

REINITIATION REPORT

We had initiated coverage on West Coast Paper Mills Limited (WCPM) on 01st Dec, 2015 at the price of Rs67 for a target of Rs110 which was revised multiple times for a target of Rs225 before the call was closed on 10th August, 2017 at Rs187 which justified the valuations that time. The company has been under our soft coverage since then. The paper industry had been going through the turmoil initially led by the raw material cost hit and then the pandemic. With the gradual adoption of the new normal we feel that there should be a slow comeback in demand across the economy which would revive the paper industry as well. WCPM would stand to benefit with appropriate business capacities and capabilities and thereby we re-initiate coverage on the stock.

About the Industry: The global production of paper and board totals more than 400MMT during 2020-21 and is expected to reach 461MMT during 2029-30E. The global paper products market is expected to reach USD1080.4bn in 2025 growing at a CAGR of 5%. Asia Pacific is the largest region in the global paper products market, accounting for 35% of the market in 2020 followed by North America accounting for 26% of the global market. (Source:statista.com). The paper consumption in India is approximately 22.05MT and is expected to reach 23.50MT by 2025. Furthermore, India's per capita consumption of paper is about 15.75kg, which is far lower than the world average of 57kg (Ministry of Commerce & Industry, Govt. of India). This hints on the considerable headroom for growth of the sector. Annual turnover of the paper industry is expected to be Rs750bn and it contributes Rs50bn to the exchequer. (Source: paperexpo.com).

Based on its application, paper is categorised into Writing & Printing paper; Packaging grade paper; Newsprint paper; Specialty paper and Tissue paper. The demand for **packaging paper** and board has been growing due to the recent online shopping boom. **Writing and Printing paper** (35% of the total industry requirement) caters to textbooks, copier papers, notebooks, brand promotion in forms of coated paper, etc. while packaging grade paper including Kraft paper caters to tertiary packaging purposes in industries like FMCG, food, pharma, textiles etc. and forms 55% total industry requirement. **Newsprint** serves the newspaper & magazines industry and holds 5% of the industry. **Specialty paper** serves the need of cheque printing, manuscript making, agreements & certificates printing, etc. and accounts for 4% of the industry. **Tissue paper** usage trend is growing on a y-o-y basis and it forms 1-2% of the industry. **Education sector** constitutes 60% of the demand of writing and printing paper. India's share in the global writing and printing paper was 4% in 2014 (3.56 million in absolute terms) and by 2024, it is expected to be around 11% (currently at 7.3%), thereby being a major market to grow in the writing and printing paper segment.

The price of Writing and Printing paper has seen a gradual upward trend post various stages of unlocking. **Maplitho** paper has seen an increase of 15-18% and **coated paper** rates have increased by 45-50%. Although the demand for Writing and Printing paper has reduced by 20-22% since the beginning of Covid-19 pandemic, this demand is correlated to population growth, literacy rates, spending on education, increasing expenditure on advertisements and change in income distribution. The **Paperboard** in India is expected to grow at CAGR of 5.3% during 2021-2026. This market is growing rapidly owing to the higher growth of food and beverages, cosmetics and other industries in India. The Indian packaging industry is expected to grow at a CAGR of 18% during 2021-26. The pandemic may have derailed this growth, however, certain manufacturing sectors, such as pharmaceuticals, packaged food and beverages, functional food and hygienic products have been less affected by the crisis and have rather seen a decent growth both in demand and in production. Different GOI initiatives to reduce plastic wastes is influencing the growth of this market. The factors that should lead to survival of the paper industry globally include, increased online sales, higher packaging demand, hygiene products, packaging for food, the anti-plastic sentiments to mention a few.

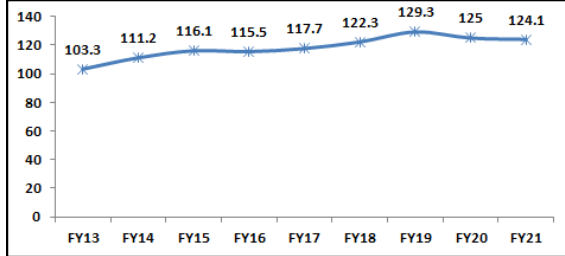
SNAPSHOT				
52 week H / L		Mcap (INR mn)		
295/176		15,872		
Face value: 2				
BSE Code		NSE CODE		
500444		WSTCSTPAPR		
Annual Performance				
(Rs mn)	FY19	FY20	FY21	FY22E
Total Revenue	19,791	24,929	22,445	27,982
EBITDA	5,111	6,162	2,526	4,477
EBITDA (%)	25.8	24.7	11.3	16.0
Other Income	198	536	247	497
Interest	292	750	701	451
Depreciation	1,760	1,979	2,294	2,099
PBT	3,257	3,970	(222)	2,424
PAT	2,960	4,065	(44)	2,012
Equity (Rs mn)	132	132	132	132
EPS (INR)	44.8	56.1	(0.5)	21.3
Quarterly Performance				
Parameters (Rs mn)	Dec-20	Mar-21	Jun-21	Sep-21
Sales (Net)	5,761	9,370	5,376	9,005
EBITDA	591	1,628	1,001	1,421
EBITDA (%)	10.3	17.4	18.6	15.8
Other Income	54	76	141	115
Interest	214	101	183	114
Depreciation	571	615	523	540
PAT	(48)	873	392	777
Equity (Rs mn)	132	132	132	132
Ratio Analysis				
Parameters (Rs mn)	FY19	FY20	FY21	FY22E
EV/EBITDA (x)	3.7	3.6	8.2	4.8
EV/Net Sales (x)	1.0	0.9	0.9	0.8
M Cap/Sales (x)	0.8	0.6	0.7	0.6
M Cap/EBITDA (x)	3.1	2.6	6.3	3.5
Debt/Equity (x)	0.4	0.7	0.6	0.6
ROCE (%)	27.2	24.0	2.0	11.6
Price/Book Value (x)	1.4	1.1	1.1	1.0
P/E (x)	4.8	3.1	-	7.9
Shareholding Pattern as on 30th Sept, 2021				
Parameters	No of Shares	%		
Promoters	37,285,290	56.45		
Institutions	-	-		
Public	28,763,618	43.55		
TOTAL	66,048,908	100.0		

Source: Annual Report, Progressive Research

Note: All the data is calculated as per Market Price on 06th Jan, 2022

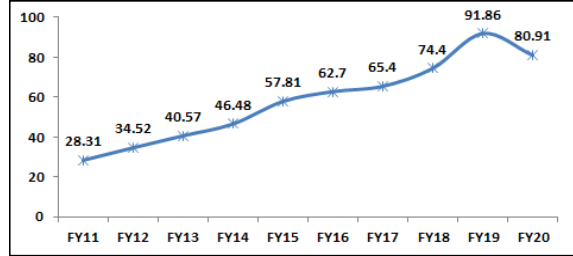
About the Industry (contd.):

Exhibit 01: WPI Trend-Pulp, Paper & Paperboard



Source: [statista.com/statistics/688210/wholesale-price-index-of-paper-and-pulp/](https://www.statista.com/statistics/688210/wholesale-price-index-of-paper-and-pulp/), Progressive Research

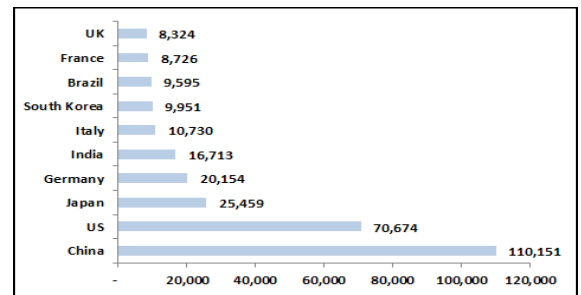
Exhibit 02: Indian Import Value (in INR bn)



Source: [statista.com/statistics/625188/import-value-of-pulp-and-paper-india/](https://www.statista.com/statistics/625188/import-value-of-pulp-and-paper-india/), Progressive Research

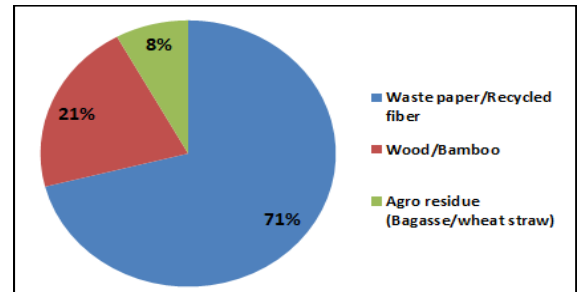
Raw Material: availability has always been a matter of concern for the industry. Against the current demand of 11MTPA for pulpable wood by paper industry, domestic availability is 9MTPA and is projected to rise to 15MTPA by 2024-25. The projected demand is expected to increase significantly and hence the industry has been requesting GOI to allot degraded revenue and forest lands. Major paper producing countries of Latin America, Europe and Asia, including China, Indonesia, Malaysia, etc., have adopted a policy of granting forest concessions to large paper mills to plant, protect and harvest pulpwood. In the absence of similar enabling policies, paper mills in India have to necessarily depend upon small and scattered plantations developed through industry's social forestry initiative or GOI controlled forests. In the process, the cost of collection and transportation increases, and hence the operational costs in India has been increasing. The industry is facing severe shortage of wood apart from the continuously increasing cost of procurement particularly in the case of the unplanned expansions by the industry without having a raw-material back-up. The industry is hoping that the pandemic fades away and business gets back to normalcy with schools, educational institutions and commercial establishments functioning normally, so that it could trigger industry volume growth again. While the industry has already made significant capital investments to ramp-up capacities; the gestation period is long and the economic viability of the investments has been impacted significantly by the raw material shortage and rising imports. Being a wood fibre-deficient country; inadequate raw material availability has emerged as a major constraint for the domestic paper industry in meeting the growing demand for paper led by drivers such as growth in the education sector and discouraging use of single-use plastic.

Exhibit 03: Paper & Paperboard Consumption (1000MT)



Source: [statista.com/statistics/240565/consumption-volume-of-paper-and-paperboard-in-selected-countries/](https://www.statista.com/statistics/240565/consumption-volume-of-paper-and-paperboard-in-selected-countries/), Progressive Research

Exhibit 04: Estimated Production-Raw Materials Usage



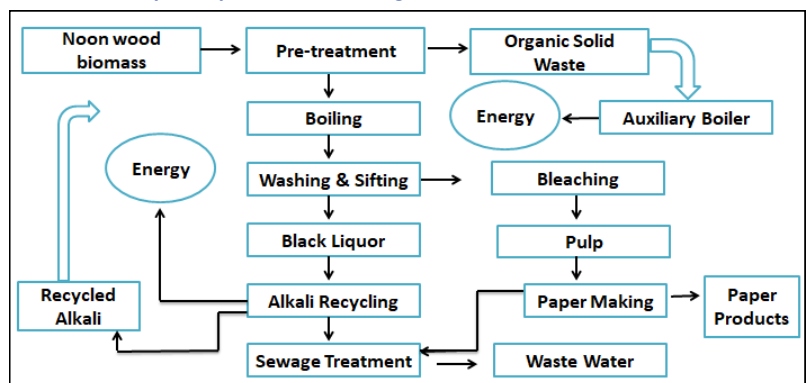
Source: CPPRI, Progressive Research

Exhibit 05: Pulp & Paper Industry in India

Particulars	2021
Installed capacity of paper & paperboard (000' TPA)	4,794
Production (000' tonnes)	3,438
Domestic Sales (000' tonnes)	2,968
Exports (000' tonnes)	452
Capacity Utilization	72%

Source: IPMA, Progressive Research

Exhibit 06: Pulp & Paper Manufacturing Process



Source: [researchgate.net/figure/Process-flow-diagram-for-pulp-and-paper-production-60_fig3_328089450](https://www.researchgate.net/figure/Process-flow-diagram-for-pulp-and-paper-production-60_fig3_328089450), Progressive Research

About the Company:

West Coast Paper Mills Limited (WCPM); flagship company of S.K. Bangur group, is one of the oldest and the largest producers of paper for printing, writing and packaging in India. The global quality paper produced by the company serves the need of innumerable industries in printing, writing, publishing, stationary, notebooks and packaging sectors in India. The company operates in two major business segments namely Paper/Paperboard (including Duplex Board) at Dandeli and Telecommunication cables at Mysore, besides having wind mills of 1.75MW capacity in Tamil Nadu for power generation. WCPM sells its products across India through its dealer network. Mr. S.K. Bangur is the Chairman and Managing Director of the company.

Investment Rationale:

(A) Product Range: WCPM's product-line features in the well-established **Wesco brand** Paper & Boards, commercial to premium grades ranging from 52 to 600GSM, catering to six different product segments of writing, printing, specialty, industrial, packaging and business stationery. WESCO is a one-stop paper house for quality, variety and affordability.

(i) Printing & Writing Paper: WCPM provides a range of quality printing & writing paper from 52GSM to 140GSM that suits the need of modern print-houses that demand high quality paper for commercial to premium printing at a reasonable price.

(ii) MG (Machine Glazed) Variety: WCPM has a range of high quality machine-glazed paper and boards offered in grams ranging from 80GSM to 300GSM, having a strong positioning in the market. MG poster paper and boards are designed as per the set industrial norms. Wesco natural greeting card is popular in the greeting and wedding card segment. Further, the coating base paper and the stiffener paper offered in MG/MF (machine glazed/machine finished) varieties completes the range much to the expectation of the industry as well as the customers.

(iii) Premium Printing Paper: WCPM offers Wesco brand premium printing paper to suit high-end printing applications. The range that comes in 58GSM to 90GSM possesses high strength with uniform profile ensuring excellent reel quality to cope with higher print, meeting the demands of modern print shops.

(iv) Business Stationery: The new product launched called the **Wesco bond** is an exclusive range crafted especially for hi-tech business. It presents the finest range of premium office paper of international standards, tailor-made to suit all kinds of high-end office printers.

(v) Cup Stock & Coated Duplex Boards: WCPM presents a wide range of Wesco brand specialty and value added products to the packaging industries viz. cup stock varieties, folding box board & single and double coated board. The cup stock varieties are enjoying the best market leadership in terms of quality and quantity which is adding value to the customer needs.

(B) Value Added Products: The company enjoys the distinction of being a strong player in some of the value added, customised and niche product segments for high-end applications. Under the Wesco brand; MICR cheque paper, bond, parchment, azure laid, super shine, duraprint, alkali-resistant paper, etc. are very popular and most sought after grades in the industry. **WCPM paper is the most preferred range of customized speciality paper that enjoys market leadership in the high-value product segments.** The company has developed new product variants to improvise its product mix and capture new markets. Further, the launch of plastic free coated cup stock paper board will open new avenues for the company with tremendous opportunities in the wake of single use plastic ban drive by the Central Govt. as well as ban by various State Govt. Double digit growth prospects augur well for increasing the market share in the segment.

Exhibit 07: Value Added Products

Product	Measurement (GSM)	Salient Features
MICR Cheque Paper	95	Most of the banks in the country (Private and PSU) are known to be using WCPM's customized water-marked security-paper in printing cheque leaves, security bonds etc.
WESCO Bond	85 & 100	Best suited for corporate & business stationery, presentations, manuscript writing, brochure, pamphlets, letter heads, resume, etc.
WESCO Parchment Paper	105-120	Used in the high-end applications for making agreements, certificates etc.
WESCO Super Shine	90-140	Best quality paper for high end commercial printing, diaries, annual reports, architectural drawing & high end envelops.
WESCO Duraprint	80-140	Premium grade paper for high end shopping bags, gift bag/envelop, gift wrapping, wall calendars etc.
Azure Laid	70-110	WCPM Azure laid is one of the most preferred and traditionally used ledger paper over the years. The unmatched shade is popular in the market for its quality and consistent supply.
Cartridge Paper	90-140	The cartridge paper is widely used for making drawing books for children and in the chart paper for draft plans etc.
Nova Print	54-90	High bulk paper offered in white and natural shades is well accepted in the book publication segment for the shade, stiffness and print quality.

Source: Annual Report, Progressive Research

Investment Rationale (contd.):

(C) Cable Business: The Indian optical fiber market size was valued at USD461.6mn in 2018 and is projected to reach USD1.66bn by 2026, growing at a CAGR of 17.2% from 2019-2026. The country's optical fiber-based network spans across 28 lakh kms as against the target set up by the National Broadband Mission to deploy as much as 50 lakh kms of optical fiber by 2024 (*Source: Comsoc*). Rise in the need for fast and improved networking and network services and an increase in penetration of broadband connections in India are anticipated to be the major growth drivers of the Indian optical fiber market. Moreover, rise in demand for optical communication and sensing applications for different purposes, high demand for Optical Fiber Cable (OFC) in the IT & Telecom sector, 5G deployment, increase in internet penetration and surge in adoption of Fiber to the Home (FTTH) connectivity makes way for the industry growth. Rising government investments in fiber optic network cable (OFC network) infrastructures are expected to present major opportunities for Indian optical fiber market expansion. The Indian government has been investing in OFC network infrastructure to increase internet penetration across the country, which is in line with the government's initiatives such as Digital India and Smart Cities Mission. WCPM has its second line of business as the cable division through its wholly owned subsidiary called West Coast Opticable Limited. In the **OFC division**, the company is expecting a decent growth of 40-50% in the next couple of years for manufacture and supply of OFCs. There were deferments on tenders due to the pandemic but are gradually getting back on track. The company is further venturing into different types of cables such as FTTH, Dry cable and Ribbon cable to expand its presence. On the **Fibre division**, WCPM has obtained approvals from the Central Govt. regarding subsidy for the draw tower project for backward integration of cable division to manufacture optical fibre. With regard to the **EPC division**, the company has successfully completed pilot EPC project for laying cables and is fully geared up for taking up large projects, comprising of turnkey supplies and installations. The cable division is also looking at entering into a long-term agreement with various telecom companies which would help the cable business; also looking at substantially increasing the export market as well and the opportunities in high quality FTTH cable. Overall, the company is expecting 20-25% growth in its cable division and is planning to manufacture optical fiber on its own.

(D) Strategic Triggers:

(i) Optimism Going Forward: With the ongoing vaccination program in India and people adapting to Covid-19 norms and environment, it is expected that the sales of paper & paper products industry will witness an uptick backed by better paper demand and increase in prices. The educational institutions have begun sessions physically at least for higher class students. This is expected to result in better demand for paper like printing & writing and Maplitho that find their usage in education institutions and offices. In addition to this, more employees are expected to work from office going forward, adding to the demand. Another segment namely newsprint, which has seen sequential improvement in newspaper circulation and advertisement revenues is expected to see uptick only when businesses increase advertisement spend, offices and transport services (rail services, airline services) operate at pre-Covid levels and household circulation of newspapers return to normal levels. Considering these factors, the demand for paper & paper products from these segments is expected to improve gradually. The packaging segment, on the other hand, witnessed better demand compared to other segments during the pandemic induced lockdown and is expected to grow backed by an increase in economic activities during the year. The paper & paper products industry is also likely to see further price increases with increasing demand and higher input prices. The future of writing & printing paper in the short to medium-run is quite encouraging as the GOI has already announced the implementation of the New Education Policy (NEP). This would require an escalation in the printing and publishing of textbooks with the newly-implemented syllabus and other related activities. On the other side, uncertainty and fear persists that the demand for paper could be affected if schools/colleges and other educational institutions do not reopen. But then this brings the industry to such circumstances that it becomes imperative to find new applications of paper. For instance, at high-class restaurants, all cutlery and plates are packed and stored in paper to maintain hygiene. The substitution of plastics for packaging with paper is a huge responsibility and presents lot of opportunities for the paper industry.

(ii) Paper Over Plastic: Pollution due to single use plastic items has become an important environmental challenge confronting all the countries. India is committed to take action for mitigation of pollution caused by littered single use plastics. Prime Minister of India aims 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 total 9.1billion tonnes of plastic that the world has produced since 1950; 6.9billion tonnes has become waste and only 9% of that has been recycled, while the rest ends up in landfills and in the world's oceans. Per capita consumption of plastic in India stands at 11kg which is less than half of global average of 28kg. US has per capita consumption of 109kg, while it is 65kg in Europe and 38kg in China. Amid a growing debate over the impact of single-use plastics on environment, **paper offers a sustainable option** and can capture 25% of the Rs800bn 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. The Paper industry plants more trees than harvested and the primary raw material is 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 the Indian companies use ~58% raw material from recovered paper, ~17% from agro residue like bagasse, straw and ~25% from wood plantation. 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 200-300km from Dandeli, so as to enhance the availability of pulpwood.

Investment Rationale (contd.):

(iii) Opportunity In Mixed Views: The latest heard for the paper industry is the view that the present civilization will become paperless in the near future. However, this seems to be more of an idea than a near term fact which will take many more years to actually become a reality in India due to the lags of less access to technology such as the Internet, boost to primary education and the tradition of keeping a hard copy of all important documents at all workplaces. A paperless society is not that easy to happen as books will continue to be published and packaging of products shall continue as well. This definitely leaves a vast untapped opportunity and hence, over the years, we feel that the companies shall increase their turnover rate through incremental sales. The increasing demand for paper is fuelled mainly by the demand in developing countries, in particular in Asia and Africa, while the demand for paper has decreased in developed countries all over the world. WCPM has acted proactively to identify the market trend and augmented its capacity on time. Therefore, it is poised to gain from the first-movers advantage in the paper market.

The nature of the writing & printing segment is quite cyclical, and also the prices vary from month to month owing to the seasonal nature of demand which is majorly linked to the education sector. In fact, the education sector remains the biggest driver for the demand/supply situation of this segment. In 2019, the prices of paper varied between Rs51,000 to Rs58,000/MT (base grammage of 56GSM) due to the seasonal nature of demand. In 2020, the pre-lockdown prices were about Rs54,000/MT, which started coming down from May 2020 after the mills restarted post-lockdown in March-April, 2020. There was a continuous drop in the prices of paper products as prices even touched a low of Rs37,000/MT during November-December, 2020. The year 2021 started on a low note, but within the first week of January, the general control on the new pandemic infections, announcements regarding the approval of vaccines and the expectations regarding the reopening of educational institutions had uplifted the spirits of the country. Further, the prices of paper products started going up and the price rise was quite sharp and rapid. The prices went up from a low range of Rs37,000/MT to quite a high range of Rs63,000 to Rs65,000/MT which if seen rationally, was only 7-8% higher than the corresponding price range of 2019, quite expected keeping in view the recent inflation in the system.

The pace of demand recovery as a result of normalisation of operational activities in some of the key paper consuming sectors like education, railways, courts, etc. would be a key rating factor going forward. Demand for paper except office paper has already reached the pre-Covid level from Q4FY21. The writing & printing and office paper has been the segment where demand was less because offices and institutions were shut down. The economy opened up gradually and restrictions ended with offices opening up due to which demand started getting back. This will increase further in the future because the growth drivers are intact. Covid has impacted the paper companies and the industry as a whole. For WCPM, that has ~30% contribution from the writing and printing based production and education based sectors was hit due to Covid that led to a demand constraint and also disruption in level of production since last 8-10 months; with an overall impact on the production levels as well.

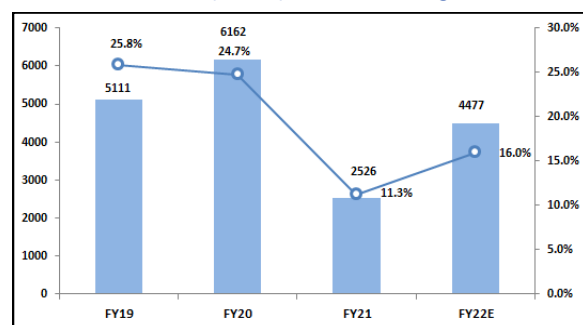
(iv) Mutually Benefiting Acquisition: In line with WCPM's strategic growth plan, the company acquired 55% stake in IPAPPM (International Paper Andhra Pradesh Paper Mills Ltd) from its promoters- International Paper Investments (Luxembourg) S.a.r.l. and IP International Holdings Inc. and ~17.20% from public respectively. The name of IPAPPM has been changed to Andhra Paper Ltd. w.e.f. 09.01.2020, which has a total production capacity of 240,000TPA. Andhra Paper (erstwhile IPAPML) has now become subsidiary of WCPM. Andhra Paper has good pulp capacity and has invested decently in the contract pulp farming. After the takeover, WCPM has started working on the pulp upgradation as it had low pulp capacity (which was 550 tonnes and trying to make 150 tonnes more in AP paper by upgradation).

Financials:

Value Addition: The company has completed all the major upgradation programmes (after the capex of ~Rs10bn) which has come to shape now, and does not have any further upgradation programmes in the near term. It is in the process of installing a new machine that has already got the environmental clearance; leading to addition of capacities with improvement in the old machines and will be a value addition to the company. Going forward, quality based and cost based production is the main focus of the company.

Operational Front: The Ebitda margins have been volatile for the company due to the erratic operational costs. However, going forward the company has indicated stronger margins backed by the production of premium products. Also with normalcy kicking in, it has its own pulp plant as well as captive power plant, so the cost of production will be lower as compared to other companies that import pulp. Investment in debottlenecking will also benefit in the future. There are other initiatives being taken such as continuous investment in the plants for cost reduction and quality improvement to capitalize on the opportunities in the long term for better returns.

Exhibit 08: Ebitda (Rs mn) v/s Ebitda Margins



Source: Annual Report, Progressive Research

Financial (contd.):

Cost Efficiency Measures:

Raw Material: Wood derived from Casuarina, Eucalyptus, Subabul, Acacia and other hardwood is the 100% ingredient for manufacturing paper in the company's units. In order to manufacture some speciality papers, WCPM imports pine wood pulp in small quantities. *The paper mill consumes about 9,50,000MT of raw material per year.* For raw material, the company is dependent to a great extent upon private cultivators in Karnataka, Tamil Nadu, Andhra Pradesh, and Pondicherry but strictly adheres to the eco-friendly environmental norms. In order to create adequate supply of raw material, WCPM has focused on captive plantations projects and social forestry where it has cultivated 45,000 acres land within a radius of 250-300 km.

Water: At WCPM, the company requires about 68,000KL of water per day, which is drawn from the river Kali. It uses pure and potable water having low iron content for manufacturing paper.

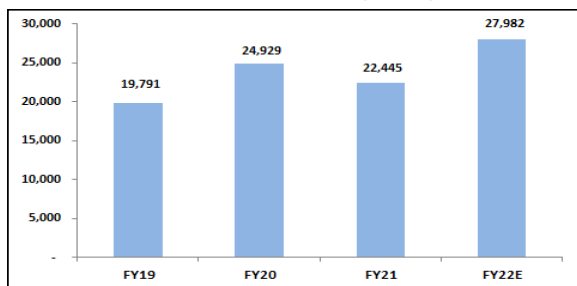
Power: The captive power generating capacity is 74.80MW. WCPM has achieved complete self-sufficiency in power generation, meeting its production requirements through both self-generation and purchased power. It also has surplus power capacity upto 20MW. Apart from self-generation, it also has the provision for grid connectivity of 8250KVA.

Steam: Requirement of steam for manufacturing paper is met by four coal fired FBC boilers with a steam generating capacity of 330 Mt/Hr. and two chemical recovery boilers with a capacity of 258 Mt/Hr.

Impact on the Debt Coverage: On a standalone basis, the debt-funded acquisition of APL temporarily resulted in the deterioration of the capital structure and debt coverage indicators for the company. However, on the consolidated basis, the capital structure and debt coverage indicators continue to remain strong given the debt-free status of APL and healthy cash and liquid investment balance. The cash accrual from the existing business of APL offsets the acquisition debt over the medium term.

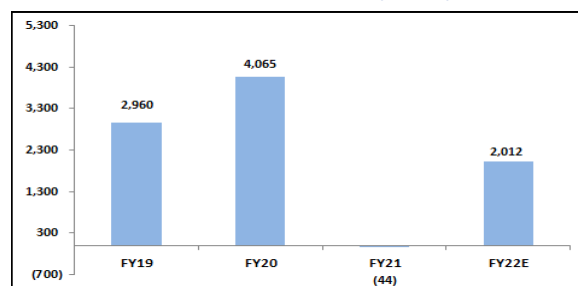
Exposure of cash flows to the cyclicity in the paper industry: WCPM's cash flows are highly exposed to the cyclicity in the paper industry. Also the domestic paper industry is small compared to the global scale and so the prices are largely determined by the international trends. Hence, global demand-supply balance impacts the health of the domestic industry. However, the company has a well-diversified product base, which partially insulates it from the imports and cyclicity. Furthermore, to overcome the competition and to improve the sales realization; WCPM has been consistently upgrading its technology with a sustained focus on the fast growing and value added product segments.

Exhibit 09: Revenue Performance (Rs mn)



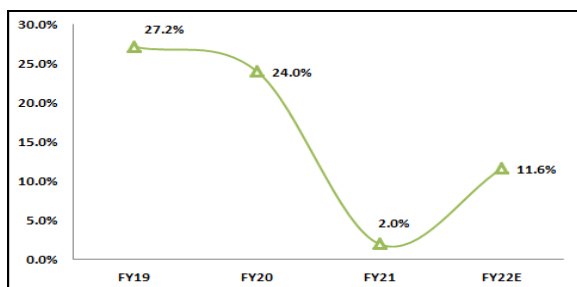
Source: Annual Report, Progressive Research

Exhibit 10: Net Profit Performance (Rs mn)



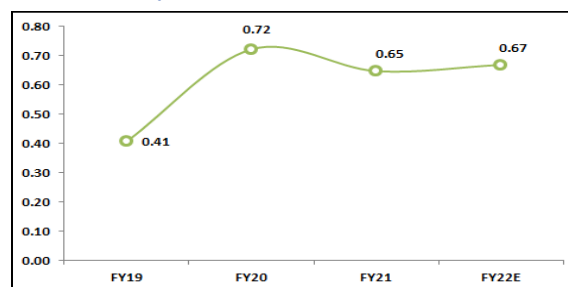
Source: Annual Report, Progressive Research

Exhibit 11: ROCE Trend



Source: Annual Report, Progressive Research

Exhibit 12: D/E Trend

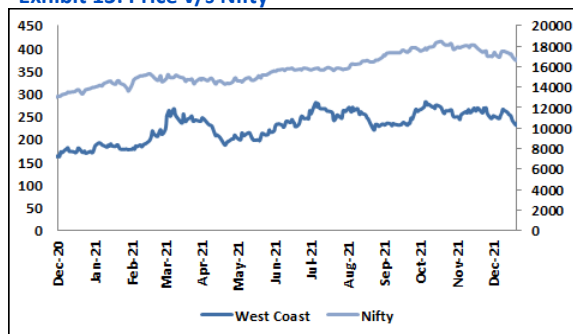


Source: Annual Report, Progressive Research

Risk and Concerns: The company derived ~94.07% of its revenue from Paper/Paperboard and Cup Stock Board business and ~5.92% from Cable business in FY21. The **availability of conventional raw material** is a matter of concern and thereby causes pressure on raw material procurement prices in addition to the threat from excessive inflow of imported paper at cheaper prices. Since paper industry as a whole is one of the top industries causing **environmental concerns**, maintaining the operational guidelines, effluent treatment norms while causing minimal damage to the environment is a continuous issue which the company has to tackle. The other risks include; pulp and paper demand/supply situation, cyclical impact, availability of coal, effects of pollution, foreign exchange fluctuation etc.

Outlook and Recommendations: India is the fastest growing paper market in the world with expected CAGR of 6-7% over the 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. 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. Domestic paper prices are largely determined by international trends. Hence, WCPM is a price taker in the industry despite its large market share. WCPM has a 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 prospects. It is fully geared up to take advantage of single use plastic ban drive of the Govt. authorities and is in the process of developing some substitute paper products to capture new market share. It continues to pursue its strategy towards scalability, stability and sustainability. Long-term demand outlook for paper in the domestic market remains favourable because of its low per capita usage as compared to the global standards. The GOI's focus on the education sector and substitution of plastic products can be the key drivers for increased usage of paper. WCPM has developed a strong market position in the domestic writing and printing paper industry owing to its long presence in the industry, extensive dealer network across the country and technical capabilities to manufacture a wide variety of writing paper, cup stock and specialized papers. The company has an integrated manufacturing set up with adequate in-house capacity to manufacture pulp as well as captive power. Moreover, the integrated operations help recover a substantial portion of chemicals used in the manufacturing process and generate energy from waste, which in turn results in a competitive cost structure. The acquisition of Andhra Paper Limited would help the company increase its market presence in terms of market reach coupled with operational synergy if implemented to enhance the scale. Overall, we feel that keeping the recent Covid-variant scare aside which would again get operations, demand and supply to a stall; as and when paper industry gets back to its normalcy, WCPM would be the front runner to benefit. We initiate Buy on the stock for a target of Rs292 over a 12 months horizon.

Exhibit 13: Price v/s Nifty



Source: Ace Equity, Progressive Research

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