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Research Report

Scrip : West Coast Paper Mills Ltd.

Risk :

Date : 01/November/2023

ISIN : INE976A01021



Call : Buy (Below ₹1,566/-)

About the company : West Coast Paper Mills Ltd. (WCPML) is among the largest producers of writing and printing paper in India with 3.14 Lakh Tonnes of paper production and ₹2855.98 crore of standalone revenue generated for the financial year 2022-23. The company is operating with a plant at Dandeli, Karnataka producing paper products, and another plant at Mysuru producing Optical Fibre Cables with, respectively, 93% and 7% of the revenue generation capacity. The company produces paper at Dandeli with a capacity of 320000 metric tonnes per annum (MTPA). The company has a majority stake in Andhra Papers Ltd. (APL) which produces 250000 MTPA. The company is planning to increase the Optical Fibre Cables production capacity with a new plant at Hyderabad.

Business Outlook : The global pulp and packaging business is expected to grow at a 3% CAGR by 2028 [1]. With China, the United States of America and Japan leading the global paper production, India (with a global market share of 5%)

is expected to grow faster in writing & printing paper production at 6-7% a year, and packaging paper production at 9.5% a year by 2028 [2]. WCPML has maintained a stable production capacity in the last decade. The consolidated revenues generated have also increased at a 13.10% CAGR over a decade from the financial year 2012-13. The company plans to grow faster with the new acquisitions like APL, and a new optical cable plant at Hyderabad.

Financial Analysis : Financial analysis is based on the current year financials of the company [3]. The company has spent 7.33% of the consolidated revenue (10.46% of the total expenses) on the employee cost for the financial year 2022-23. A significant portion (41.28%) of the revenue is spent on the raw material consumption. The company has managed its expenses well with a net-profit margin of 21.57%. The company has also managed well in limiting its costs even though the raw material costs are increasing with lesser supply of the raw material. The intangible assets for

the financial year 2022-23 are at 13.98% of the total non-current assets. The intangible assets are not the real assets but it is a goodwill, like the brand value. Hence, having the intangible assets more than 5% of the total non-current assets can be avoidable. The company has invested significant cash into the non-current investments and cleared 46.52% of its opening borrowings (long-term debt) for the financial year 2022-23. The company has generated a positive free cash flow after its reinvestments and clearing off a partial debt from the balance sheet.

Management Analysis : The management analysis is based on the management abilities to create value to the stakeholders during the past decade [4]. The net assets of the company grew at a 17.75% CAGR over a decade between 2013-2023. This is a significant achievement compared to their consolidated revenue increase of 13.10% CAGR over the same period. The management has been consistently able to manage the assets and liabilities, and the working capital to keep the business operations stable. The management has been able to reduce the company's borrowings by 75.79% over the last decade. Over the years, the company has maintained consistent free cash flows after its investments in the company projects as well as in the non-current liquid assets, which created value to the stakeholders.

Risk Considerations : The major risk factor of the WCPML is the fluctuations in the price of the raw material. The company is managing to overcome the

raw material shortage with its own green plantations. But with the increase in the paper and packaging board demand, the raw material shortage can become a significant cost consuming source for the business. Though the company is repaying its debt, the company is depending on acquisitions to generate free cash flows with 59.57% of the cash flows for financial year 2022-23 from its subsidiaries. The risk is higher as the cash flows can go through cycles because of the variation in the raw material and the demand for the paper and packaging products.

Business Evaluation : WCPML has a market capital of around ₹4,782 crore (at ₹724 per share), classifying it as a **smallcap company** [5]. The company has generated a consolidated revenue of ₹4,998 crores for the financial years 2022-23. The revenue generated is 0.95 times to the market capital. Considering that the company generates consolidated revenue at a 13.10% CAGR, the company is currently undervalued in the market. With the increase in the demand of paper and packaging products in India, the company can generate revenue at a higher rate. Considering the total net-profit and net-book value, the fair value of the company is calculated to be ₹8,621 crore (or ₹1,305/- per share). By adding a +20% margin over the fair value for the management quality [6], the intrinsic value of the business is evaluated to be approximately ₹1,566/- per share. If the company is bought by the investors anywhere below the intrinsic value calculated as above, the company is available undervalued in the open capital market.

Notes:

[1] Source : West Coast Paper Mill Ltd annual report 2022-2023.

[2] Source : Annual Reports of the peer companies in the Industry.

[3] The financial analysis is based completely on the financial statements of the company for the financial year 2022-23. The past and the future expected financials are considered to be irrelevant in the financial analysis by MarketMarvels Analysts.

[4] The management analysis is based completely on the past financials of the business. MarketMarvels Analysts believe that the past financial management of the business reflects the management capabilities in managing the business.

[5] The categorization of a company into small cap, mid cap and large cap is based on the market capital : less than ₹5,000 crore, ₹5,000 crore - ₹50,000 crore, and more than ₹50,000 crore, respectively.

[6] The business valuation keeps changing with the financials and the management behavior. The margin that we added to the fair value is based on our views and/or assumptions. The

margin can be different for different analysts.

Disclaimers :

1. The above analysis is based on the publicly available data from the company's annual reports, credit reports and the company filings to the stock exchanges.
2. The analyst has never approached the company management or the company officials for any internal information.
3. The analysis is an original piece of work and has not been copied from other reports/analyses.
4. Equity investing is a long-term process. This report alone is insufficient to make investment decisions in the company.
5. A few critical points of the analysis have been presented in the report to simplify the report. Investors can analyze more information from the sources mentioned in Disclaimer 1, before taking an investment decision.

Disclosures :

1. **Sreenivasa Sarma Bhagavathula**, the analyst of this report, is a SEBI registered Research Analyst with the registration number **INH000013439**
2. The analyst holds the company shares as detailed below :

Name of the company	Last transaction (Buy/Sell)	Date of the last transaction	Total number of shares held as on the report date
West Coast Paper Mills Ltd.	Buy	30/August/2023	1500

3. For any queries on the research report, please contact help@marketmarvels.in

For MarketMarvels Analysts

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