

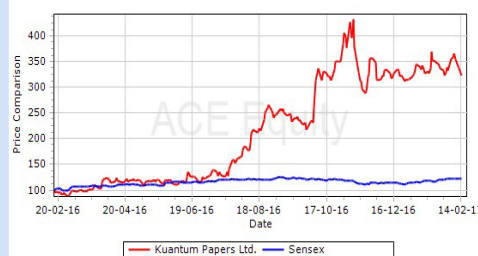
Company Details

CMP:	Rs.201.35
Face value:	Rs.2.00
Market cap:	Rs.1300.00 Crs.
TTM EPS	Rs.19.46
52 week high:	Rs.211.85
52 week low:	Rs.87.10
NSE Code:	WSTCSTPAPR
BSE Code:	500444
Sector	Paper & Paper Products

Financial Highlights (YoY)

Rs. In crores			
	FY17	FY16	% Var
Net Sales	1769.34	1700.04	4.08
Total Expenditure	1431.49	1450.51	-1.31
PBDIT	337.85	249.53	35.39
Op.Profit	340.22	257.20	32.28
OPM (%)	19.23	15.13	27.10
PBT	177.88	13.80	1188.99
PAT	128.50	-0.47	
EPS (Rs.)	19.45	-0.07	
Equity	13.21	13.21	0.00

Share Price Graph



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Company Background

West Coast Paper Mills Ltd., a Karnataka-based company incorporated in 1955, is engaged in manufacturing paper, paperboard and coated duplex board. It is among India's top five paper & paper board's manufacturer in terms of total capacity of 320000 mtpa. It mainly operates in two business segments, viz., Paper/Paperboard (including Duplex Board) at Dandeli and Telecommunication Cables at Mysore. It also has Wind Mills of 1.75MW capacity in Tamilnadu for power generation. It has a market share of 10% in the domestic uncoated paper market. It exports their products to Malaysia, Egypt, Middle East, Kenya, Indonesia, Fiji, Mauritius and Greece, amongst others. In order to meet power requirement the company has also set up 4 turbines.

Financial Performance

The net sales of the Company at Rs.1769.34 crores during FY17 are marginally up by 4.1% compared to those during FY16 but PAT at Rs.128.50 crores for FY17 is higher compared to loss of Rs.0.47 crore for FY16. **It operating profit margin has improved from 15.1% during FY16 to 19.2% during FY17. The EPS has significantly improved from negative for FY16 to Rs.19.45 for FY17. The Company has declared a dividend of Rs.2.50 (125%) per share for FY17 as against Re.1 (50%) for FY16.**

Investment Rationale

- The paper industry has turned out to be a more promising on the back of increasing demand led by rising literacy levels and higher government spending on education. The current installed capacity is 15 million tonnes, with average utilization of 85%. The per capita paper consumption in India is still 13kg which is very low compared to world average of 58 kg. The paper demand is expected to improve to about 20 million tonnes by 2024-2025. This means there is a huge potential of growth for the industry, which can be met through expansion and use of modern technologies.
- The Net sales and PAT of the Company have grown at a CAGR of 5% and 63%, respectively, during FY13-17 and are further expected to see robust growth in the coming years. The demand will be driven by greater Government spending on education initiatives, corporate spending on stationery and healthy growth in services sector. The CRISIL Research expects the demand for paper to grow at about 6.2% CAGR to 18.2 million tonnes in 2019-20 from the current 12 million tonnes and 5.4% growth in the last 5 years.
- The capacity utilization is likely to improve to 97% in FY18 and FY19. The increase in price of paper products are likely to lead to higher realization in the coming years.
- The production of Optical Fiber Cable was 42,989 kms during FY16 against 30,438 kms in FY15, thereby higher production by 12,551 kms. The optical fiber division is operating at a capacity utilization of 86% but is likely to improve further upto 90% in coming years on the back of growing demand of optifiber network.
- The Company has focused on captive plantations projects and social forestry to create adequate supply of raw-material, where it has cultivated 45000 acres land within a radius of 250-300 km.
- The Company has reduced its debt burden from Rs.1212 crores at the end of FY11 to Rs.306 crores at the end FY17. **The debt/equity ratio of the Company has declined from 1.8:1 at the end of FY11 to 0.5:1 at the end of FY17. Further, it has planned to be debt free in coming two years.**
- The share of the Company is trading-cum-dividend and will become ex-date on 16th August, 2017.
- The promoters hold 55.8% equity capital of the Company, followed by DIIs, FIIs and non-promoter corporates that hold 11.7%, 5.5% and 5.5%, respectively, and the balance 22.5% shares are held by the public. **It is pertinent to mention that DIIs and FIIs have increased their stake in the Company from 10.2% and 0%, respectively, at the end of FY16 to 11.7% and 4.5% at the end of Q1FY18.**

Concerns

Slow down in domestic economy, availability of raw material, increase in input costs and competitions from other players are major concerns.

Valuation

The share of the Company is trading at a lower P/E of 7.7x on estimated EPS of Rs.26 for FY18. Keeping in view the positive outlook for paper and paper products industry, increasing demand for writing & printing paper & optifiber network, improved financial performance of the Company, cost reduction measures, availability of raw material, major decline in debt:equity ratio, increase in promoter, DIIs & FIIs holdings and attractive PE ratio, we recommend a buy on share of this Company with an expected price appreciation of about 30% over the next 12 months.

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