rs 118 crore (7% of sales) against Rs 125 crore (7.6% of sales) of March 31, 2015. Debtors Sales Outstanding (DSO) decreased from 28 days to 25 days in FY16. Company reported 4% (YoY) revenue growth to Rs 1290cr in 9MFY17 and PAT at Rs 77.8cr from loss of 5.6 cr in 9MFY16.

We expect, worst days seems to be over and company witnessed soft input cost scenario and improving realization led by domestic demand and export opportunities. Return ratios are on the way of recovery and are likely to register decent growth going forward.

WCPM has good track record to pay dividend to its share holders except FY15, as company had reported negligible profit in the year. We expect WCPM could pay dividend Rs 1.5 and Rs 2.50 per share in FY17E and FY18E respectively.

Debt-Equity(x)

RoCE-%


(Source: Company, HDFC sec)

Capex Plans could provide growth visibility over the medium term:

WCPM has proposed in Feb 2017 a Mill development plan for a cost of Rs.500 cr. This entails 58000 tonnes of expansion in Paper/Board production and 72000 tonnes of Tissue machines. Pulp capacity is also expected to be raised by 60 bd tpd. If this plans fructifies it could result in growth in volumes from FY19 onwards.

Risk and Concerns:

Cyclical in nature:

Paper industry is cyclical in nature itself and its performance depends on the paper demand as well as supply. Apart from this, adverse monsoon condition could also impact its plantation, and higher raw pulp and wood prices could impact its margin.

Shortage of raw material could hit its business:

For raw material, WCPM dependent-to a great extent-upon the private cultivators in Karnataka, Tamil Nadu, Andhra Pradesh, and Pondicherry. Any strict environmental norms or other alternatives for cultivators earning could impacts its business. Apart from this, increasing rates of wood due to competition among the Paper Mills and other user industries could impact its margin.

Import from ASEAN countries and China:

With weak global demand and anti-dumping duty imposed by USA on supplies from Indonesia & China, imports from these countries have been flooding the Indian market posing a major threat to the economic viability of domestic manufacturers - especially the smaller paper mills, some of which have closed down. Over the last 3 years, imports from ASEAN countries have nearly doubled in the last two years, with the implementation of zero duty on such imports with effect from 1st January, 2014.

Unfavorable crude price movement:

Crude based chemicals constitute 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.

High working capital requirements

The company's operations are subject to high working capital requirements. Inability to obtain and/or maintain sufficient cash flow, credit facilities and other sources of funding, in a timely manner, could adversely affect operations, financial condition and profitability. Interest rate risk resulting from changes in prevailing market rates can cause an impact on the financials of the Company.

Environmental changes for the industry:

Paper industry consumes significant amount natural resources and releases wasteful chemicals. Proper wastes and chemical recovery management are critical for environmental certification standpoint. Further changes in environmental related compliance may increase overall cost and business competitiveness.

Government's focus on digital and paperless initiatives:

Government of India sounded for Digital India and Paperless India program to increased efficiency and productivity. Each and every business process is captured on the portal, and then electronic workflow takes over. These initiatives could hit paper demand in India. With digitization and e-commerce, the demand for paper is poised to grow further. In a recent survey of 3500 students in USA, more than 90% students felt that concentration and retention is better while reading text on paper. Paper is going to coexist with the digital platforms, both supplementing and complimenting each other.

Competitive intensity:

ECPM's nearest peers TNPL (Tamil Nadu Paper Ltd) and Emami have added capacity of Packaging Board resulting in increased competition intensity in times to come leading to price drop and lower margin in the segment.

Forex Fluctuations:

WCPM imported goods (mainly raw materials) worth Rs.517 cr in FY16. It is thus impacted by fluctuations in the foreign exchange rates. Its exports at Rs.34 cr are small.

Fixed price contracts for raw materials:

Fixed-price contracts constitute around 50%-60% of WCPM's total raw material requirements. WCPM could benefit or get hurt due to this depending on the price move in raw materials.

Estimates:

Segments	Unit	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Installed Capacity									
Paper/Paper Board & Multilayer Board	Tones/pa	320000	320000	320000	320000	320000	320000	320000	320000
Optical Fibre Cable	Km/pa	50000	50000	50000	50000	50000	50000	50000	50000
Production									
Paper/Paper Board & Multilayer Board	Tones/pa	308230	317808	310002	300514	306960	307840	310080	311040
Optical Fibre Cable	Km/pa	20184	20242	20686	30438	42989	43550	44000	44750
Sales									
Paper/Paper Board & Multilayer Board	Tones/pa	305818	321018	298682	302978	315146	307532.2	309614.88	310262.4
Optical Fibre Cable	Km/pa	20308	20161	21053	30368	40545	43441.13	43670	44302.5
Sales, Cr									
Paper/Paper Board & Multilayer Board		1332.46	1499.35	1610.74	1556.12	1623.27	1675.93	1764.89	1848.17
Optical Fibre Cable		33.46	41.67	43.76	91.95	76.56	84.49	90.88	97.73
Sales, Cr	Rs	1366.20	1541.25	1654.83	1648.38	1700.04	1760.67	1856.05	1946.18
Capacity Utilization									
Paper/Paper Board & Multilayer Board		96.3%	99.3%	96.9%	93.9%	95.9%	96.2%	96.9%	97.2%
Optical Fibre Cable		40.4%	40.5%	41.4%	60.9%	86.0%	87.1%	88.0%	89.5%
Realization									
Paper/Paper Board & Multilayer Board	/tonn	43570.26	46706.03	53928.26	51360.82	51508.51	54496.00	57002.82	59567.94
Optical Fibre Cable	/Meter	16.48	20.67	20.79	30.28	18.88	19.45	20.81	22.06
Growth-%									
Paper/Paper Board & Multilayer Board			7.2%	15.5%	-4.8%	0.3%	5.8%	4.6%	4.5%
Optical Fibre Cable			25.4%	0.6%	45.7%	-37.6%	3.0%	7.0%	6.0%
Overall			12.8%	7.4%	-0.4%	3.1%	3.6%	5.4%	4.9%

(Source: Company, HDFC sec)

View and Valuation:

The Indian paper industry is in the beginning stages of a major transformation, with key players investing in upgrading facilities and capturing market share. Though challenges and some barriers exist for entry, they may be overcome by investing in the right state and acquiring the right assets. Many policy changes being considered may ease the pain of doing business in India.

WCPM has been able to maintain its utilization at ~96% over the last 5 years in Paper business and expects to see growth in utilization while exercising efficient production practices. Rise in paper prices over the past two quarters augurs well for margins till it decides on expansion plans. WCPM plans to expand value added products could also result in better realization and margins going forward. It also plans to reduce its debt burden in next 1-2 years, which could add to its net margins. It has recently firmed up plans for capex which once implemented could result in better visibility for growth. We feel investors could buy the stock at the CMP and add on dips to Rs. 170-174 band (~8x FY1E EPS) for sequential targets of Rs 215 (10x FY19E EPS) and Rs 237 (11x FY19E EPS). At the CMP of Rs 188 the stock trades at 8.8x FY19E EPS.

Quarterly Financials – Standalone

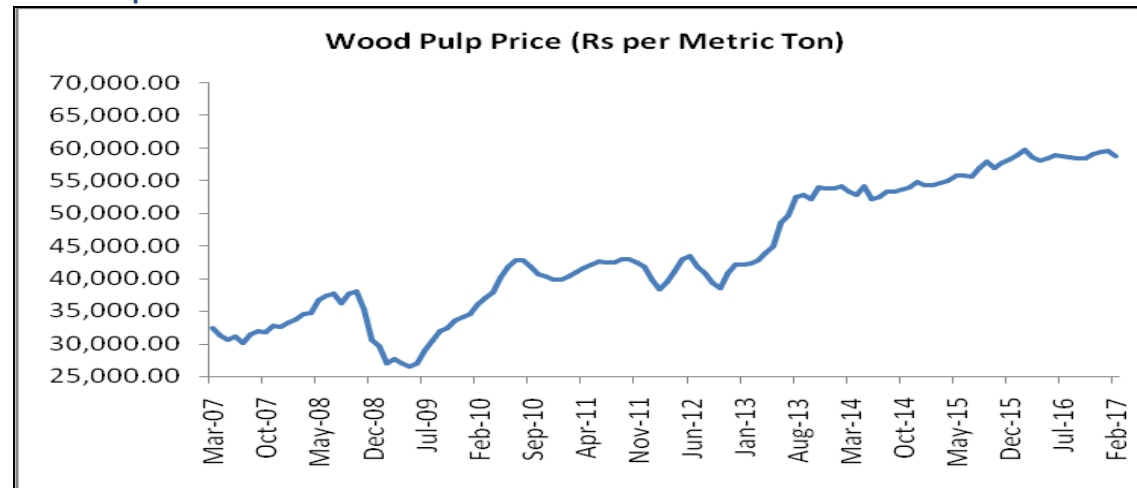
Particulars (Rs cr)	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	9MFY17	9MFY16	YoY (%)
Net Sales	437.7	438.6	-0.2%	443.9	-1.4%	1289.6	1240.0	4.0%
Other Operating Income	1.7	0.9	99.6%	1.8	-3.6%	4.8	4.0	18.7%
Total Income	439.5	439.4	0.0%	445.7	-1.4%	1294.4	1244.0	4.1%
Raw Material expense	246.3	275.3	-10.5%	264.3	-6.8%	749.2	766.9	-2.3%
Employee Expenses	29.7	28.7	3.5%	28.7	3.5%	87.3	85.6	2.0%
Power, fuel and water charges	38.4	0.0	-	37.7	1.9%	112.1	40.4	177.4%
Other Expenses	36.2	70.7	-48.8%	35.2	2.8%	104.7	166.3	-37.1%
Total Expenditure	350.7	374.8	-6.4%	366.0	-4.2%	1053.2	1059.2	-0.6%
Operating Profit	88.7	64.7	37.2%	79.7	11.3%	241.2	184.8	30.5%
Other Income	0.0	0.1	-46.1%	0.1	-58.3%	0.7	1.0	-34.9%
PBIDT	88.8	64.7	37.1%	79.8	11.2%	241.8	185.8	30.2%
Interest	13.3	16.9	-21.2%	13.0	2.0%	45.4	52.0	-12.7%
PBDT	75.5	47.9	57.7%	66.8	13.1%	196.4	133.8	46.8%
Depreciation	27.4	28.1	-2.4%	27.4	0.2%	81.9	84.2	-2.6%
PBT	48.0	19.7	143.4%	39.4	22.0%	114.5	49.6	130.7%
Tax (including DT & FBT)	10.6	4.7	126.4%	13.9	-23.8%	36.7	2.0	1731.3%
Reported Profit After Tax	37.4	15.0	148.7%	25.4	47.1%	77.8	47.6	63.3%
Exceptional Item	0.0	0.3	-	0.0	-	0.0	-53.3	-
Adjusted PAT	37.4	15.3	144.1%	25.4	47.1%	77.8	-5.6	1481.3%
EPS (Rs.)	5.7	2.3	144.1%	3.9	47.1%	11.8	-0.9	1481.3%

(Source: Company, HDFC sec)

Segment-Wise Performance

Particulars , Rs in Cr	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Segment Revenue							
Paper & paper board	379.8	394.5	410.8	435.0	383.2	425.5	425.1
Telecommunication Cables	12.1	16.9	27.6	20.0	26.1	20.1	12.5
Others	0.0	0.1	0.1	0.0	0.0	0.1	0.1
Total	391.9	411.5	438.6	455.0	409.2	445.7	437.7
Segment Results							
Paper & paper board	34.8	27.8	34.7	36.9	45.4	53.9	61.2
Telecommunication Cables	3.4	0.7	4.1	1.9	3.0	1.1	3.0
Others	-0.1	0.1	0.1	-0.1	-0.2	0.2	0.1
Total	38.1	28.6	38.9	38.7	48.2	55.2	64.3

(Source: Company, HDFC sec)

Wood Pulp Prices:


(Source: Index Mundi, HDFC sec)

Financials – Consolidated
Income Statement

Particulars, Rs in Cr	FY15	FY16	FY17E	FY18E	FY19E
Revenue from Operation	1648.4	1700.0	1760.7	1856.0	1946.2
Cost of Materials Consumed	1011.7	1009.4	1022.9	1087.6	1146.3
Changes in Inventories	20.0	41.8	3.5	-16.7	-15.6
Employee Benefits Expense	97.4	115.9	119.7	124.4	129.4
Other Expenses	273.5	280.1	297.6	311.8	325.0
Total Expenses	1402.6	1447.2	1443.7	1507.1	1585.2
EBITDA	245.7	252.8	316.9	348.9	361.0
Depr- and Amortization exp	122.2	110.8	109.5	102.4	100.9
EBIT	123.5	142.0	207.4	246.5	260.1
Other Income	2.7	7.7	1.8	4.6	5.8
Finance Costs	69.8	71.2	61.5	60.7	59.0
Earnings before Tax and EI	56.3	78.5	147.6	190.5	206.9
Exceptional Item	51.6	53.2	0.0	0.0	0.0
Earnings before Tax	4.7	25.2	147.6	190.5	206.9
Tax Paid	3.6	16.4	47.2	60.9	65.2
Profit from Continuing Op-	1.1	8.9	100.4	129.5	141.8
PAT Adjusted	52.7	62.1	100.4	129.5	141.8
EPS	8.0	9.4	15.2	19.6	21.5

Cash Flow

Particulars, Rs in Cr	FY15	FY16	FY17E	FY18E	FY19E
EBT	4.7	25.2	147.6	190.5	206.9
Depr- and Amort	122.2	110.8	109.5	102.4	100.9
Interest /Dividend paid	67.1	71.2	61.5	60.7	59.0
Other Adjustment	-1.2	-6.8	-6.8	4.6	-5.2
(Inc)/Dec in working Capital	64.4	15.4	-38.1	-33.2	-16.9
Tax Paid	-0.4	-6.2	-47.2	-60.9	-65.2
CF from Operating Activities	256.8	209.7	226.5	264.0	279.6
Capital expenditure	-22.9	-25.2	-50.0	-60.0	-60.0
(Purchase)/Sale of Inv	0.0	45.9	-40.5	-24.8	-33.1
Others	0.6	6.8	-4.1	-6.2	-9.2
CF from Investing Activities	-22.3	27.5	-94.6	-91.0	-102.2
Inc/(Dec) in Share capital	41.8	111.3	0.0	0.0	0.0
Inc/(Dec) in Debt	-197.5	-277.8	-25.0	-20.0	-20.0
Dividend and Interest Paid	-74.8	-71.2	-73.4	-80.5	-82.7
CF from Financing Activities	-230.5	-237.7	-98.4	-100.5	-102.7
Net Cash Flow	4.0	-0.5	33.6	72.4	74.6
Opening Balance	9.1	13.1	12.6	46.2	118.6
Closing Balance	13.1	12.6	46.2	118.6	193.2

(Source: Company, HDFC sec)

Balance Sheet

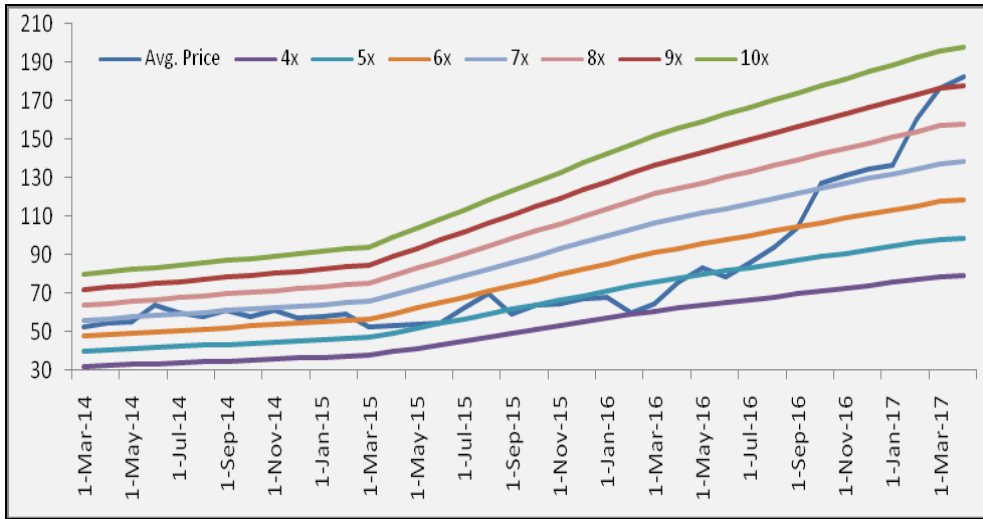
Particulars, Rs in Cr	FY15	FY16	FY17E	FY18E	FY19E
EQUITY AND LIABILITIES					
Share Capital	13.2	13.2	13.2	13.2	13.2
Reserves & Surplus	584.6	585.5	674.0	783.7	901.6
Shareholders' Funds	597.8	598.7	687.2	796.9	914.9
Long Term Borrowings	396.1	419.2	399.2	383.2	367.2
Deferred Tax Liabilities (Net)	72.3	88.7	71.0	67.4	70.8
Other Long Term Liabilities	29.1	28.0	29.4	28.0	29.4
Long Term Provisions	4.2	4.1	4.3	4.1	4.3
Non-Current Liabilities	501.8	540.0	503.9	482.6	471.6
Short Term Borrowings	301.3	221.1	216.1	212.1	208.1
Trade Payables	249.4	199.3	178.5	188.1	186.6
Other Current Liabilities	273.5	186.3	195.6	205.3	195.1
Short Term Provisions	1.5	12.3	13.0	13.6	12.9
Current Liabilities	825.7	619.1	603.1	619.2	602.7
Total	1925.3	1757.7	1794.2	1898.7	1989.2
ASSETS					
Fixed Assets	1149.0	1063.3	1003.8	961.4	920.5
Non-current Investments	46.7	0.8	41.3	66.1	99.2
Long Term Loans & Adv	64.4	62.6	65.7	69.0	75.9
Other Non-current Assets	0.8	0.8	0.8	0.7	0.7
Non-Current Assets	1260.9	1127.6	1111.6	1097.3	1096.2
Inventories	483.2	467.7	458.3	483.1	501.2
Trade Receivables	125.0	118.0	144.7	162.7	160.0
Cash & Cash Equivalents	13.1	12.6	46.2	118.6	193.2
Short Term Loans & Adv	18.1	18.8	19.7	22.7	24.9
Other Current Assets	24.9	13.0	13.7	14.4	13.6
Current Assets	664.4	630.2	682.6	801.5	893.0
Total	1925.3	1757.7	1794.2	1898.7	1989.2

Key Ratios

Particulars	FY15	FY16	FY17E	FY18E	FY19E
No of Equity Shares-cr	6.6	6.6	6.6	6.6	6.6
Enterprise Value-cr	1925.9	1869.4	1810.8	1718.4	1623.8
EPS	8.0	9.4	15.2	19.6	21.5
Cash EPS (PAT + Depr)	26.5	26.2	31.8	35.1	36.7
BV Per Share(Rs.)	90.5	90.6	104.0	120.7	138.5
PE(x)	23.6	20.0	12.4	9.6	8.8
P/BV (x)	2.1	2.1	1.8	1.6	1.4
Mcap/Sales(x)	0.8	0.7	0.7	0.7	0.6
EV/EBITDA	7.8	7.4	5.7	4.9	4.5
EBITDAM (%)	14.9%	14.9%	18.0%	18.8%	18.6%
EBITM (%)	7.5%	8.4%	11.8%	13.3%	13.4%
PATM (%)	3.2%	3.7%	5.7%	7.0%	7.3%
ROCE (%)	9.7%	12.1%	16.1%	18.0%	17.8%
RONW (%)	8.8%	10.4%	14.6%	16.3%	15.5%
Dividend Payout(%)	0.0%	12.8%	11.8%	15.3%	16.8%
Current Ratio	0.8	1.0	1.1	1.3	1.5
Liquid Ratio	0.2	0.3	0.4	0.5	0.6
Debt-Equity	1.2	1.1	0.9	0.7	0.6

(Source: Company, HDFC sec)

One Year forward P/E



One Year Price Chart



(Source: Company, HDFC sec)

Fundamental Research Analyst: Abdul Karim (abdul.karim@hdfcsec.com)

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
 Website: www.hdfcsec.com Email: hdfcsecretailresearch@hdfcsec.com

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