CRISIL RESEARCH

Independent Equity Research

Enhancing investment decisions

In-depth analysis of the fundamentals and valuation

The West Coast Paper Mills Limited

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade)

Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

Disclaimer:

Independent Research Report – The West Coast Paper Mills Ltd

Reaping the benefits of expansion

Industry: Paper
Date: July 30, 2010

CRISIL RESEARCH

The West Coast Paper Mills Ltd (West Coast) is a part of the S. K. Bangur Group, which is present in paper, power cables, chemicals, tea, coffee, rubber and information technology sectors. We assign West Coast a fundamental grade of **3/5**, indicating that its fundamentals are **'good'** relative to other listed securities. We assign a valuation grade of **3/5**, indicating that the current market price of the stock is **'aligned'** to its fair value. We have arrived at a one-year fair value of Rs 97 per share.

Paper demand poised for healthy growth

CRISIL Research expects paper and paperboard demand to grow at 7.0% CAGR, from 7.9 mn tonnes to 10.4 mn tonnes between FY10 and FY14 due to healthy growth in industrial production and demand recovery in consumer goods. Demand for Writing & Printing (W&P) paper is expected to grow at 6.7% CAGR during the same period, driven by the government's thrust on education and growth in overall economy. West Coast's focus is on the high quality W&P paper segment (copier paper), which is expected to register higher growth of about 14-16%.

One of the largest integrated players post capacity expansion

Post its capacity expansion in May 2010, the company has become the fifth largest paper manufacturer in India. Paper industry is highly fragmented with about 660 paper mills, but the top 30 players have close to 50% of the industry capacity. The larger players typically have higher realisations on account of better product mix, and enjoy better operating margins because of economies of scale and backward integration.

More efficient pulp line and change in product mix to improve profitability

Apart from expanding capacities, the company has modernised its plant and changed the product mix, which is expected to increase margins by ~6pps. The company has (a) put a new pulp line, which is expected to decrease the wood requirement by ~10%; (b) improved its product mix to produce high quality W&P paper.

Key risks – Raw material and paper prices

Volatility in international pulp and paper prices could impact margins. The cost of domestic wood has been increasing constantly on account of increase in royalty, procurement rates and freight charges. However, West Coast has partially mitigated this risk by focusing on its captive plantation scheme which is expected to increasingly assure wood availability at reasonable prices after 2-3 years.

Revenues to grow at a two-year CAGR of 37%, RoE to expand

We expect revenues to grow at a two-year CAGR of 37% to Rs 11.7 bn in FY12, on account of increased capacity and production. EBITDA margins are expected to improve to 29.0% in FY11 from 18.5% in FY10 due to supernormal profits on account of firm pulp prices. In FY12, margins are expected to fall to 25.2% on account of expected reversal in pulp and paper prices. Net margins and RoE are expected to improve to 9.4% and 15.3% in FY12, respectively.

Valuations - no upside from current levels

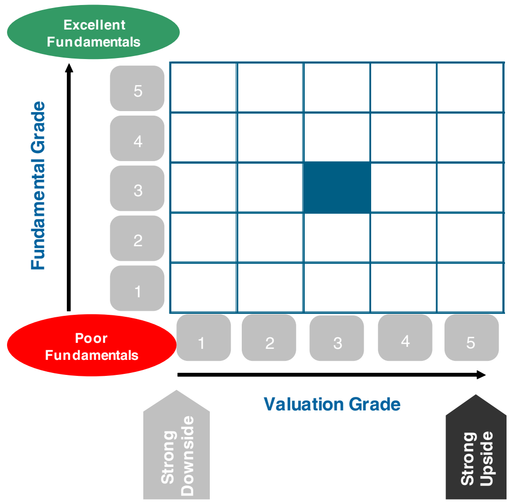
We have valued West Coast based on the price-to-earnings ratio (PER) method. We assign PER of 6x to FY12 EPS of Rs 15.5. Further, its 36% stake in Rama Newsprint and Paper Ltd (RNPL) has been valued at Rs 4 per share considering the current market price. Accordingly, we arrive at the fair value of Rs 97 per share. We initiate coverage on West Coast with a valuation grade of '3/5', indicating that current market price is 'aligned' to our fair price estimate.

Key forecast (consolidated)

Rs (mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	5,900	6,231	6,295	10,186	11,731
EBITDA	1,152	1,254	1,163	2,952	2,956
Adj Net income	837	905	549	996	1,102
EPS-Rs	14.6	15.0	8.8	14.0	15.5
EPS growth (%)	(6.9)	8.3	(41.9)	60.7	10.7
PE (x)	6.2	6.0	10.3	6.5	5.8
EV/EBITDA (x)	6.3	12.0	15.1	5.6	5.1
P/BV (x)	1.3	1.1	1.1	0.9	0.8
RoCE(%)	15.6	8.2	5.2	11.3	11.9
RoE(%)	26.4	20.0	10.6	16.3	15.3

Source: Company, CRISIL Equities estimate

CFV matrix

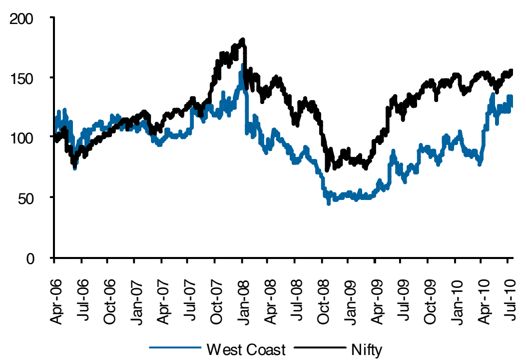


- Fundamental grade of '3/5' indicates good fundamentals
- Valuation grade of '3/5' indicates CMP is aligned

Key stock statistics

NSE Ticker	WSTCSTPAPR
Fair value (Rs per share)	97
Current market price	
(Closing price as on 30 July, 2010)	90
Shares outstanding (Mn)	62.7
Market cap (Rs Mn)	5,643
Face value (Rs per share)	2
Enterprise value (Rs Mn)	16,860
52-week range (Rs) (H/L)	100/47
P/E on EPS estimate (FY11E)	6.5
Beta	1.40
Free float (%)	48.2%
Average daily volumes	220,656

Share price movement



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Business environment

Parameter	Paper
Revenue contribution (FY10)	94%
Revenue contribution (FY12)	96%
Product offering	W&P and industrial paper
End market	Banks, FMCG, cigarette, printing and other paper companies
Exports as a % of revenues in FY10	3%
Geographic presence	**Domestic** Present in 24 states through a network of 88 dealers South and West zones contribute about 70-75% of sales **Exports** The company exports in small quantities to many countries across the globe
Current market position	5th largest player in the domestic paper industry on FY11 capacity estimates 8th largest player in the domestic paper industry on FY10 production estimates
Key competitors	All major paper mills including Ballarpur Industries Ltd, ITC Ltd, Hindustan Paper Corporation Ltd, Tamil Nadu Newsprint and Papers Ltd, Andhra Pradesh Paper Mills Ltd amongst others
Sales growth forecast (FY10-12)	37%
Demand drivers	Stable growth in end-user industries
Margin drivers	- New technologically advanced capacity leading to operating efficiencies - Change in product mix to produce more superior quality paper

Grading Rationale

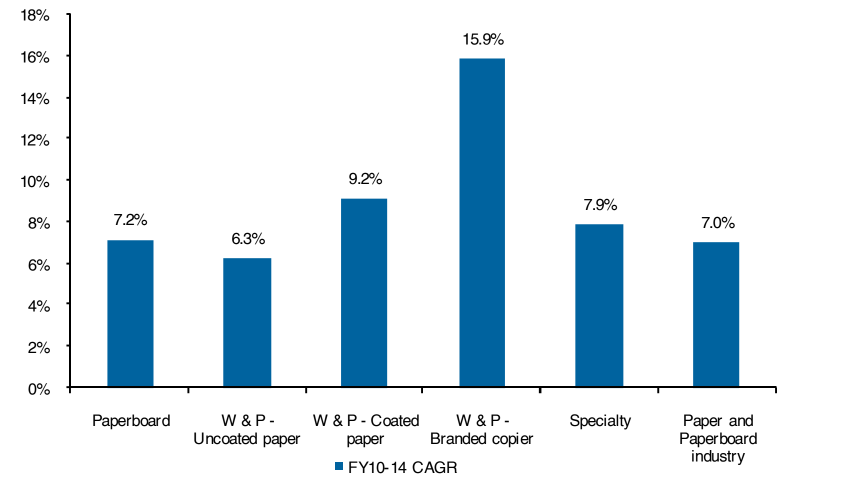
Paper demand poised for healthy growth

CRISIL Research expects the overall paper and paperboard (excluding newsprint) demand to grow at 7.0% CAGR, from 7.9 mn tonnes to 10.4 mn tonnes between FY10 and FY14.

- Demand for paperboard is expected to grow at 7.2% CAGR due to healthy growth in industrial production and demand recovery in consumer goods.
- Demand for W&P would grow at 6.7% CAGR, driven by the government's thrust on education and growth in overall economy.
- West Coast's focus is on the high quality W&P paper segment (copier paper), which is expected to register higher growth of 14-16%.

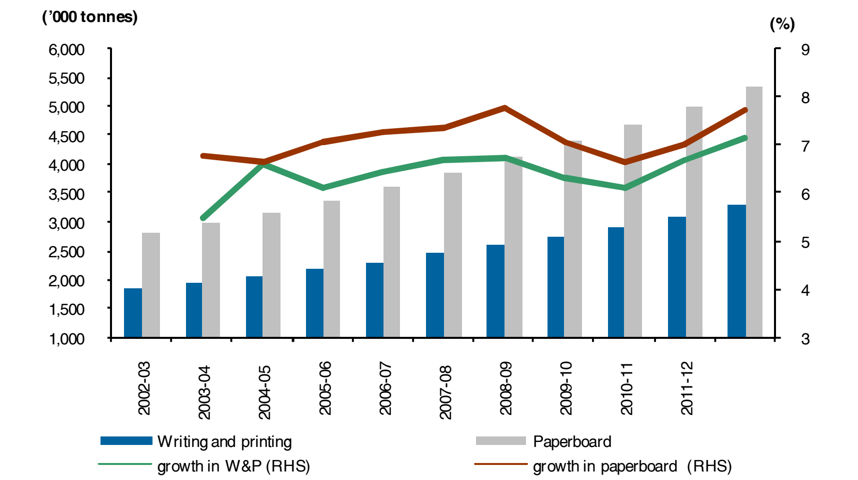
West Coast is focusing on the high quality W&P segment, which is expected to register higher growth of 14-16%

Paper industry to have a steady growth ahead



Source: CRISIL Research

Paper industry has historically enjoyed steady growth on the back of IIP growth



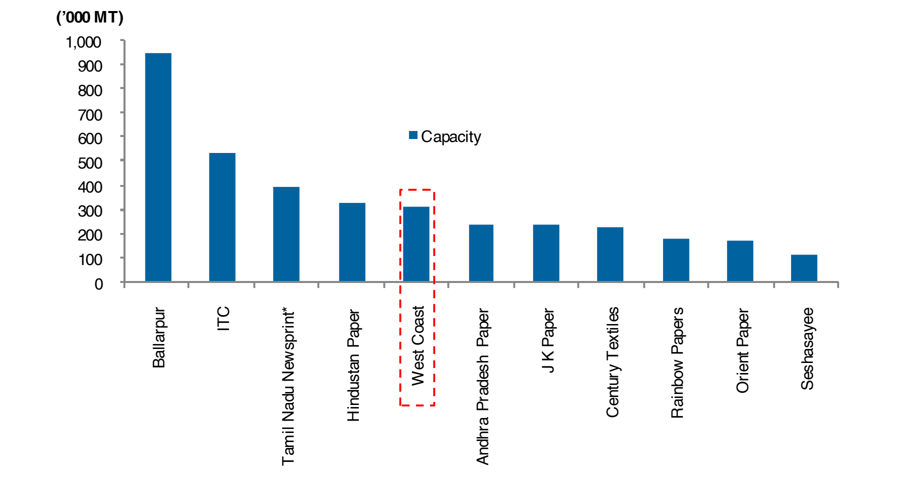
Source: CRISIL Research

West Coast: One of the largest integrated players in India

Considering the recent capacity expansions and capacities commissioned in FY11 by major paper mills, West Coast is expected to be the fifth largest manufacturer of paper. It is next only to Ballarpur Industries Limited (Ballarpur), ITC Limited (ITC), Tamil Nadu Newsprint and Papers Limited (Tamil Nadu Newsprint) and Hindustan Paper Corporation Limited (Hindustan Paper).

Paper industry is highly fragmented with about 660 paper mills, but the large players have close to 60% of the industry capacity. The larger players typically have higher realisations on account of better product mix, and enjoy better operating margins because of economies of scale and backward integration. Also, the smaller players mainly cater to the lower-end of the paper segment.

West Coast has the fifth largest capacity in India



Note: Capacity numbers are FY11 estimates

* Tamil Nadu Newsprint's additional capacity of 155,000 tonnes is expected to come on stream during H2FY11

Source: CRISIL Research

Table 1: Peer comparison – key paper players

		Ballarpur Consolidated Jun 2009	TamilNadu Newsprint Mar 2009	J K Paper Mar 2009	West Coast Paper Mar 2009	Andhra Paper Mar 2009	Sirpur Paper Mar 2009	Seshasayee Paper Mar 2009
Capacity	**MT**	776,250[a]	245,000	240,000	180,000	174,000	138,300	115,000
Production	**MT**	637,876	254,903	254,816	173,682	177,748	92,298	119,779
Capacity utilisation	**%**	82%	104%	106%	96%	102%	67%	104%
Operating Income	**Rs mn**	28,638	11,287	12,683	6,231	6,573	3,445	5,612
Paper realisation	**Rs/MT**	57,083[b]	40,815	49,367	36,260	38,612	38,012	46,092
Raw material imports as % of total raw material cost	**%**	48%	19%	35%	14%	21%	1%	43%
Power cost as % of operating income	**%**	15%	26%	10%	12%	10%	24%	18%
Operating margin	**%**	22.8%	26.5%	17.0%	20.1%	18.9%	14.5%	14.7%
RoCE	**%**	8.0%	14.8%	12.3%	8.2%	5.6%	6.3%	10.0%
GFA Turnover	**Times**	0.5	0.6	0.9	1.3	0.6	0.6	1.0
Debt equity ratio	**Times**	1.7	1.2	1.7	2.5	1.3	1.5	1.9
Working cycle								
Raw material cycle	**Days**	96	232	55	111	73	64	91
Debtors	**Days**	40	54	33	24	22	28	32
Creditors	**Days**	132	221	42	200	129	118	144

a – Capacity addition for Balarpur is taken on a pro rata basis; b - Refers to the standalone realisation of Balarpur

Note: Creditor days includes project creditors

Source: CRISIL Research

Recent capacity expansion adequate for growth over the next three years'

Over the past three years, West Coast has incured a capex of Rs 13.8 bn to expand its capacity from 180,000 tpa to 315,000 tpa. With steady growth in the paper industry and most players lacking in new capacities, we believe that the company would reach over 90% utilisation levels over the next two years. Apart from adding capacity, the company has also changed its product mix towards attaining higher profitability.

West Coast's focus on the W&P segment with specific attention on copier paper is expected to improve product-mix and margins

Table 2: Details of West Coast's recent capacity expansion

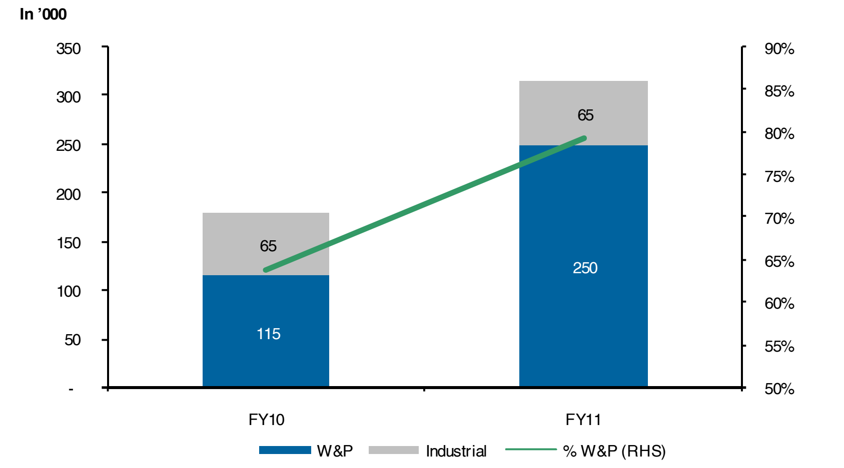
	Pre-Expansion		Post-Expansion	
Particulars	Capacity Allocation(tpa)	%	Capacity Allocation(tpa)	%
W&P Paper	115,000	64%	250,000	79%
Duplex Board	65,000	36%	22,000	7%
Pulp Sheet	-	-	43,000	14%
Total	**180,000**	**100%**	**315,000**	**100%**

Source: Company, CRISIL Equities

Better quality product mix to increase realisations and margins

The Indian paper industry is broadly classified into three segments – W&P, industrial and newsprint. The W&P segment enjoys higher margins (20-25%) than industrial (10-15%) and newsprint (8-12%). The product mix of West Coast comprises W&P and industrial paper. Post expansion, the product mix is highly biased towards W&P paper which is expected to increase the company's realisations and margins. Also, within the W&P segment, the company will produce more copier paper which is a higher-margin product. The change in product mix is expected to increase margins by ~150bps.

Trend in West Coast paper capacity



Source: Company reports

Commencement of new fibreline to improve operating efficiency

The company has replaced its old fibreline with a new technologically advanced one, which is expected to increase margins by 400-450 bps

As part of its expansion plan, West Coast has increased its pulping capacity from 300 tpd (tonnes per day) to 800 tpd. The new fibreline was commissioned in February 2010 and the old fibreline has been kept shut since then. The increase in pulping capacity will reduce the company's reliance on pulp purchased locally and will, thus, result in a decline in raw material cost from FY11 onwards.

The new advanced fibreline is also expected to increase unbleached pulp yield and reduce shrinkage loss, thereby reducing the raw material requirement by about 10%. Besides, the consumption of utilities – steam, water and electricity per tonne of production – is also expected to reduce with the technologically advanced new fibreline. This will further bolster the company's margins by about 400-450 bps.

Captive plantations to provide raw material security

Captive plantations to benefit the company in the long run

Post expansion, the company's raw material requirement is expected to increase from 3.8 lakh tonnes to about 9 lakh tonnes (assuming 100% capacity utilisation). As of today, West Coast is primarily dependent on private cultivators and procures wood from within Karnataka as well as from Andhra Pradesh, Tamil Nadu, Pondicherry and Maharashtra.

To ensure a consistent supply of wood, the company had initiated a Core Plantation Scheme in FY09 within a radius of 250 km of Dandeli by partnering with local farmers to use waste/degraded land for hi-tech plantations of pulpwood. The initiative of captive planatation by West Coast was the first of its kind in India. As of March 2010, West Coast had an area of about 6,500 hectares covered under its Core Plantation Scheme. The company has plans to bring an additional 8,000 hectares of land under captive plantation each year to reach about 40,000 hectares by 2014.

Wood supply from captive plantation would lead to raw material security for West Coast. Based on the company's plans to increase land under plantation, the company is expected to meet about 4 lakh tonnes (45% of its wood requirement considering 100% capacity utilisation) from captive plantation. Reduction in transportation costs due to plantation within a radius of 250 km from Dandeli will reduce the overall raw material cost to the company, subsequently improving margins.

Financial flexibility to be strained in the medium term

High gearing and capital costs to put pressure on the company's financial flexibility

West Coast's financial flexibility is expected to be strained in the medium term due to a substantial increase in the company's borrowings to fund its capital expenditure. The company incurred capital expenditure of about Rs 13.8 bn for its plant expansion, of which about Rs 7.5 bn was funded through debt. West Coast availed its total debt requirement for the expansion project in FY09. Consequently, its debt-equity increased from 1.0 times in FY08 to 2.5 times in FY09 and continued to be high at 2.4 times in FY10 in the absence of debt repayment.

Though the company has availed ECB from IFC, ICICI and Barclays, its financial flexibility is likely to be under strain in the next few years due to an increase in capital costs because of high borrowings. Also, the company will be highly vulnerable to foreign exchange fluctuations due to ECB loans. However, with expanded capacities, West Coast aims to increase the volume of paper exports. Foreign exchange earnings from paper exports would provide a natural hedge for the company's interest and loan repayments.

Key Risks

Margins susceptible to international price movements

In India about 26% of paper production is dependent on imported pulp and imported wastepaper. Thus, domestic paper prices tend to mirror international price trends. An integrated player like West Coast would not be highly impacted by variations in international pulp and wastepaper prices as its dependence on the same is very low. However, a fall in international pulp and wastepaper prices would make non-integrated players competitive. Conversely, a rise in international prices would be to West Coast's advantage.

Raw material prices and availability

The cost of wood has been rising constantly on account of increase in royalty, procurement rates and freight charges. While paper realisations in FY10 were low due to sluggish market conditions, wood prices continued their uptrend mainly driven by high freight costs. Thus, increasing wood prices would remain a cause for concern for West Coast.

Over FY11-13, West Coast's wood requirement is expected to double (considering 90%+ capacity utilisation). Consequently, the risk of procuring adequate wood at reasonable prices has increased further. To mitigate the risk of wood availability at reasonable prices, West Coast is focussed on its captive plantation scheme. The company is targeting to achieve about 45% of its wood requirement from captive plantations by FY14.

Financial Outlook

Increase in production and realisations to drive revenue growth

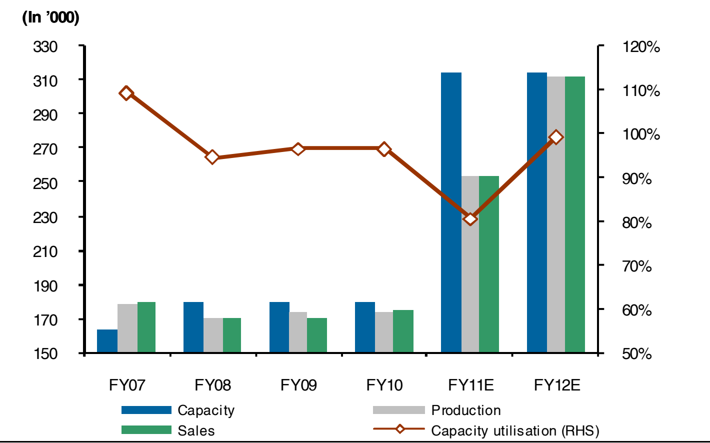
We expect revenues to register a robust growth of 37% over FY10-12 on the back of expanded capacity and production

West Coast's revenues grew by just 1% in FY10, as the company had achieved almost 100% utilisation of the unexpanded capacity. While the company benefitted from an increase in sales volume by about 3% and a reduction in excise duty, it was offset by a fall in paper realisations by about 4% due to sluggish paper market conditions.

In early FY11, the company has expanded its capacity from 180,000 tpa to 315,000 tpa. It has altered its product mix to produce more W&P paper which commands a premium price over industrial paper. Also, in the W&P segment the company would be producing more superior quality variants resulting in higher realisations. The company also has the flexibility to produce pulp sheet in its new enhanced fibreline capacity and sell it in the domestic market.

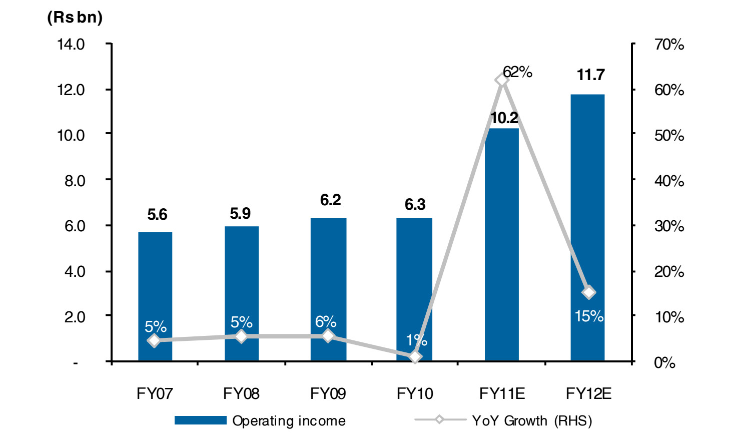
Increased production to cater to a steadily growing market is expected to result in higher revenues for West Coast in FY11. The company is amongst the few larger paper players who have or are putting up paper capacities. Revenues would also get a boost from higher realisations due to a superior product mix. Also, firming paper prices in FY11 would benefit West Coast, who is an integrated player.
Accordingly, we expect revenues to register a CAGR of 37% over FY10-12.

Production to increase post expansion



Source: Company, CRISIL Equities estimate

Revenues to grow at a CAGR of 37%



Source: Company, CRISIL Equities estimate

EBITDA margins to improve due to efficieny gains and product mix

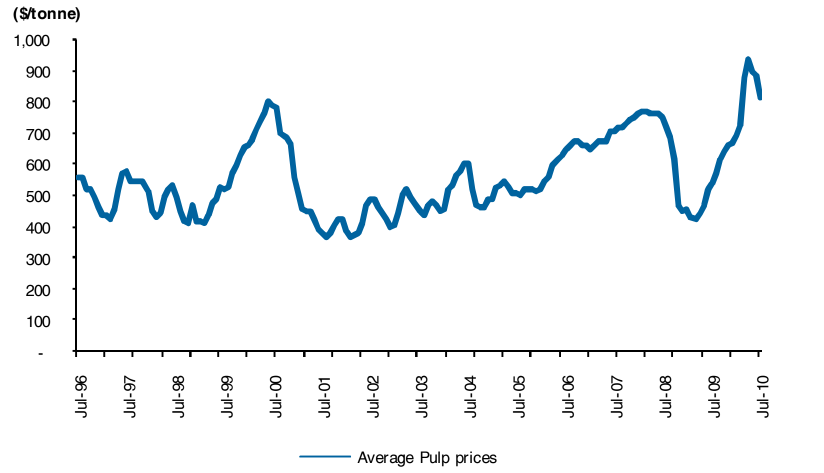
In FY11, we expect West Coast's EBITDA margin to improve substantially from 18.5% in FY10 to about 29.0% in FY11 because of efficiency gains and higher realisations. In FY12, paper prices are again expected to come down with the expectation of international pulp and wastepaper prices correcting. Accordingly, margins are expected to fall to about 25-26% and thereafter stabilise at 26-27%, higher than the earlier range of 18-20%, on account of efficiency gains and a change in product mix.

FY11 will be a year of supernormal profits

In FY11, prices of international pulp and wastepaper have almost doubled from FY10 levels and prices are expected to remain firm through the year. Consequently, domestic players have increased paper prices to pass on the increase in costs to consumers.

For an integrated player like West Coast, increase in realisations would directly add to the bottom line as its dependence on imported pulp and wastepaper is very low for its paper production. Thus, it stands to make supernormal profits in FY11 because paper prices are expected to be firm.

High pulp prices to benefit West Coast



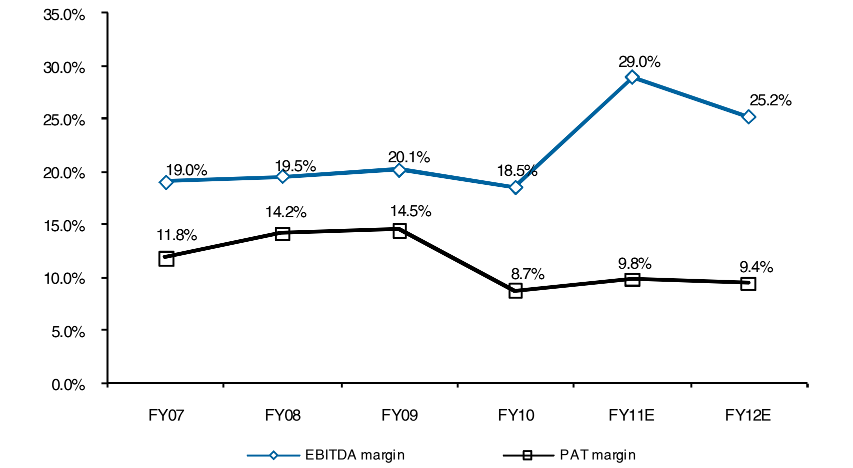
Source: CRISIL Research

In FY12, paper prices are again expected to fall with the expectation of international pulp and wastepaper prices correcting.

Increase in EBITDA margin will not translate directly into PAT margin on account of rise in depreciation and interest costs

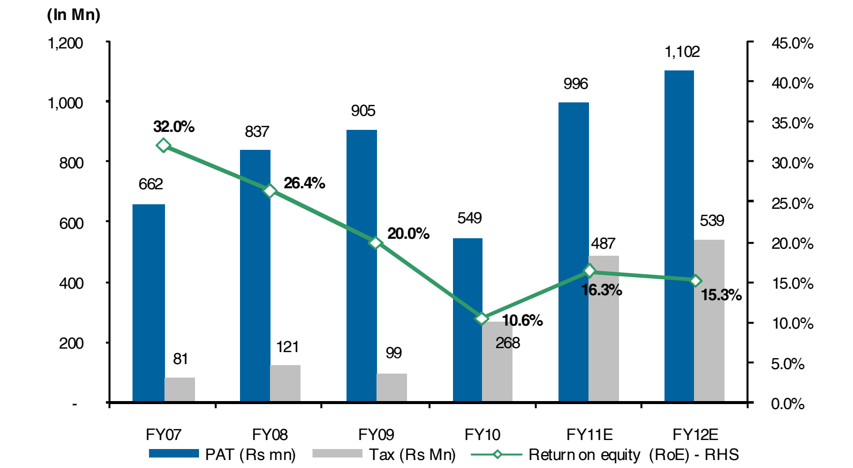
Despite an increase in EBITDA margin, PAT margins are expected to remain suppressed on account of higher interest and depreciation charges. West Coast capitalised a part of its plant and machinery in FY10 and the majority of it in FY11. Consequently, depreciation charges for FY11 are expected to increase. Interest cost is expected to increase as the company discontinues capitalising its interest cost. RoE, which declined to about 10.6% in FY10, is expected to increase to about 16.3% in FY11 and 15.3% in FY12.

EBIDTA margins to improve substantially, PAT margins to be range-bound



Source: Company, CRISIL Equities estimate

After a slump in FY10, PAT to grow at a two-year CAGR of 42%

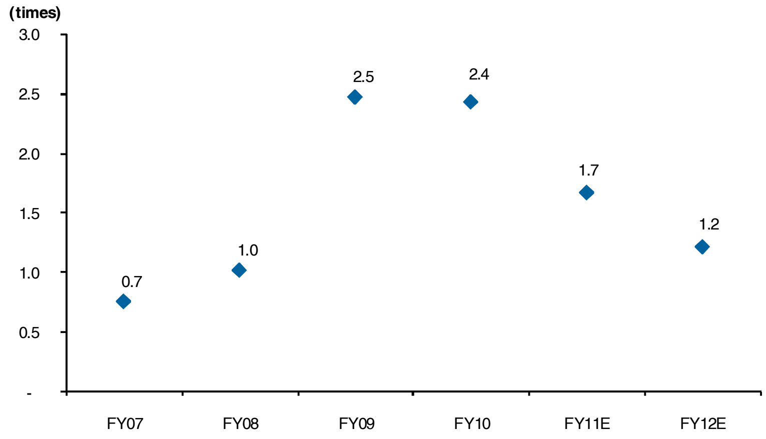


Source: Company, CRISIL Equities estimate

Gearing to come down from current levels

West Coast has incurred capital expenditure of about Rs 13.8 bn for its plant expansion. Of the total expenditure, about Rs 7.5 bn was funded through debt. West Coast availed its total debt requirement for the expansion in FY09. Consequently, its debt-equity increased from 1.0 times in FY08 to 2.5 times in FY09. In FY10, debt-equity continued to be high at 2.4 times in the absence of debt repayment. With repayment of debt beginning FY11, debt-equity is expected to come down.

Gearing to reduce as the company repays debt



Source: Company, CRISIL Equities estimate

High interest coverage on account of external borrowing

Overall interest costs low, thanks to external borrowings

While West Coast has a high leverage, about 60% of its total debt is in the form of ECBs and about 7% of total debt is interest-free loan under the sales tax deferral scheme. The ECBs attract interest rate of LIBOR +175 bps, where the company is currently paying an interest of about 2.2%. Accordingly, the company has healthy interest coverage of 3.4x in FY11E. Also, as per our estimates, the company can generate enough cash flow to bring the debt-equity ratio to less than 0.5 times over the next four to five years.

Table 3: Debt break-up of West Coast

Particulars of debt	Rs mn	% of total loan	Interest rate
Redeemable non-convertible debentures	650	5%	12.50%
Working capital facilities from banks	262	2%	8%
International Finance Corporation (IFC)	1,796	15%	Libor+175bps
Barclays Bank Plc. Mauritius	898	7%	Libor+175bps
ICICI Bank Ltd., Singapore - Led Syndicate	4,791	39%	Libor+175bps
Central Bank of India	1,000	8%	8%
Loan from banks	2,050	17%	8%
Interest-free loan under the sales tax deferral scheme	901	7%	0%
Total	**11,347**		

Source: Company, CRISIL Equities

Management Evaluation

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance. Overall, we feel that the management has strong domain expertise and will drive the company's growth in the near future.

Strong management with good experience and domain expertise

Experienced promoters with vast industry experience

West Coast is the flagship company of the S. K. Bangur Group. The promoter has many years of experience in the paper, power cables, chemicals, tea, coffee, rubber and information technology sectors in India. Mr S. K. Bangur is the Chairman and Managing Director of the company. He has served as President of the Indian Paper Manufacturers Association, an apex body of large and integrated paper mills from 2001 to 2003. Currently, he is a committee member of the Federation of Indian Chamber of Commerce & Industry, Indian Chamber of Commerce and Bharat Chamber of Commerce.

Capacity expansion puts West Coast in the top five league

West Coast's management was successful in enhancing paper manufacturing capacities from 180,000 tpa to 315,000 tpa in 2010. Expansion activities were undertaken with a vision - to intensify the development activities towards fibre resource management, quality improvement, upgradation of technology to achieve energy efficiency and be environmental friendly. Although the expansion plan looked ambitious, West Coast's management was successful in commissioning environment-affable capacities, which will put the company in the league of top five players like Ballarpur Industries (950,000 tpa), Tamil Nadu Newsprint and Papers (400,000 tpa), JK Paper (240,000 tpa) and Andhra Pradesh Paper Mills (241,000 tpa).

Strong second line of management

Based on our interactions with the company, we believe that the second line is highly experienced. The second line of management has more than 10-15 years of experience in their respective fields. Moreover, key managerial personnel have been in the company on an average for more than five years.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

West Coast's corporate governance practices are adequate and meet the minimum required standards

Overall, corporate governance at West Coast presents good practices supported by a strong and fairly independent board. Further, the current board has a good experience in the industry. We feel that the company's corporate governance practices are adequate and meet the minimum required levels.

Board composition

West Coast's board comprises 10 members – 3 promoter directors, 6 independent directors and 1 executive director. The board is in accordance with the stipulated SEBI listing guidelines. Given the background of directors, we believe that the board in place at West Coast is fairly diversified.

Board's processes

The company has various committees – audit, remuneration and investors' grievance - in place to support corporate governance practices. The company's disclosures are sufficient to analyse various business aspects of the company. CRISIL Equities assesses from its interactions with independent directors of the company that the quality of agenda papers and the level of debate of discussions at the board meetings are good.

The company's quality of disclosure can be considered good, judged by the level of information and details furnished in annual reports, website and other publicly available data. We feel that the independent directors are well aware of the business and are fairly engaged in all the major decisions reflecting well on the company's corporate governance practices. The audit committee is chaired by an independent director, Mr. Krishna Kumar Karwa, and it meets at timely and regular intervals.

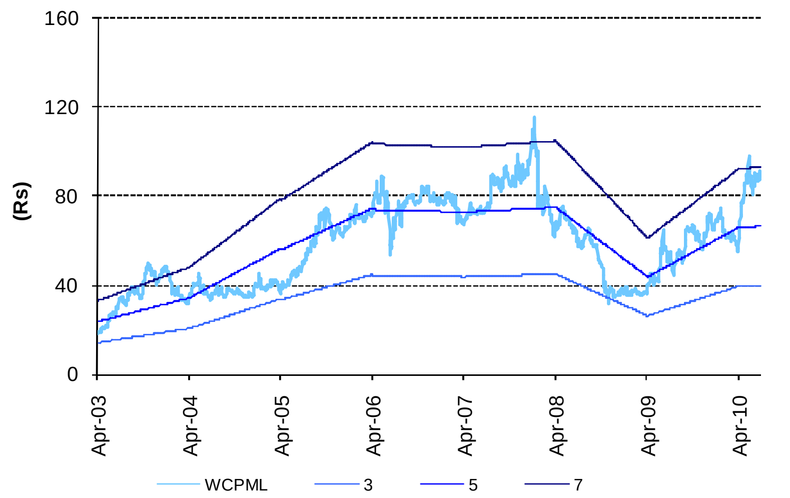
Valuation Grade: 3/5

We assign a fair value of Rs 97 per share to West Coast and initiate coverage with a valuation grade of '3/5'

We have valued West Coast using the price-to-earnings ratio (PER) method. We initiate coverage on West Coast with a fair value of Rs 97 per share and valuation grade of '3/5'. This grade indicates that the current market price is 'aligned' to our fair price estimate.

Between April 2003 and March 2008, West Coast has traded at an average one-year rolling forward PER of 5.6x. Since then, due to concerns on ambitious capacity expansion plans, PER has compressed to an average of 4.2x in FY09, wherein debt-to-equity increased from 1x in FY08 to 2.5x in FY09.

One-year rolling forward PER band



Source: CRISIL Equities estimate

Note- WCPML: West Coast Paper Mills Ltd.

However, post commissioning of new capacities in May 2010, the stock price witnessed a significant jump and increase in PER. Currently, the stock is trading at a PER of 6.8x. Due to an expected improvement in revenues and PAT from FY11 onwards, we believe the expansion in PER is not temporary. Therefore, we have assigned a PER of 6x to FY12 EPS of Rs 15.5 and arrived at a value of Rs 93 per share.

In September 2003, West Coast acquired a 33.9% stake in Rama Newsprint and Papers Ltd (Rama Newsprint) from ICICI for Rs 393.8 mn. Currently, West Coast holds 36.3% stake in Rama Newsprint. Based on Rama Newsprint's current market value and holding a company discount of 25%, West Coast's stake comes to Rs 283 mn, translating to Rs 4.0 per West Coast's outstanding share. Therefore, our fair value estimate for West Coast is Rs 97 per share.

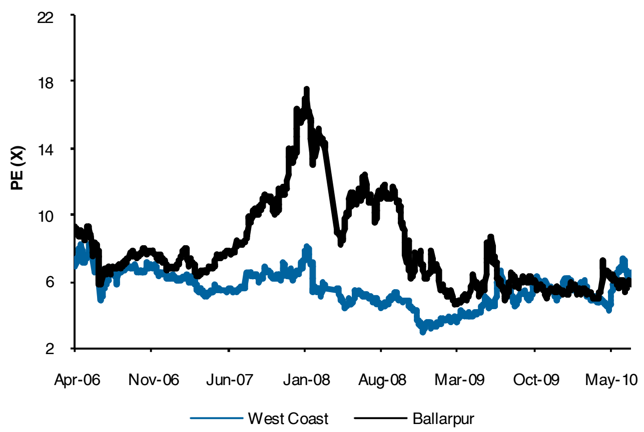
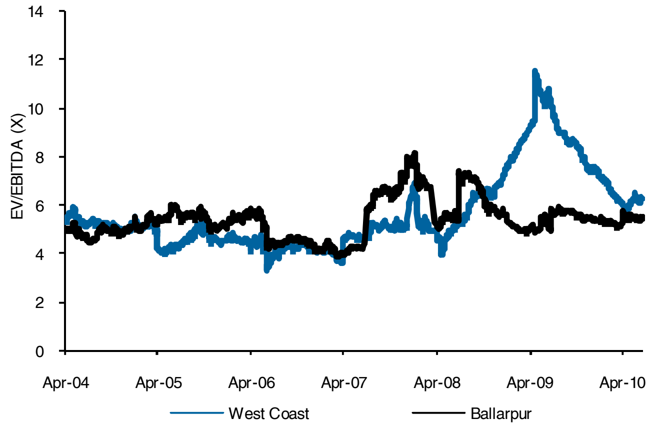
One-year rolling forward PER compared to Ballarpur	One-year rolling forward EV/EBITDA compared to Ballarpur
	
Source: CRISIL Equities	**Source: CRISIL Equities**

Table 4: Peer comparison

	Market Cap	P/E			P/B			EV/EBITDA			ROE		
	(Rs mn)	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12
WEST COAST	5,676	10.3	6.5	5.8	1.1	0.9	0.8	15.1	5.6	5.1	10.6	16.3	15.3
BALLARPUR	21,718	10.9	11.4	6.4	1.0	1.1	0.9	7.9	7.5	5.8	10.3	9.1	15.5
ORIENT	10,367	6.6	5.9	5.0	1.3	1.2	1.0	4.5	5.4	3.6	22.1	20.0	20.0
JK PAPER	4,224	4.6	-	-	0.9	-	-	3.8	-	-	-	-	-
ANDHRA PAPER	4,602	6.7	-	-	0.9	-	-	5.0	-	-	11.8	-	-
SESHASAYEE	2,239	5.6	-	-	1.0	-	-	4.0	-	-	19.1	-	-
TAMILNADU NEWSPRINT	8,686	6.9	-	-	1.3	-	-	4.0	-	-	16.5	-	-

Note: – Not Available

Source: Industry estimates, CRISIL Equities estimates

Company Overview

The West Coast Paper Mills Ltd (West Coast) is a part of the S. K. Bangur Group, which is present in paper, power cables, chemicals, tea, coffee, rubber and information technology sectors. West Coast was promoted in 1955 by Shree Digvijay Cement Company Ltd (originally a S. K. Bangur Group company, which was taken over by the Aditya Birla Group). In 1959, the company began commercial production of paper with a manufacturing capacity of 18,000 tpa. It was the first paper company in India to use 100% hardwood as raw material instead of bamboo. It is also the first company to initiate a captive plantation project to meet its wood requirement. The company acquired 33.9% equity of Rama Newsprint & Papers in 2003 and currently holds around 36.3% stake in the company. Also, other S. K. Bangur Group companies hold a 17.6% stake in Rama Newsprint taking the total group stake in the company to 54.0%. Rama Newsprint is a large player in the newsprint segment and has been manufacturing W&P paper since FY08.

Business Overview

West Coast is one of the large players in the domestic paper industry. Its product portfolio consists of paper, optic fibre cables and wind power with paper contributing about 94% of sales in FY10.

W&P paper dominates the company's paper portfolio, accounting for nearly 64% of paper production (pre-expansion). In May 2010, the company has expanded capacity from 180,000 tpa to 315,000 tpa. Post expansion, the product mix is going to be highly biased towards W&P paper (about 79%) resulting in higher realisations and margins.

West Coast also manufactures optical fibre cables for the telecom industry. It owns six windmills with a combined installed capacity of 1.75 MW. However, the total share of these businesses to total revenues is low at 6% as of FY10 and is expected to go down further because of expanded paper capacities.

Table 5: Segment-wise break up

Particulars	Units	FY08	FY09	FY10
Sales				
Paper	000 tonnes	170.2	170.7	175.2
Optic fibre cable	000 Kms	22.8	16.8	17.8
Wind power	000 Kwh	2,042.6	1,424.3	1,785.1
Sales revenue				
Paper	Rs mn	5,965	6,189	6,118
Optic fibre cable	Rs mn	557	434	381
Wind power	Rs mn	5	4	5
Gross sales	**Rs mn**	**6,527**	**6,627**	**6,504**

Source: Company, CRISIL Equities

Annexure: Financials

Income Statement

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Net sales	5,836	6,193	6,245	10,106	11,639
Operating Income	**5,900**	**6,231**	**6,295**	**10,186**	**11,731**
EBITDA	**1,152**	**1,254**	**1,163**	**2,952**	**2,956**
Depreciation	204	210	238	888	867
Interest	78	79	122	602	472
Other Income	88	41	13	21	24
PBT	**957**	**1,004**	**817**	**1,483**	**1,641**
PAT	**837**	**905**	**549**	**996**	**1,102**
No. of shares (In Mn)	57.0	60.0	63.0	71.0	71.0
Earnings per share (EPS)	**14.6**	**15.0**	**8.8**	**14.0**	**15.5**

Balance Sheet

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Equity capital (FV - Rs 2)	115	121	125	142	142
Reserves and surplus	3,905	4,907	5,238	6,687	7,456
Debt	4,062	12,387	12,997	11,347	9,347
Current Liabilities and Provisions	1,374	2,062	2,099	2,959	3,589
Deferred Tax Liability/(Asset)	416	400	665	885	1,129
Capital Employed	**9,871**	**19,877**	**21,124**	**22,020**	**21,664**
Net Fixed Assets	2,213	2,068	8,056	14,668	14,102
Capital WIP	3,099	11,200	7,469	119	119
Investments	550	460	467	467	467
Loans and advances	589	1,433	1,833	2,033	2,233
Inventory	1,127	1,437	1,791	2,898	3,337
Receivables	429	434	342	554	638
Cash & Bank Balance	1,863	2,844	1,166	1,281	768
Applications of Funds	**9,871**	**19,877**	**21,124**	**22,020**	**21,664**

Source: Company, CRISIL Equities estimate

Cash Flow

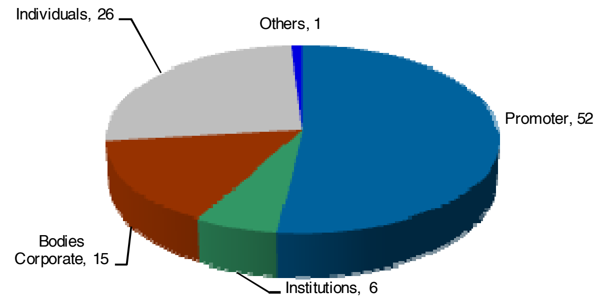
(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	957	1,004	817	1,483	1,641
Total tax paid	(110)	(115)	(3)	(267)	(295)
Depreciation	204	210	238	888	867
Change in working capital	317	(470)	(626)	(659)	(93)
Cash flow from operating activities	**1,369**	**630**	**426**	**1,445**	**2,119**
Capital expenditure	(3,200)	(8,167)	(2,494)	(150)	(300)
Investments and others	(90)	90	(7)	-	-
Cash flow from investing activities	**(3,290)**	**(8,077)**	**(2,501)**	**(150)**	**(300)**
Equity raised/(repaid)	1,052	135	115	750	-
Debt raised/(repaid)	2,321	8,325	611	(1,650)	(2,000)
Dividend (incl. tax)	(201)	(147)	(211)	(280)	(333)
Others (incl extraordinaries)	10	115	(117)	-	-
Cash flow from financing activities	**3,182**	**8,428**	**397**	**(1,180)**	**(2,333)**
Change in cash position	**1,261**	**981**	**(1,678)**	**115**	**(513)**
Opening Cash	602	1,863	2,844	1,166	1,281
Closing Cash	1,863	2,844	1,166	1,281	768

Ratios

	FY08	FY09	FY10	FY11E	FY12E
Growth ratios					
Sales growth (%)	5.5	5.6	1.0	61.8	15.2
EBITDA growth (%)	8.6	8.8	(7.2)	153.8	0.1
EPS growth (%)	(6.9)	8.3	(41.9)	60.7	10.7
Profitability Ratios					
EBITDA Margin (%)	19.5	20.1	18.5	29.0	25.2
PAT Margin (%)	14.2	14.5	8.7	9.8	9.4
Return on Capital Employed (RoCE) (%)	15.6	8.2	5.2	11.3	11.9
Return on equity (RoE) (%)	26.4	20.0	10.6	16.3	15.3
Dividend and Earnings					
Dividend per share (Rs)	3.5	2.4	3.4	3.4	4.0
Dividend payout ratio (%)	25.4	16.3	38.7	24.1	25.8
Dividend yield (%)	3.9	2.7	3.7	3.7	4.4
Earnings Per Share (Rs)	14.6	15.0	8.8	14.0	15.5
Efficiency ratios					
Asset Turnover (Sales/GFA)	1.2x	1.3x	0.8x	0.7x	0.7x
Asset Turnover (Sales/NFA)	2.7x	2.9x	1.2x	0.9x	0.8x
Sales/Working Capital	6.3x	6.2x	4.1x	4.6x	4.6x
Financial stability					
Debt-equity	1.0	2.5	2.4	1.7	1.2
Interest Coverage	12.1	13.1	7.6	3.4	4.4
Current Ratio	3.0	3.0	2.4	2.3	1.9
Valuation Multiples					
Price-earnings	6.2x	6.0x	10.3x	6.5x	5.8x
Price-book	1.3x	1.1x	1.1x	0.9x	0.8x
EV/EBITDA	6.3x	12.0x	15.1x	5.6x	5.1x

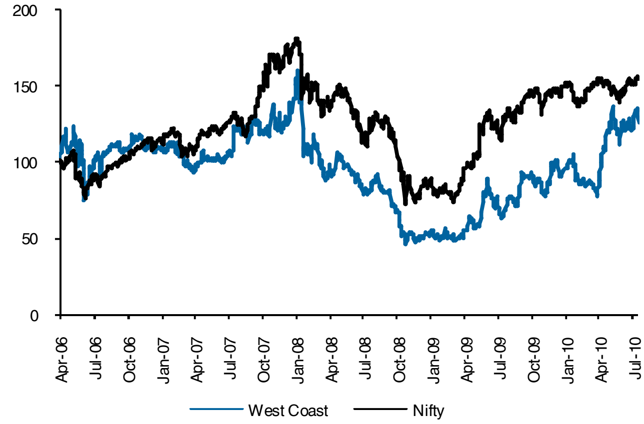
Source: Company, CRISIL Equities estimate

Shareholding pattern (In %)- June 2010



Source: NSE

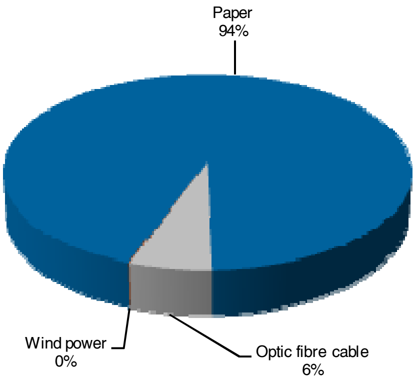
Share price movement chart



Source: NSE

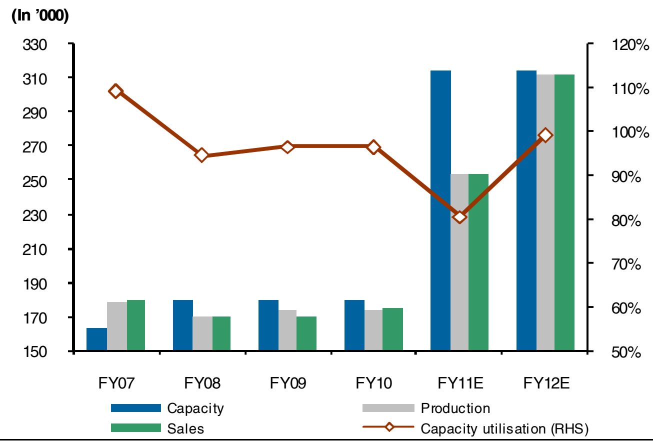
-Indexed to 100

Segment-wise Break Up of Revenues – FY10



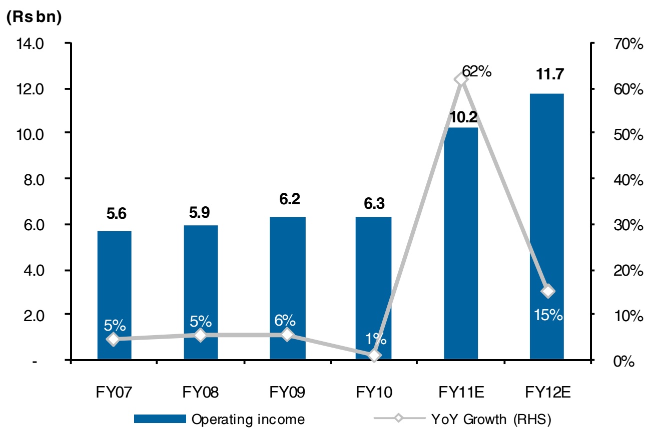
Source: Company, CRISIL Equities

Production to increase post expansion



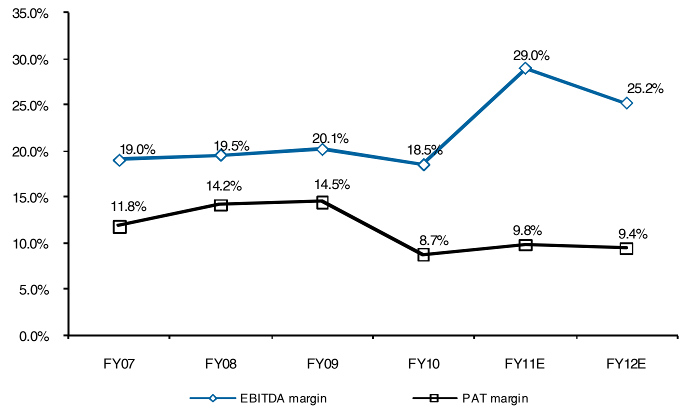
Source: Company, CRISIL Equities estimate

Revenues to grow at a CAGR of 37%



Source: Company, CRISIL Equities estimate

EBIDTA margins to improve substantially, PAT margins to be range-bound



Source: Company, CRISIL Equities estimate

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