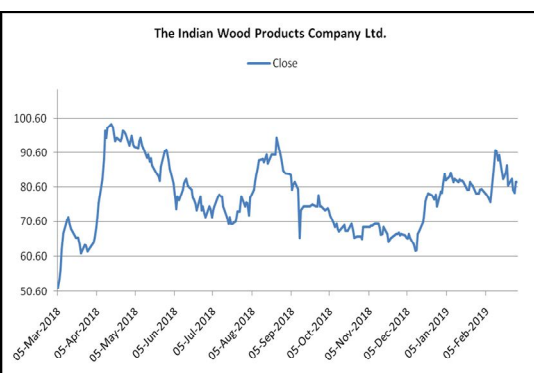


## The Indian Wood Products Co. Ltd.

Industry	Forest Products
No. of Shares (Crore)	6.40
Face value (Rs)	2.00
Mkt. Cap (Rs. Crore)	519.46
Price (07/03/2019)	81.20
Book Value (Rs)	52.74
P/BV	1.54
BSE Code	540954
NSE Code	-
Bloomberg	IWP IN
Reuters	THEI.BO
Avg. Monthly Volume	15215
52 W H/L (Rs)	100.00/ 59.50

**Further to our Research report dated April 02nd 2018, wherein we had recommended a BUY at the then price of Rs. 62 (adjusted), the share price had reached its 52 week high to Rs. 100.00, increased by ~61%. In February 2019, the company Split its FV from Rs. 10 to Rs. 2 and also issued Bonus shares in the ratio of 1:1 of FV Rs. 2. The overall size of the Katha industry is about 2000 crores p.a. in India with the organized segment being approx. 30%. There is significant rise in the demand of quality Katha which benefits IWP and the company continues to be a leading player in Katha industry. At the current market price of Rs. 81.20 per share, further BUY is recommended.**



### About the Company

The Indian Wood Products Company Ltd. (IWP), incorporated in 1919, is a Pioneer in manufacturing of Katha (Catechu) and Cutch in India. This Kolkata based company with over 99 years of experience is mainly into the business of production, processing and marketing of high quality Katha, Cutch and Catechins at Izatnagar, Bareilly (UP). IWP is a strong player in the organized section of Katha Industry in India with a market share of approx. 35%. The company also provides various Spices under 'IWP' brand name. Mr. Krishna Kumar Mohta is the Chairman of the company who looks after the overall management of the Company.

### Investment Rationale

- **Manufacturing Facilities** - To cater to the increasing demand for Katha, in 2001, IWP entered into exclusive job work arrangement with Kashmir Katha industries in Kundli, Haryana. In 2015, it entered into an exclusive contract manufacturing agreement with Nanhe Mal Agro (India) Ltd. in Daman-UT for making Katha for them. In 2016, the Company took a Katha manufacturing plant in Baroda on a 10 year lease agreement. It also has manufacturing facilities at international locations in Indonesia and Myanmar.
- **Research and Technology** - IWP owns a research lab with modern plant and equipments for Pilot Plant scale research for continual improvement, product innovation & cost optimization.
- **New Manufacturing Unit** - IWP has received the license to establish and operate in the State of Jammu & Kashmir from the Conservator of Forest, East Circle Jammu. The license received is for setting up of a new green field 100% premium Katha Manufacturing Plant on 35 canals of land allotted, on lease basis for a period of 37 years by the Small Industrial Development Corporation (SIDCO), Government of Jammu & Kashmir. Total cost of the project will be approx. Rs. 26 crore and the installed capacity of the proposed unit will be around 1200 MT.
- **Joint Venture** - The Company has one overseas joint venture namely PT Thea Universal a PMA (100% Foreign owned) in Indonesia is promoted by Agro Spice & Trading Pte Ltd., Singapore, which is engaged in the business of trading of Spices. PT Thea focuses into exports of spices and agro commodities. It has global reach with customers in USA, Brazil, Russia, Netherlands, Latvia, Turkey, Morocco, UAE, India, Nepal, etc.
- **Spices Segment** - IWP has entered in retailing of the packed spices in East & Central U.P. and Assam. IWP's strong brand awareness of Katha would benefit its Spices segment, since there is overlapping to a great extent of traders involved in Katha & Spices.
- **Subsidiary** - PT Sumatra Resources International, at Pangkalan, West Sumatra Indonesia, is a subsidiary of the joint venture Agro Spice & Trading Pte Ltd. which is engaged in the commercial production of Catechins from Gambier extracts through solvent extraction and with the use of innovative technology. 100% production from this plant will be imported and consumed by the Company for manufacturing of better quality Katha. It is expected to benefit IWP by cost reduction and improved quality of Katha.
- **Financials** - For the period FY13-18, its topline and bottomline grew at a CAGR of ~23% and ~62% respectively. Company has registered a robust growth in consolidated PAT by ~400% from Rs. 4 crore in FY16 to Rs. 16 crore in FY18. In Q3FY19 IWP's standalone net sales declined a bit but its operating profit was higher by ~17% to Rs. 11.47 crore and its PAT increased by ~29% to Rs. 6.69 crore, YoY basis on the account of economies of scale, reduction in energy cost and higher quality Katha production.

**Recommendation**- The demand for quality Katha is growing significantly especially in Ayurvedic segment. IWP's rampant use of technology and economies of scale make it one of the lowest cost producers. Company's expansion plan in the Bareilly plant, extensive marketing network, backward integration for an un-interrupted supply of major raw materials and risk management framework minimizes adverse impact on the business objectives and enhance its competitive advantage. **Hence, we recommend a BUY on the stock with a Target Price of Rs. 110 with an upside potential of ~35% from the current level with an investment horizon of 9-12 months.**

Particulars (Rs. Crs)	Q3FY19^	Q3FY18^	Var %	9M FY19^	9M FY18^	Var%	FY17*	FY18*
Net Sales	48.32	50.97	-5.20	149.69	171.09	-12.51	179.72	215.65
PBIDT	11.47	9.81	16.92	25.32	23.38	8.30	23.60	32.24
Profit After Tax	6.69	5.20	28.65	13.93	12.99	7.24	11.45	17.32
PBIDTM %	23.74	19.25	23.33	16.91	13.67	23.78	13.13	14.95
PATM %	13.85	10.20	35.71	9.31	7.59	22.57	6.37	8.03
EPS (Rs.) (FV Rs. 10)	10.45	8.13	28.54	21.77	20.30	7.24	17.94	24.81
Adj EPS (FV Rs. 2 and Post Bonus)	1.05	0.81	28.62	2.18	2.03	7.39	1.79	2.48

^Numbers are Standalone & \* Numbers are Consolidated

Source: Company, Ace Equity, AUM Research

### Major Customers

- ✓ Almost all the major Pan Masala manufacturers in India are its customers.

### Future Outlook

- ✓ It has the availability of surplus land of around 40 acres at Bareilly, which can be utilized in further expansion.
- ✓ IWP is in the process of converting the by-products into bio oil, bio char and activated carbon by using patented technology. The results of labs are encouraging and when implemented would generate better cash flows and profitability.
- ✓ IWP's focus on retail market has enhanced after the launch of GST and its focusing to capture the areas where quality of Katha is compromised.
- ✓ IWP's mass consumption product – Katha and its newly ventured Spices products are versatile with varied applications. Its future outlook to use an alternative raw material instead of Acacia Catechu for manufacturing Katha will achieve sustainable and profitable growth.

### Products and Uses

Manufacturing of Katha and Cutch is an important forest-based traditional industry in India which is extracted from Khair tree (Acacia Catechu), mainly concentrated in Uttar Pradesh, Bihar, Gujarat, Rajasthan and Jammu & Kashmir region.

- ✓ **Katha** is a mass consumption item as it is used in preparation of 'Paan' which is consumed as mouth freshener all over the country. It also has huge medicinal values and is used in ayurvedic preparations as it cures itching, indigestion and bronchitis and is very effective in leprosy, ulcer, boils, piles, throat diseases etc. It also finds use as flavoring agent in condiments, ice-creams, candy, beverages etc.
- ✓ **Cutch** is a by-product of Katha has various industrial applications and is used as vegetable tanning material, as an additive and for preservation of sailing rods, fishing nets etc.
- ✓ **Catechins**, purest form of Katha to be used as OTC Ayurvedic & Herbal Wellness Products. Its a type of antioxidant and has proved efficacy in treatment of viral hepatitis, and as Anti-diabetic, Anti – inflammatory, Anti-Diarrhea, Anti-dysentery, Chemo-preventer etc. It is also traditionally used for treatment of Gums & Tooth and skin ailments.





**IWP** Since 1919

*Swaad bhi swasth bhi*

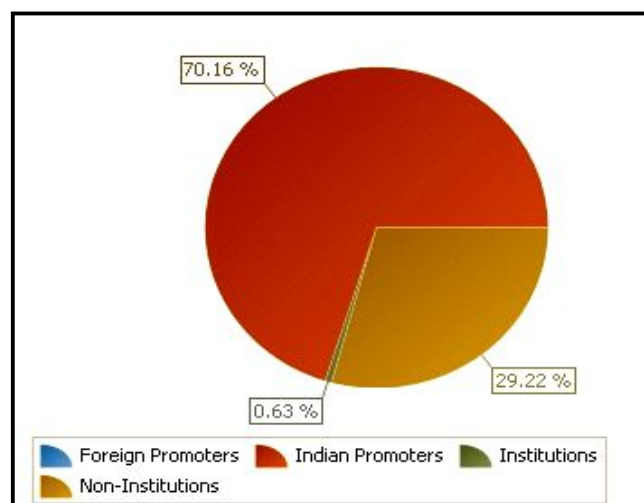
Products shown: KATHA SS, KATHA 4RS, KATHA 4S, PAN SUGANDH, PAN PASAND, PAN MADHURI.

**Traditional uses of Katha**

- Sore throat
- Constipation
- Skin Disorders
- Diabetes
- Ulcer @ mouth
- Fights Obesity
- Dental Paste
- As an Anti-Oxidant

### Shareholding Pattern

Shareholding Pattern	%
Promoters	70.16
Institutions	0.63
FII	0.00
Body Corporate	0.00
Non-Institutions	29.22
Total	100
(As on December 31, 2018)	





**Financials**

<b>Standalone Quarterly Results (Value in Rs. Crs)</b>						
	<b>Q3FY19</b>	<b>Q3FY18</b>	<b>Var%</b>	<b>9M FY19</b>	<b>9M FY18</b>	<b>Var%</b>
Net Sales	48.32	50.97	-5.19	149.69	171.09	-12.51
Total Expenditure	36.96	41.33	-10.57	124.91	148.45	-15.86
PBIDT (Excl OI)	11.36	9.64	17.86	24.77	22.64	9.41
Other Income	0.10	0.17	-39.77	0.55	0.73	-24.66
Operating Profit	11.47	9.81	16.86	25.32	23.38	8.30
Interest	1.30	1.27	3.00	3.48	3.87	-10.08
Exceptional Items	0.00	0.00	0.00	0.00	2.15	-100.00
PBDT	10.16	8.55	18.91	21.84	21.66	0.83
Depreciation	0.75	0.60	25.00	2.25	1.80	25.00
PBT	9.41	7.95	18.45	19.59	19.86	-1.36
Tax	2.73	2.75	-0.80	5.66	6.87	-17.61
Profit After Tax	6.69	5.20	28.62	13.93	12.99	7.24
EPS (Rs.)	10.45	8.13	28.62	21.77	20.30	7.24
Adjusted EPS (Rs.)	1.05	0.81	28.62	2.18	2.03	7.39

<b>Consolidated Income Statement (Value in Rs. Crs)</b>						
	<b>FY13^</b>	<b>FY14^</b>	<b>FY15^</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Net Sales	76.18	93.19	101.47	119.30	179.72	215.65
Total Expenditure	71.92	86.98	94.23	111.18	156.62	184.13
PBIDT (Excl OI)	4.26	6.22	7.24	8.12	23.10	31.51
Other Income	0.17	0.14	0.24	0.35	0.50	0.73
Operating Profit	4.43	6.35	7.48	8.47	23.60	32.24
Interest	1.53	1.63	2.02	2.11	3.08	5.06
PBDT	2.90	4.72	5.46	6.36	20.53	27.18
Depreciation	0.58	1.01	1.52	1.49	2.23	2.78
PBT	2.31	3.71	3.94	4.87	18.29	26.63
Tax	0.89	1.45	1.31	1.19	6.84	9.32
Profit After Tax	1.43	2.26	2.63	3.68	11.45	17.32
Share of Associate	0.00	0.00	0.00	0.00	0.02	-1.45
Consolidated Net Profit	1.43	2.26	2.63	3.68	11.48	15.87
EPS (Rs.)	13.29	18.90	19.19	23.00	17.94	24.81
Adjusted EPS (Rs.)	1.33	1.89	1.92	2.30	1.79	2.48

^Numbers are Standalone

Source: Company, Ace Equity, AUM Research

<b>Balance Sheet (Value in Rs. Crs)</b>						
<b>Description</b>	<b>FY13^</b>	<b>FY14^</b>	<b>FY15^</b>	<b>FY16*</b>	<b>FY17*</b>	<b>FY18*</b>
<b>EQUITY AND LIABILITIES</b>						
Share Capital	1.08	1.20	1.37	1.60	6.40	6.40
Total Reserves	12.08	14.74	17.73	22.20	309.24	324.62
<b>Shareholder's Funds</b>	<b>13.15</b>	<b>15.94</b>	<b>19.10</b>	<b>23.80</b>	<b>315.64</b>	<b>331.02</b>
<b>Long-Term Borrowings</b>						
Secured Loans	0.33	1.21	1.51	2.15	4.41	3.54
Unsecured Loans	0.00	0.00	0.00	0.00	4.10	3.94
Deferred Tax Assets / Liabilities	0.44	0.55	0.62	0.61	74.44	74.46
Other Long Term Liabilities	1.24	1.24	1.24	1.24	0.10	0.05
Long Term Provisions	1.04	1.19	1.54	1.25	1.97	1.55
<b>Total Non-Current Liabilities</b>	<b>3.05</b>	<b>4.19</b>	<b>4.92</b>	<b>5.26</b>	<b>85.02</b>	<b>83.55</b>
<b>Current Liabilities</b>						
Trade Payables	11.15	16.56	16.36	13.45	33.51	32.18
Other Current Liabilities	1.40	1.74	2.50	1.76	6.75	5.21
Short Term Borrowings	9.88	12.17	13.97	14.89	35.02	30.68
Short Term Provisions	0.56	0.96	0.54	0.44	6.15	7.83
<b>Total Current Liabilities</b>	<b>23.00</b>	<b>31.44</b>	<b>33.37</b>	<b>30.54</b>	<b>81.44</b>	<b>75.89</b>
<b>Total Liabilities</b>	<b>39.20</b>	<b>51.58</b>	<b>57.40</b>	<b>59.59</b>	<b>482.09</b>	<b>490.45</b>
<b>ASSETS</b>						
<b>Non-Current Assets</b>						
Gross Block	12.21	14.98	17.57	21.90	376.20	383.26
Less: Accumulated Depreciation	4.74	5.72	7.39	8.88	1.96	4.66
Less: Impairment of Assets	0.00	0.00	0.00	0.00	0.00	0.00
Net Block	7.47	9.27	10.18	13.02	374.24	378.61
Capital Work in Progress	0.16	0.22	0.39	0.10	0.67	1.86
Non Current Investments	0.00	0.00	0.00	0.00	3.39	6.09
Long Term Loans & Advances	0.85	0.90	1.14	1.14	1.13	2.65
Other Non Current Assets	0.00	0.00	0.00	0.00	0.00	0.02
<b>Total Non-Current Assets</b>	<b>8.49</b>	<b>10.38</b>	<b>11.71</b>	<b>14.26</b>	<b>379.43</b>	<b>389.23</b>
<b>Current Assets Loans &amp; Advances</b>						
Inventories	16.05	20.69	23.97	18.71	46.22	49.81
Sundry Debtors	10.61	13.30	13.58	17.50	40.55	36.59
Cash and Bank	2.37	4.77	4.18	3.94	3.16	7.85
Other Current Assets	0.19	0.05	0.08	0.13	0.55	0.11
Short Term Loans and Advances	1.49	2.38	3.87	5.05	12.17	6.87
<b>Total Current Assets</b>	<b>30.72</b>	<b>41.19</b>	<b>45.68</b>	<b>45.34</b>	<b>102.67</b>	<b>101.22</b>
Net Current Assets (Including Current Investments)	7.71	9.75	12.31	14.80	21.23	25.33
Total Current Assets Excluding Current Investments	30.72	41.19	45.68	45.34	102.67	101.22
<b>Total Assets</b>	<b>39.20</b>	<b>51.58</b>	<b>57.40</b>	<b>59.59</b>	<b>482.09</b>	<b>490.45</b>
<b>Book Value</b>	<b>95.17</b>	<b>108.82</b>	<b>118.19</b>	<b>130.48</b>	<b>493.39</b>	<b>517.43</b>
<b>Adjusted Book Value</b>	<b>9.52</b>	<b>10.88</b>	<b>11.82</b>	<b>13.05</b>	<b>49.34</b>	<b>51.74</b>

^Numbers are Standalone & \* Numbers are Consolidated

Source: Company, Ace Equity, AUM Research

**Aum Capital RESEARCH DESK**

**Rajesh Agarwal**  
**Shreyansh N. Mehta**

**Head of Research**  
**Manager Research**

**033 – 40572122**  
**033 – 40572124**

[rajesh.agarwal@aumcap.com](mailto:rajesh.agarwal@aumcap.com)  
[shreyansh.mehta@aumcap.com](mailto:shreyansh.mehta@aumcap.com)

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AUM Capital Market Private Limited

Registered Office: 5, Lower Rawdon Street, Akashdeep building 1st Floor, Kolkata – 700020;

Phone: +91(33) 24861040/43; Fax: +91(33) 24760191

Website: [www.aumcap.com](http://www.aumcap.com); Email: [aumresearch@aumcap.com](mailto:aumresearch@aumcap.com)

SEBI Research Analyst Registration No.: INH300002423