

WEST COAST PAPER MILLS LTD (WCPL)

BUY

CMP Rs. 95

Target Price: Rs. 135

Time: 12 months

Overview

Since the Egyptians invented paper, it has become one of the essentials of modern life. Paper consumption is highly co-related to the level of economic development; In North America on an average 350 kg of paper is consumed by one person, while in India, which is on the other end of the development spectrum, it is a measly 8/9 kg per person. We believe that in last few years particularly in the last decade with India's changing profile, the Indian paper industry deserves a re-look. The Indian paper industry is looking forward to opportunities that did not exist before. It is today the 15th largest in the world and was in the recent past operating at 90% utilization. Every 1kg increase in personal consumption of paper will boost total demand of paper by 15% p.a. for the country as a whole. Domestic demand for paper is expected to reach 17Mn tones by 2016 and this is almost double of what it did in 2008/09. This growth is mostly going to be driven by the shift in lifestyles of Indians as well as higher education spending by the government. Envisaging this demand, all the large companies had taken major capacity enhancement plans and the first company to complete its expansion is West Coast Paper Mills Ltd (WCPL). This company has been chosen as Pick of The Week this week.

Investment Rationale

An extremely capital intensive and environmentally sensitive industry, paper manufacturing is seeing a shift internationally – there is a gradual move towards the less regulated and improving markets of Asia and South America. Asian and African markets so far the laggards in consumption, are now shifting gears to become the driving force of future growth in consumption, albeit from a currently very low base accounting of about 35% of the total world demand which is expected to grow further in the near future. In the last decade there has also been a perceptible shift in the type of paper demanded – from high volume, low quality to higher grammage, better quality stationery - translating into better margins for companies. One is thus hopeful of a value driven re-rating of the hitherto dormant paper industry in the Asian and African markets. India with a paltry consumption of around 8 kg per head as compared to 250 kg per capita in Japan, 170 kg in Korea, 45 kg in China and 22 kg in Indonesia has a considerable head room for growth to be driven by both the economic growth and demographic transformation thus providing a tremendous growth opportunity for paper manufacturers.

West Coast a fully integrated paper mill with in house pulp capacity has recently completed its expansions from 180000 tones to 315000 tones due to which the product mix now is Writing and Printing paper 250000 tons (115000 tons), Duplex board 22000 tons (65000) and Pulp sheet 43000 tons (Nil). The company has replaced its old 300 tpd pulp mill with a new 725 tpd pulp mill which is based on the new environment friendly and energy efficient ECF (elemental chlorine free) technology. The increase in the thermal power plant capacity to 70.3 MW makes the company not only self sufficient but also enables it to get cheaper power and also gives it surplus power which can be sold as merchant power. In the last few months there has been a significant improvement in paper prices due to various factors such as earthquake hitting Chile and strike in Finland ports which put pressure on availability of pulp. WCPL, now with its expansion in place, shall benefit from economies of scale and its changed product mix shall see a significant improvement in operating margins and this shall be visible in the coming quarters of its performance.

Investment Concerns

The availability of raw material and any changes in the environmental regulations could hamper the growth of the industry.

Valuation

At the current market price of Rs.95 WCPL's projected FY 11 EPS of Rs.14.4 is discounted 6.6x. Long term investors can add this to their portfolio.

Snapshot

52 week H/L:	M Cap (INR Mn):
100 / 50	5961
Face Value: Rs. 2	
BSE Code	NSE Code
50444	WSTCSTPAPR

Annual Performance

(INR mln)	FY 2009A	FY 2010A	FY 2011E
Sales (Net)	6197.5	6239.1	10294.5
EBITDA	1202.5	1110.8	2511.8
EBITDA (%)	19.4%	17.8%	24.4%
Other Income	78.8	63.2	70.0
Interest	77.4	121.6	583.7
Depreciation	199.2	237.7	864.8
PBT	1004.6	814.8	1133.3
PAT	905.4	547.1	906.6
Equity	120.8	125.5	125.5
EPS (INR)	15.0	8.7	14.4
EBITDA/Share	19.9	17.7	40.0

Quarterly Performance

(INR mln)	Jun-10	Mar-10	Dec-09	Sep-09
Sales (Net)	1886.3	1689.9	1384.0	1696.3
EBITDA	394.6	273.7	207.8	329.3
EBITDA (%)	20.9%	16.2%	15.0%	19.4%
Interest	101.9	41.4	27.7	20.1
Depreciation	197.8	93.4	48.1	48.1
PAT	149.9	-11.7	120.8	232.0
Equity	125.5	125.5	125.5	125.5

Ratio Analysis

Ratio Analysis	FY 2009A	FY 2010E	FY 2011E
EV/EBITDA (x)	12.2	15.4	6.9
EV/Sales (x)	2.4	2.7	1.7
M Cap/Sales (x)	0.9	1.0	0.6
M Cap/EBITDA (x)	4.8	5.4	2.4
Debt/Equity (x)	2.1	2.1	1.7
ROCE (%)	7%	3%	7%
Price/Book Value (x)	1.1	1.1	1.0
Price/CEPS (x)	5.2	7.6	3.4
P/E (x)	6.3	10.9	6.6

Share Holding Pattern as of June, 2010

	No. of Shares	%
Promoters	32481383	51.8%
Institutions/MF	3922146	6.25%
Public	26345379	42.0%
Total	62748908	100.0%



Infrastructure Bonds - IFCI

“AVAIL TAX EXEMPTION U/S 80CCF WITH INVESTING IN INFRASTRUCTURE BONDS”

Basic Features

- An Individual or HUF can invest Rs. 20,000/- in a Financial Year to avail deduction under section 80CCF
- Rs. 20,000/- limit is in addition to Rs. 1,00,000/- limit of section 80C, 80CCC, 80CCD

IFCI Limited: Issue Highlight

- Offering 1,00,000 Unsecured, Redeemable, Non-Convertible, Taxable Bonds of Rs. 5,000 each aggregating to Rs. 50 Crore with a green shoe option to retain over-subscription for issuance of additional infrastructure Bonds
- Tenor of the Bond will be 10 Years
- However, lock in period is 5 Years
- After lock in period, investor can take loan against these Bonds
- Proposed to be listed on BSE

Issue Structure - Options

Options	I	II	III	IV
	Buyback / Non Cumulative Option	Buyback / Cumulative Option	Non Buyback / Non Cumulative Option	Non Buyback / Cumulative Option
Minimum Application / Face Value	5,000/-	5,000/-	5,000/-	5,000/-
In Multiples of	5,000/-	5,000/-	5,000/-	5,000/-
Buy Back Option	Yes	Yes	No	No
Interest Payment	Yearly	NA	Yearly	NA
Coupon	7.85% per annum	7.85% to be Compounded annually	7.95%	7.95% to be Compounded annually
Yield on Redemption	7.85%	7.85%	7.95%	7.95%
Coupon Payment Date*	September 15 every year	NA	September 15 every year	NA
Redemption Date	September 15, 2020	September 15, 2020	September 15, 2020	September 15, 2020
Buy Back Period	Every Year Between August 16 to August 31, starting from Year 2015 till Year 2019	Every Year Between August 16 to August 31, starting from Year 2015 till Year 2019	NA	NA

*Redemption / Buyback amount would be payable only once during tenure of the bond.

• **Banker to issue: HDFC bank (collecting Banker)**

• **Payment in favour of: “IFCI Limited - Infra Bond”** either through Cheque/ Demand Draft/ Pay orders and crossed “Account Payee Only” are deposited, directly with the designated branches of HDFC Bank (collecting banker)

GEPL Recommends

To invest in either Option 1 or 11

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