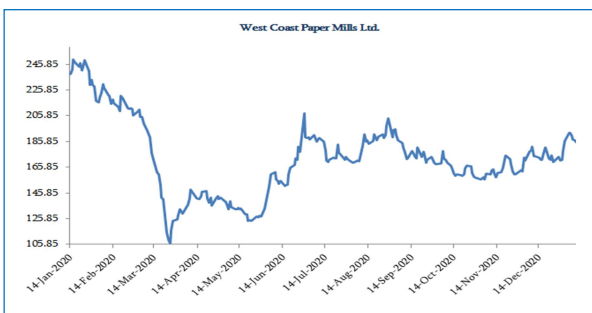


January 14, 2021

West Coast Paper Mills Ltd. (WCPL)	
Industry	Paper & Paper Products
No. of Shares (Crore)	6.60
Face value (Rs)	2.00
Mkt. Cap (Rs. Crore)	1224.55
Price (14/01/2021)	185.40
Book Value (Rs)	198.64
P/BV	0.93
BSE Code	500444
NSE Code	WSTCSTPAPR
Bloomberg	WCPM.IN
Reuters	WSTC.BO
Avg. Weekly Volume (NSE+BSE)	2,40,736
52 W H/L (Rs)	257.45 / 99.90
Shareholding Pattern	%
Promoters	56.17
DIIs	10.96
FIIIs	3.00
Body Corporate	3.65
Total Public	26.22
Total	100.00
(As on December 31, 2020)	
Recommendation	
BUY	



Company Background

West Coast Paper Mills Ltd (WCPL), incorporated in 1955 is the flagship company of S.K. Bangur group. The company is among India's top five paper & paper board's manufacturer in terms of total capacity of 320000 mtpa. WCPL operates in two business segments; Paper/Paperboard (including Duplex Board) at Dandeli and Telecommunication Cables at Mysore. The company also has Wind Mills of 1.75MW capacity in Tamilnadu for power generation. WCPL has a share of 10% in the domestic uncoated paper market. WCPL has derived 95.39% of its revenue from Paper/ Paperboard and Cup stock Board business and 4.60% from Cable business in H1FY21.

Investment Rationale

- In line with WCPL strategic growth plan, the company acquired 55% stake in IPAPPM (International Paper Andhra Pradesh Paper Mills Ltd) from its promoters- International Paper Investments (Luxembourg) S.a.r.l. and IP International Holdings Inc and ~17.20% from public respectively. Andhra Paper Limited (erstwhile IPAPPM) has now become subsidiary of WCPML. The name of IPAPPM has been changed to Andhra Paper Ltd. w.e.f 9.01.2020, which has a total production capacity of 240,000 TPA.
- The Indian Paper Industry has a turnover of approx. Rs.70000 crores and employs around 2 million people directly and indirectly. The per-capita consumption of paper in India stands at 13/Kg which is expected to touch about 17 kg by 2024-25.
- For the period of FY18-20, WCPML topline and bottom-line grew at a CAGR of ~20.73% and ~28.83% respectively. The margins improved to 26.87% in FY20 on account of fall in raw material prices. ROE for the company stood at 24.72% in FY20 versus the industry ROE of 17.31% during the same period.
- In order to create adequate supply of raw-material, WCPL has focused on captive plantations projects and social forestry where it has cultivated 45000 acres land within a radius of 250-300 km.
- India is the fastest growing paper market in the world with CAGR of 6-7% in next 2-3 years due to ban on single use plastics, renewed thrust on universal education through Sarva Shiksha Abhiyan, demand for packaging paper & board, rise in organized retail, increasing growth in FMCG, pharmaceutical and processed food industries.
- WCPML has fully integrated paper and pulp facility and therefore the company has reduced the imports of costlier wooden chips which have significantly brought down the raw material cost and would enhance its margins going forward.
- With optimum capacity utilization, good demand outlook and progressive shift to environmental friendly and value added products the company is expected to sustain its growth prospectus. The industry is undergoing structural changes due to the new digitized economy. But it has found new markets like paper bags, packaging, paper napkins/tissues where the demand and price is firm. WCPML is expecting 20-25% growth in its Cable Division and is planning to manufacture optical fiber on its own. **At the CMP of Rs. 185.40, the stock trades at 3 times its FY22 earnings. Hence we recommend a BUY on the stock with a price target of Rs.240 with an investment horizon of 12-18 months.**

Particulars (Rs. In Crs)	Q2FY21	Q2FY20	Var%	FY20	FY19	FY18	FY17*	FY16*
Net Sales	429.40	509.93	-15.79	2492.85	1979.15	1710.20	1769.34	1700.04
PBIDT (Excl OI)	20.24	128.78	-84.29	616.24	511.11	362.13	338.06	249.53
Consolidated Net Profit	-35.52	81.68	-143.48	370.38	296.00	223.15	128.50	-0.47
PBIDTM (%)	4.71	25.25	-81.34	24.72	25.82	21.17	19.11	14.68
PATM (%)	-9.31	16.02	-158.13	14.86	14.96	13.05	7.26	-0.03
EPS (Rs.)	-5.38	12.37	-143.48	56.08	44.82	33.79	19.46	-0.07

*Standalone numbers

Source: Company, Ace Equity, AUM Research

Plastic menace, a boon for Paper Industry

Prime Minister of India wants to eliminate single use plastic by 2022 along with other major nations like Canada and European Union that are waging war against them to protect the environment. Of the 9.1 billion tonnes of plastic that the world has produced since 1950, 6.9 billion tonnes has become waste, and only 9% of that has been recycled, the rest ends up in landfills and in the world's oceans. While uncollected plastic waste poses a huge threat to species on land and in water, single-use plastic bags and styrofoam containers can take up to 1,000 years to decompose.

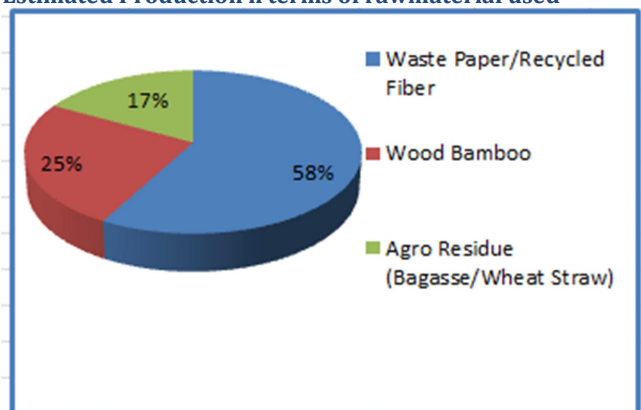
Per capita consumption of plastic in India stands at 11 kgs which is less than half of global average of 28 per kg. The U.S. has per capita consumption of 109 kg, while it is 65 kg in Europe and 38 kg in China. As per FICCI report, chips and confectionery packets account for the largest share of plastic waste in India - 12 % of total plastic waste is bottle caps and lids, 19 % are chips and confectionery packets, 10 % are pet bottles, 8 % garbage bags and 8 % is packaging.

Amid a growing debate over impact of single-use plastics on environment, paper offers a sustainable option and can capture 25% of the Rs 80,000 crore single-use plastics market by 2025, if its use is totally banned by the government. So far 18 states/UTs have imposed complete ban on plastic carry bags.

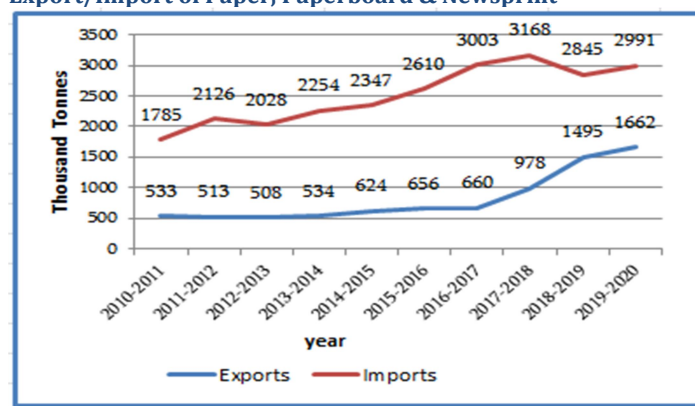
Paper on other hand, is eco-friendly and bio-degradable and it's a myth that paper industries cut trees for production and consumption of water and energy is high. Paper industry plants more trees than harvested and primary raw material are 100 % renewable like wood and agro-residues. A study says that a third of new paper comes from recycled paper and an equivalent amount from waste such as sawdust and scrap. Most of Indian companies use 58% raw material from recovered paper, 17% from agro residue like bagasse, Straw and 25% from wood plantation (look at the graph given below). In order to ensure long term availability of raw material, **WCPM has focused on captive plantations projects and social forestry where it has cultivated 45,000 acres of land within a radius of 200-300 Km from Dandeli, as to enhance the availability of pulpwood.**

Average cost of recycling of paper is Rs 32 /Kg and we can divide this element of cost into two categories of which Rs 20 comes from cost of collecting paper trash and Rs 12 is conversion cost. In comparison, the cost to collection of plastic waste is Rs 30 to 36 per kg and recycling is Rs 22 to Rs 35 per kg, adding transporting one tonne of paper costs Rs 4.5 per kilometer as compared to Rs 6.2 in case of plastic. Energy consumption for paper production is 0.59 to 1.19toe (tonne of oil equivalent) as opposed to 1.48 to 2.58 a tonne in plastic. Adding 55-60 % energy can be saved if paper is used in place of plastic.

Estimated Production in terms of rawmaterial used



Export/Import of Paper, Paperboard & Newsprint



January 14, 2021

Financials

Consolidated Quarterly Results (Value in Rs. Crs)						
Particulars	Q2FY21	Q2FY20	Var%	H1FY20	H1FY19	Var%
Net Sales	429.40	509.93	-15.79	731.40	1045.26	-30.03
Total Expenditure	409.17	381.15	7.35	700.59	757.26	-7.48
PBIDT (Excl OI)	20.24	128.78	-84.29	30.81	288.00	-89.30
Other Income	5.74	13.99	-58.96	11.67	28.28	-58.73
Operating Profit	25.98	142.77	-81.81	42.48	316.27	-86.57
Interest	18.41	11.97	53.78	38.55	21.90	76.04
Exceptional Items	0.00	0.00	0.00	-4.01	0.00	-100.00
PBDT	7.56	130.80	-94.22	-0.08	294.37	-100.03
Depreciation	55.70	42.39	31.39	110.79	82.15	34.87
Tax	-8.15	6.72	-221.24	-23.95	27.02	-188.66
Profit After Tax	-39.98	81.68	-148.95	-86.92	185.20	-146.93
Minority Interest	4.47	0.00	0.00	11.78	0.00	100.00
Consolidated Net Profit	-35.52	81.68	-143.48	-75.14	185.20	-140.57
EPS (Rs.)	-5.38	12.37	-143.48	-13.16	28.04	-146.93

Consolidated Income Statement (Value in Rs. Crs)					
Particulars	FY16*	FY17*	FY18	FY19	FY20
Net Sales & Other Operating Income	1700.04	1769.34	1710.20	1979.15	2492.85
Total Expenditure	1450.51	1431.28	1348.07	1468.04	1876.61
PBIDT (Excl OI)	249.53	338.06	362.13	511.11	616.24
Other Income	7.67	2.37	18.23	19.81	53.59
Operating Profit	257.20	340.43	380.36	530.92	669.83
Interest	75.81	51.57	41.65	29.25	74.96
PBDT	181.39	288.86	338.71	501.68	594.87
Depreciation	114.36	110.98	116.22	176.02	197.86
Exceptional Items	-53.24	0.00	0.00	0.00	0.00
Tax	14.26	49.38	-0.67	29.65	-9.48
Profit After Tax	-0.47	128.50	223.15	296.00	406.49
Minority Interest	0.00	0.00	0.00	0.00	-36.11
Consolidated Net Profit	0.00	0.00	223.15	296.00	370.38
EPS (Rs.)	-0.07	19.46	33.79	44.82	56.08

*Standalone numbers

Source: Company, Ace Equity, AUM Research

January 14, 2021

Consolidated Balance Sheet (Value in Rs. Crs)					
Particulars	FY16*	FY17*	FY18	FY19	FY20
EQUITY AND LIABILITIES					
Share Capital	13.21	13.21	13.21	13.21	13.21
Share Warrants & Outstandings	2.78	2.78	2.78	2.78	2.78
Total Reserves	500.59	623.17	822.95	1087.41	1372.27
Shareholder's Funds	516.57	639.15	838.93	1103.39	1388.26
Minority Interest	0	0	0.00	0.00	315.96
Secured Loans	265.80	151.65	120.44	63.91	452.23
Unsecured Loans	153.33	85.74	89.85	90.40	82.6
Deferred Tax Assets / Liabilities	85.68	56.53	14.15	-12.98	78.63
Other Long Term Liabilities	85.99	142.57	139.58	145.43	150.65
Long Term Provisions	4.10	44.28	71.71	3.76	8.51
Total Non-Current Liabilities	594.89	480.77	435.73	290.51	772.63
Trade Payables	199.34	147.99	201.96	179.39	208.06
Other Current Liabilities	146.22	209.98	131.51	169.67	321.31
Short Term Borrowings	221.12	83.65	44.19	158.68	88.39
Short Term Provisions	52.54	10.34	6.17	5.24	89.54
Total Current Liabilities	619.22	451.95	383.83	512.97	707.29
Total Liabilities	1730.68	1571.87	1658.50	1906.88	3184.14
ASSETS					
Gross Block	2181.83	2181.87	2318.34	2421.19	3634.74
Less: Accumulated Depreciation	1057.75	1157.66	1266.45	1419.95	1617.03
Net Block	1124.09	1024.22	1051.89	1001.24	2017.71
Capital Work in Progress	3.35	6.01	3.39	37.05	56.92
Intangible assets under development			0.00	0.00	
Non Current Investments	0.83	0.87	1.00	0.75	18.15
Long Term Loans & Advances	63.39	59.73	96.60	25.18	62.12
Other Non Current Assets	0.00	0.00	0.00	0.09	0.30
Total Non-Current Assets	1191.65	1090.83	1152.89	1064.31	2155.20
Currents Investments	1.51	0.00	0.00	221.89	26.65
Inventories	375.05	282.67	342.89	428.27	548.29
Sundry Debtors	118.04	128.31	118.93	163.27	142.01
Cash and Bank	12.62	23.28	10.08	10.16	175.04
Other Current Assets	3.44	7.51	7.63	5.33	11.95
Short Term Loans and Advances	28.37	39.28	26.08	13.65	124.99
Total Current Assets	539.02	481.04	505.61	842.57	1028.92
Net Current Assets (Including Current Investments)	-80.20	29.09	121.78	329.60	321.63
Total Assets	1730.68	1571.87	1658.50	1906.88	3184.14

*Standalone numbers

Source: Company, Ace Equity, AUM Research

January 14, 2021

Aum Capital RESEARCH DESK

Rajesh Agarwal	Head of Research	033-24861040/43	rajesh.agarwal@aumcap.com
Tanya kothary	Manager-Equity Research	033-24861040/43	tanya.kothary@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; Email: aumresearch@aumcap.com