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Investec Bank plc (UK)

Indian Paper Sector

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Consolidation is inevitable, only the pace is in question

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Consolidation is inevitable, only the pace is in question

After a few years of stress, the paper industry in India is now well placed. With growth, excess capacity has been absorbed, and companies have backward integrated through farm forestry to secure raw material (supply). Imports, which were an increasing threat, are reducing, owing to 1) a depreciating rupee 2) high realizations for paper globally and 3) the threat of imposition of anti-dumping duty. Finally, solid balance sheets with the stronger players, increasing cost of environmental compliance and economies of scale imply that the industry is well placed to consolidate around the leaders.

- The Indian paper industry is in a sweet spot, as increasing global paper prices have provided an umbrella for raising domestic prices, even as backward integration for wood\pulp locally, through farm forestry has been highly successful. With international pulp prices strong, and a more disciplined global industry, we expect the upswing to be sustainable in the medium term.
- It is also the fastest growing major paper market in the world – registering CAGR of ~8% from 2011-2016 vs 1% for the global paper industry. Writing/ printing paper & paperboard are the two larger & more profitable segments in the sector, with ITC (4.1% market share), JK Paper (2.6% market share) and TNPL (2.4% market share), being the 3 largest players in the country.
- While India is a fast growing market, it is also highly fragmented - the top-3 players account for only 9% market share, vs 68% in USA, 72% in Indonesia, and 21% in China. The current setup is ideal for a measured consolidation, as viable stressed assets get acquired and healthy players gain market share through inorganic expansion. As is the experience in other markets, we expect this process be gradual, and the winners to create reasonable value for shareholders.
- The current cyclical upturn in India has come after a period of substantial stress. While only ~2 years old, the upturn has been substantially profitable for the larger players with balance sheet repair in place, and heavy annual free cash flow generation ongoing.
- We prefer companies with raw material security, and a strong balance sheet which are well placed to acquire available stressed assets. We initiate on JK Paper - JKPL (BUY; TP Rs 220), Tamil Nadu Newsprint & Papers - TNPL (BUY; Rs 431) and West Coast Paper Mills - WCPM (HOLD; Rs 334).
- JKPL is inarguably one of the best (top-3) paper companies in India, and best positioned to be the choice consolidator in the industry. TNPL, another high quality paper company has suffered a drop in profitability owing to water shortage, and we bet on normalization. WCPM has built one of the better paper brands in the country, but we are watchful owing to past history of unrelated diversification.

Company	Rec	Target
JK Paper	Buy	INR220
Tamil Nadu Newsprint & Papers	Buy	INR431
West Coast Paper Mills	Hold	INR334

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1. Attractive industry dynamics

India is the fastest growing major paper market in the world

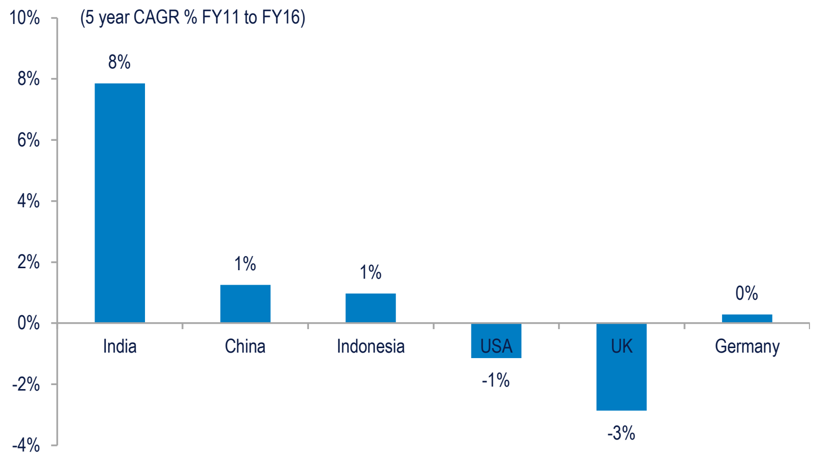
Products	Volume [mn tons – FY17]		Projected CAGR [2021/2017]		India's segmental Market Share	Players
	Global	India	Global	India		
Newsprints	46.6	2.6	-2.8%	1.0%	15%	NR Agarwal, Shree Rama Newsprint
Writing and printing paper - Coated Paper	25.8	0.8	-0.5%	6.0%	5%	Ballarpur Industries, JKPL
Writing and printing paper - Uncoated Paper	54.2	4.3	-0.3%	3.7%	25%	TNPL, WCPM, IP APPM, JKPL, Emami Paper, Seshasayee
Paperboards - Virgin	43.7	0.8	2.0%	12.9%	5%	ITC, TNPL, WCPM, Emami Paper, JKPL
Paperboards - Recycled		3.2		7.1%	19%	ITC, TNPL
Industrial Paper incl. Kraft Paper	165.7	4.8	2.2%	9.1%	28%	Astron, Ruchira, Genus Paper, South India Paper, Shree Ajit Pulp & Paper
Tissue paper	33.6	0.1	3.2%	15.5%	1%	Century textiles, Ballarpur Industries, Orient Paper
Specialty paper like Cigarette Paper, Décor Papers	36.7	0.5	-1.0%	7.5%	3%	ITC, WCPM
Total	**406.3**	**17.1**	**1.0%**	**6.3%**	**100%**	

Source: JK Paper, Investec Securities estimates

There are solid, sustainable reasons behind high growth (1/2)

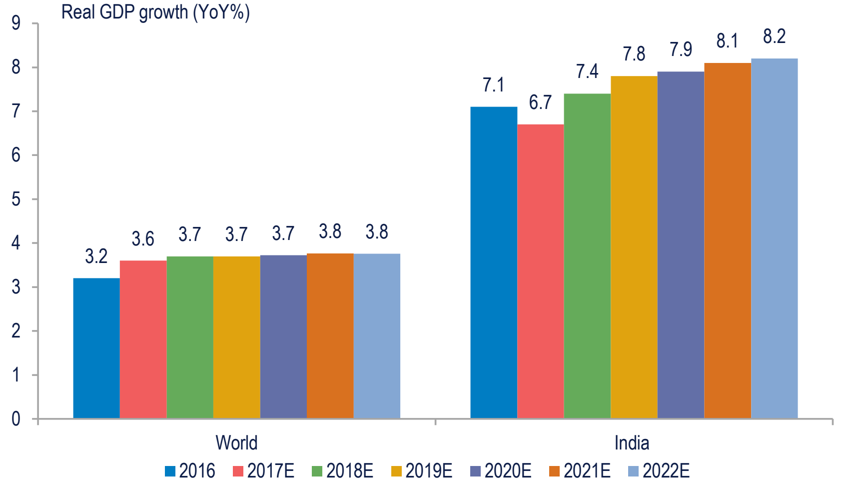
- Globally, India is the fastest growing paper market – 5-year (FY11 - FY16) CAGR of consumption is 8% vs. World at 1%. China and Indonesia have grown at 1% CAGR, and developed markets of USA & UK have declined at 1% and 3% CAGR in the same period respectively].
- Paper demand grows in tandem with GDP growth rate in a country. Over the last 10-yr period (2006-2016), India's paper demand grew 8.1%, whereas GDP CAGR was 7.3%. Thus, we believe India's high GDP growth rate ensures that base demand growth for paper is high.
- Moreover, not unlike a lot of other commodities, paper usage per capita in India lags most other major economies - 13 kg pa, vs 150-250 kg pa for more developed countries – see chart below.

India is the fastest growing paper market



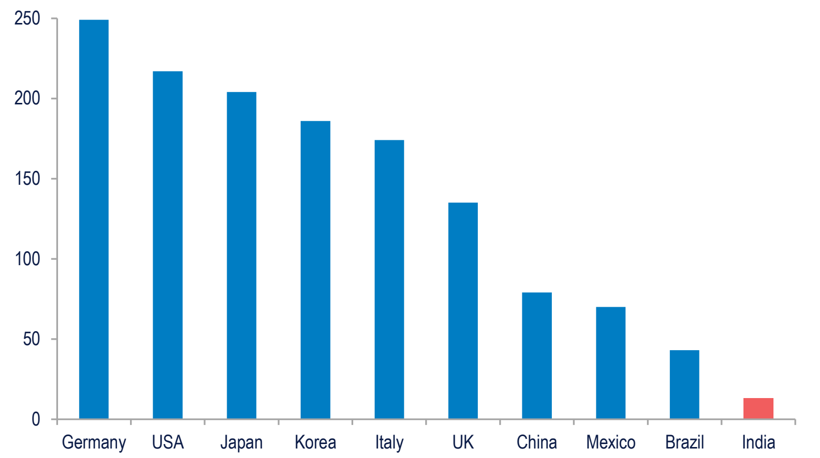
Source: FAOSTAT, Investec Securities estimates

High GDP growth in India underpins high demand for paper



Source: World Bank, Investec Securities estimates

India has one of the lowest per capita consumption of paper



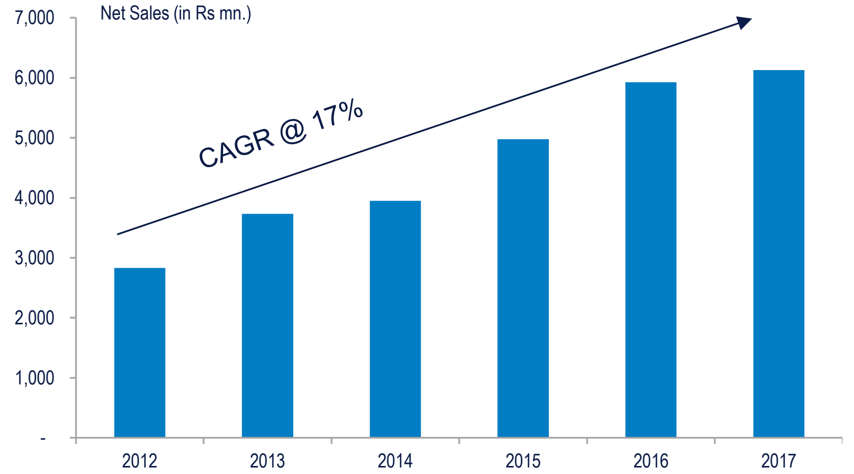
Source: World Bank & FAOSTAT, Investec Securities estimates

There are solid, sustainable reasons behind high growth (2/2)

- Combined with rapidly improving literacy rates and increasing office documentation needs, we expect demand growth in writing & printing paper in India to continue [Literacy rate improved to 75% in 2016 from 63% in 2001].
- Packaging paper & board demand growth is driven by base demand growth in FMCG, Consumer durables and Pharma [5 year CAGR 2011-2016 of 9.2%, 11.4% and 5.6% respectively].
- In addition, higher value coated paper demand is growing at a faster pace with premiumization.
- Finally, high growth rates in e-Commerce (Amazon/Flipkart) should be another strong driver for sustained packaging paper demand.

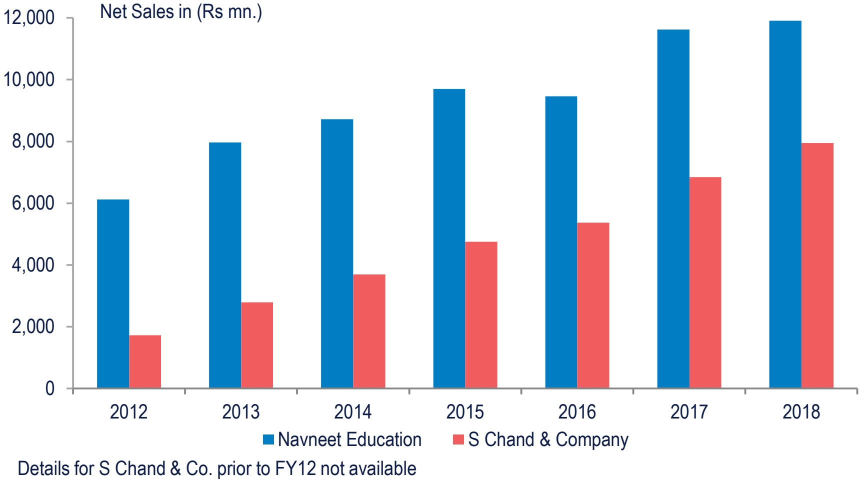
Source: IBEF, Investec Securities estimates

TCPL's revenue growth reflects high paper packaging spend



Source: Company, Investec Securities estimates

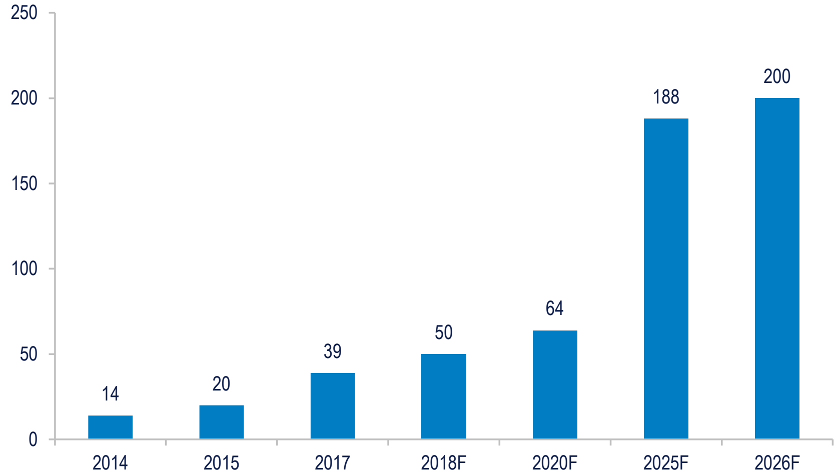
Text book publishers in India witnessing reasonably strong growth



Details for S Chand & Co. prior to FY12 not available

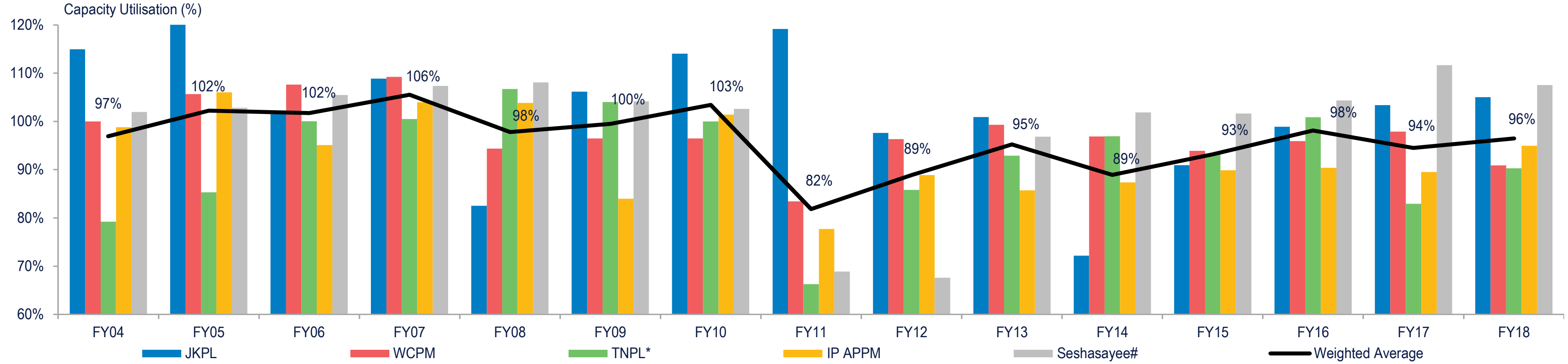
Source: Bloomberg, Investec Securities estimates

e-Commerce – another strong driver of packaging paper demand



Source: IBEF, Investec Securities estimates

This cycle is different from last few years



*TNPL's production loss of of 10,557 tonnes in FY17 & 46,041 tonnes in FY18 owing to water shortage has been added to reflect capacity utilisation in normal circumstances.
Seshsayee also lost production in FY18 owing to water shortage, however,volume details are not available.

Source: Company, Investec Securities estimates

- By FY10, the paper industry was capacity starved, and had already undertaken substantial steps to expand capacity. Over FY10 – FY14, paper capacity in just the top 5 firms shot up from 954,000 tons to 1,591,000 tons. Notably, JKPL added 215,000 TPA, TNPL 155,000 TPA and WCPM added 140,000 TPA. As per Seshasayee Paper & Boards Ltd's FY18 annual report - "The industry saw significant capacity additions of 1.6 million MT during FY09 - FY11 (~15% of domestic paper capacity in FY09) particularly in the printing and writing paper segment." This led to over-supply scenario, build-up of inventories together with pricing pressures.
- The first signs of trouble came when the paper industry found itself struggling for local raw material – new capacity was brought online without securing local raw material. Companies were unable to pass through higher raw material costs to consumers, and fixed cost absorption was low. As a result, the industry, by and large, suffered substantial losses (please see page 19, where we provide details of stress in the industry).
- We believe this past experience has taught the industry important lessons, and our conversations with companies convince us that subsequent capacity expansions will be measured, with companies securing raw material before embarking on any expansion. This should set grounds for healthier, profitable growth.
- The importance of securing raw material, water, and access to markets will also allow for inorganic growth through acquisition of stressed companies with good access to raw materials. In that respect, we are fairly excited by JKPL's acquisition of Sirpur Mills, which our channel checks reveal, ticks all the relevant boxes of raw material availability, water, and access to markets.

2. Indian paper industry is ripe for consolidation

We believe that the highly fragmented Indian paper industry will consolidate [especially in segments of writing & printing paper]

- **High Capital Intensity -** Investment in land and machinery for paper mills, repairs and maintenance of mills, cost of upgrading technology, cost of environmental compliance, growing wood plantations and establishing a distribution network, all make manufacturing paper a capital intensive task. Adding to the woes, the industry is cyclical. Thus, small players might not be able to keep up with heavy investments that are required to make them competitive.

- **Economies of scale -** The average capacity of an Indian Paper Mill is about 21,373 TPA, which is less than 1/5th of the average capacity of European mills, and about 1/9th the size of the average US mill. (FAO, IPMA and Fisher International). The water, power and chemical requirements for paper production reduce as the mills grow larger; e.g. Water consumption by JKPL's Orissa unit reduced from 86 m3 in FY11 to 42 m3 in FY17 as the mill grew larger.

- Typically, smaller sized mills make technology upgradation difficult, resulting in inefficiency in production, and inconsistency in quality.

- **Imports will pressure inefficient players more** – The looming import threat makes cost efficiency key, and in the past few years, multiple smaller paper mills have become non-operational.

- **It is expensive to be environmentally compliant** - The pulp and paper industry is among the world's largest producers of water pollutants and waste products. This makes the industry heavily regulated, and requires heavy investment from companies to be environmentally compliant. CPCB has classified Pulp and Paper industry into the Red category, which means environmental clearance for new factories would be strict. Also, emission monitoring systems needs to be installed.

- **Advent of GST** – GST has been introduced at 12-18% for most paper categories. This implies that the margin cushion available to small companies (likely tax avoiding) may be pressured; this along with the high cost of environment compliance should drive the industry towards consolidation.

- **Industry Stress −** Multiple inorganic opportunities are available in India, which can help large players with strong balance sheets consolidate.

- As seen in other countries, the Indian paper industry too should consolidate. Companies that are positioned to benefit from this consolidation will create substantial value for their shareholders. If we take the example of the US, consolidation will also allow the industry to weather cycles better, as companies are able to regulate supply to changing demand better.

Fragmented industry, augurs well for consolidation - Top 3 players account for a mere 9%

Highly fragmented industry

The Indian paper industry is highly fragmented with >1000 mills, of which about 750 mills are operational. Top 3 players account for only 9% of the market

Production Volumes (TPA)	FY16	% of Total India's Market
ITC	0.7	4%
JK Paper	0.4	3%
TNPL	0.4	2%
West Coast Papers	0.3	2%
International Paper APPM	0.2	1%
Others	15.0	88%
India	**17.0**	**100%**

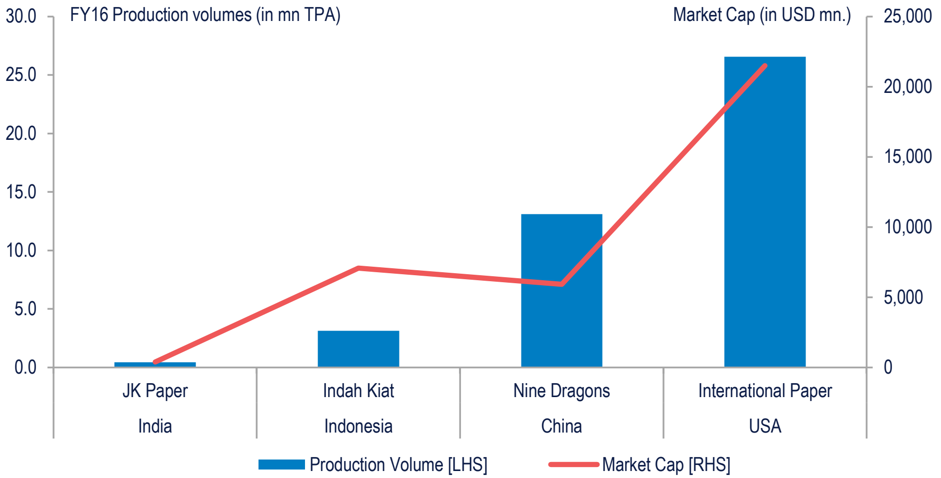
Source: Company, FAOSTAT, Investec Securities estimates

Paper industry in USA, Indonesia and China is more concentrated

- The market share of large players in India is low as compared to the paper industry in USA, China, and Indonesia.
- In US, ~75% of the paper market is controlled by the top-4 players.
- The largest 2 players in Indonesia - sister companies, controlled by the same group - control ~ 60% of Indonesia's paper market. The next player represents another 12% of Indonesia's paper production.
- The share of large Chinese players has increased due to permanent shutdowns of smaller domestic mills which were not environmentally compliant. As a result, the top-3 players in China control ~21% of the overall market.

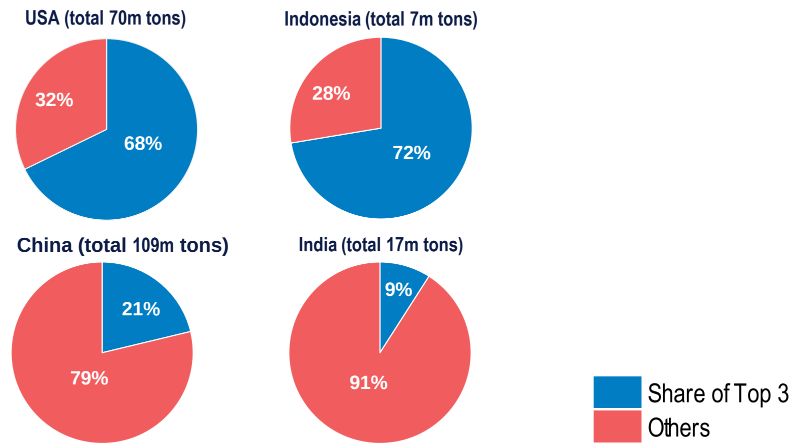
Source: Company, FAOSTAT, Investec Securities estimates

Indian paper companies are small even when measured by market cap



Source: Company, Investec Securities estimates

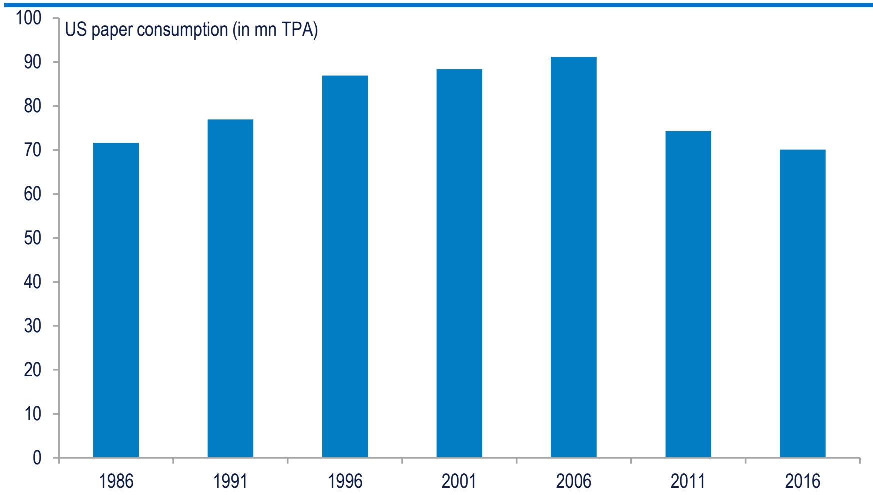
India is the most fragmented major global market in the world



Source: Company, FAOSTAT, Investec Securities estimates

Consolidation in the USA was gradual

Slowing growth & lack of discipline in a fragmented industry prompted consolidation in the US

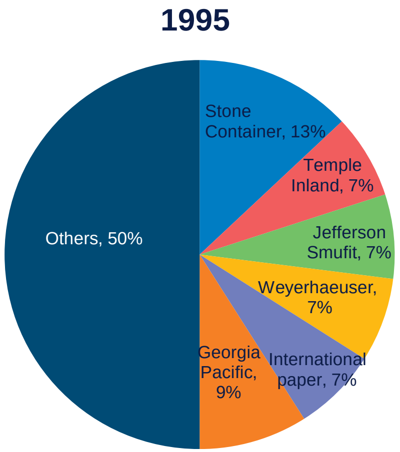


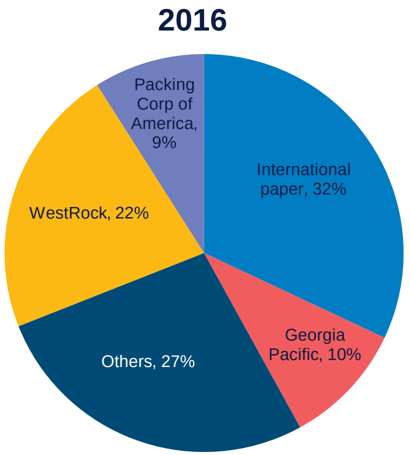
Source: Company, FAOSTAT, Investec Securities estimates

- In the US, challenging market conditions forced players to consolidate to reduce costs. In addition, growth slowed, as the economy slowed.
- In 1995, there were 215 companies with 114 mn tonnes capacity, which had reduced to 125 companies with 96 mn tonnes in 2015.
- Declining/stable paper demand, and thin profit margin drove M&A activity in all segments, except specialty paper.
- Since 2008, 818 M&A deals have taken place in pulp, paper and packaging in USA.
- Consolidation has reduced cyclicality of earnings, and improved profitability for the remaining companies, as they have more control over pricing.

Source: Company, FAOSTAT, FACTSET, Investec Securities estimates

Market share change in the North American containerboard segment - instructive of consolidation in the overall industry





Source: Company, Bloomberg, Investec Securities estimates

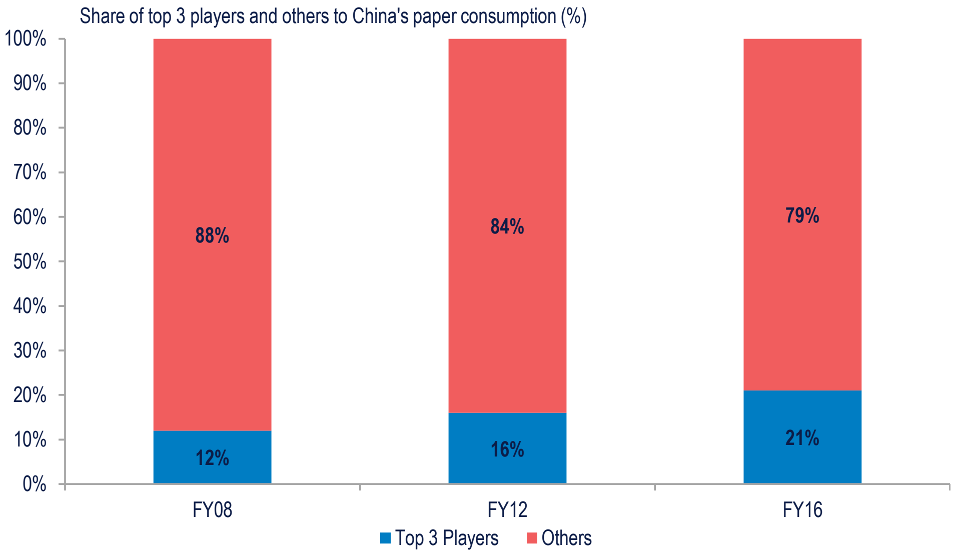
<u>Changes in larger players since 1995</u>

- Stone container and Jefferson Smurfit merged in 1998. In Jan 2009, the merged company "Smurfit-Stone" was forced to file bankruptcy and in May 2011, Rock-Tenn bought the company.
- In 2015, Rock-Tenn merged with MeadWestvaco to form WestRock.
- In 2018, Kapstone agreed to be acquired by WestRock.
- In 2012, Temple-Inland was acquired by International paper.
- In 2006, Weyerhaeuser spun off its fine paper business to Domtar and in 2008, it announced sale of containerboard packaging & recycling business to International Paper.

Source: Company, Investec Securities estimates

Consolidation in China - primarily owing to new environmental norms

On the other hand, environmental crackdown is driving further consolidation in the Chinese paper industry



Source: Company, FAOSTAT, Investec Securities estimates

- China witnessed permanent closure of smaller non-compliant domestic mills using non-wood or recovered fibres. "During 2017-18, capacities close to 3 lac TPA were shut down in China due to lack of environmental compliance. Indian manufacturers using waste paper stand to benefit on account of lower global waste paper prices due to excess availability" – JKPL's FY18 annual report
- "The continued closure of non-compliant capacities will bring potential to the packaging paper industry - Nine Dragons Paper (Holdings) Limited - Interim Report 2017/2018". Thus, additional mill closures are also expected.
- China also revised import licensing regulations to prevent paper mills below 50,000 tonnes per annum capacity from applying for import permits of recovered paper.
- The government has not granted licenses to start greenfield paper mills (and associated power plants) for the past few years.
- Thus, with the exit of smaller players and no entry of new players, large compliant players with access to resources continue to grow, and gain market share in China.

Source: Company, Investec Securities estimates

Capital intensive industry, with inherent economies of scales

- The paper Industry is highly capital intensive with heavy investments in land and machinery for paper mills. Also, repairs and maintenance of mills, cost of upgrading technology, cost of environmental compliance and establishing distribution network, all make manufacturing paper a capital intensive task. From the table below, one can see that the industry is one of the most capital intensive in India, with fixed asset turns being lower than most sectors, other than metals & mining. Further, working capital use in the industry is above average. High asset intensity infers an advantage to companies with better access to capital, and ability to put up larger more efficient plants.

Fixed Asset Turns	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Consumer Discretionary – Autos	3.9X	2.8X	3.5X	3.4X	3.5X	3.2X	2.9X	3.0X	3.0X	3.1X
Consumer Staples	2.9X	2.8X	2.9X	2.7X	2.8X	3.0X	3.0X	3.0X	2.7X	2.7X
Cement	1.4X	1.2X	1.3X	1.1X	1.2X	1.2X	1.1X	1.1X	1.1X	1.1X
Construction	5.7X	5.8X	5.9X	3.5X	3.3X	3.3X	3.2X	3.1X	3.4X	3.4X
Chemicals	2.1X	2.5X	2.2X	2.1X	2.4X	2.2X	2.2X	2.2X	2.0X	1.9X
Industrials	4.1X	3.9X	3.7X	2.9X	2.7X	2.4X	2.1X	2.1X	2.1X	2.0X
Oil & Gas	3.2X	2.5X	2.3X	2.2X	2.8X	2.8X	2.8X	2.3X	1.6X	1.5X
Metals & Mining	1.9X	1.7X	1.4X	1.3X	1.2X	1.0X	0.8X	0.8X	0.6X	0.7X
Pharma	2.2X	2.2X	2.1X	1.5X	1.5X	1.6X	1.6X	1.5X	1.7X	1.5X
IT Services	5.6X	5.5X	5.5X	3.7X	3.6X	3.7X	3.8X	3.7X	4.2X	4.2X
Paper	1.0X	1.0X	0.8X	1.0X	1.0X	1.0X	1.0X	0.9X	0.8X	0.9X
Average	2.7X	2.5X	2.5X	2.1X	2.1X	2.0X	1.9X	1.8X	1.7X	1.7X

Working Capital Turns	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Consumer Discretionary – Autos	1032.7X	144.1X	-38.0X	-54.1X	-87.1X	394.7	-37.6X	-318.5X	106.5X	-193.2X
Consumer Staples	5.5X	5.9X	6.8X	6.4X	6.7X	8.2X	7.2X	7.1X	5.4X	5.2X
Cement	9.3X	7.8X	10.0X	9.7X	9.1X	8.1X	6.7X	6.5X	6.9X	7.5X
Construction	3.0X	2.7X	2.6X	2.7X	2.7X	2.3X	2.2X	2.0X	2.0X	2.0X
Chemicals	3.7X	4.4X	4.0X	4.2X	3.6X	2.9X	2.1X	3.0X	2.7X	2.8X
Industrials	5.3X	5.3X	5.0X	4.5X	4.2X	3.5X	3.2X	3.1X	3.2X	2.9X
Oil & Gas	7.2X	10.8X	7.6X	8.9X	8.6X	9.0X	10.9X	15.5X	14.6X	12.3X
Metals & Mining	3.3X	6.6X	6.3X	4.4X	4.9X	3.8X	3.9X	3.6X	3.9X	4.4X
Pharma	2.4X	2.2X	2.4X	2.4X	2.8X	2.7X	2.5X	2.8X	2.6X	2.5X
IT Services	4.0X	4.1X	4.0X	5.2X	5.3X	4.9X	5.3X	5.7X	3.9X	4.0X
Paper	3.0X	3.3X	4.0X	3.7X	3.8X	4.7X	4.5X	4.2X	4.6X	4.3X
Average	4.6X	4.9X	5.0X	4.9X	5.0X	4.4X	4.3X	4.3X	4.0X	4.0X

Source: Company, Investec Securities estimates

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Increasing cost of environmental compliance

- The pulp and paper industry is among the world's largest generators of air and water pollutants, waste products and the gases that cause climate change. Thus, heavy investment is required by companies to be environmentally compliant. Multiple norms have been introduced over the years, which have covered Paper Manufacturing companies –

- Corporate Responsibility for Environment Protection (CREP) had some key action points - utilization of treated effluent wherever possible, reduce wastewater discharge to less than 140 m3/tonne of paper by 2005, etc. "With the implementation of the CREP, the Indian paper industry has witnessed huge investments in last 3 years (2006-09), more than the total investments in the industry from 1960 to 2006" – WCPM, 2009 Annual Report.
- Following the positive outcome of CREP, CPCB came out with 'Charter for Water Recycling & Pollution Prevention in Pulp & Paper Industries' (WRPP) in 2015, specifically for the Ganga river basin states. The charter not only highlighted the Best Available Techniques (BAT) based on European Union's BREF document, but also laid down stringent water consumption, effluent generation and effluent characteristics norms for the industry to be achieved in two phases, i.e. short term goal (by March 2016) and long term goal (by March 2017). These timelines have been extended.
- National Charter is in the pipeline. Large mills have already incurred capex to adopt environmental friendly technologies and thus, would not have a huge impact. However, this will impact smaller mills, forcing some to shut down.
- Central Pollution Control Board (CPCB) advises the Central government on matters concerning air & water pollution. It has classified pulp and paper in the Red category, which means environmental clearance for new factories would be strict.
- Recently, environmentally non-compliant paper mills were issued closure notices by CPCB. The following companies, received closure notices in 2017 &18.
  - Shahjahanpur Paper & Board pvt. ltd.
  - Ballavpur Paper Manufacturing Ltd.
  - Vishal Paper tech India ltd.
  - Kohinoor Paper & News Print pvt. ltd
  - Ashoka Pulp and Paper pvt. ltd.
  - Banwari paper mills pvt. ltd.
  - Ramchander Straw products ltd.
  - Modinagar Paper Mills ltd.
  - Vishal Paper tech India ltd.
  - Madhubati papers pvt. ltd.
  - Bajaj Kagak Udhyog

Source: CPCB GOI, Sustainabilityoutlook, Investec Securities estimates

Increasing imports from global mills is driving efficiency in India

HSN	Paper type	Imported Qty (in '000 tons)			5 Year CAGR [FY13-18]	10 Year CAGR [FY08- 18]	Proportion of FY18 total Paper imports	Largest exporter in FY18
		FY08	FY13	FY18				
4801	Newsprints	894.8	1,240.8	1,448.0	3.1%	4.9%	38.9%	Russia - 35%
4811	Coated with plastic and other inorganic substances	53.1	239.4	251.2	1.0%	16.8%	6.7%	USA - 22%
4810	Coated paper & board - China Clay	250.6	491.0	1,109.9	17.7%	16.0%	29.8%	China - 37%
4802	Uncoated Paper & board	45.2	84.4	349.4	32.8%	22.7%	9.4%	Indonesia - 50%
4804	Uncoated Kraft Paper & board	57.2	153.2	226.1	8.1%	14.7%	6.1%	USA - 37%
		80.8	180.1	339.9	13.5%	15.5%	9.1%	
	Total	**1,381.6**	**2,388.9**	**3,724.5**	**9.3%**	**10.4%**	**100.0%**	**China - 16%**

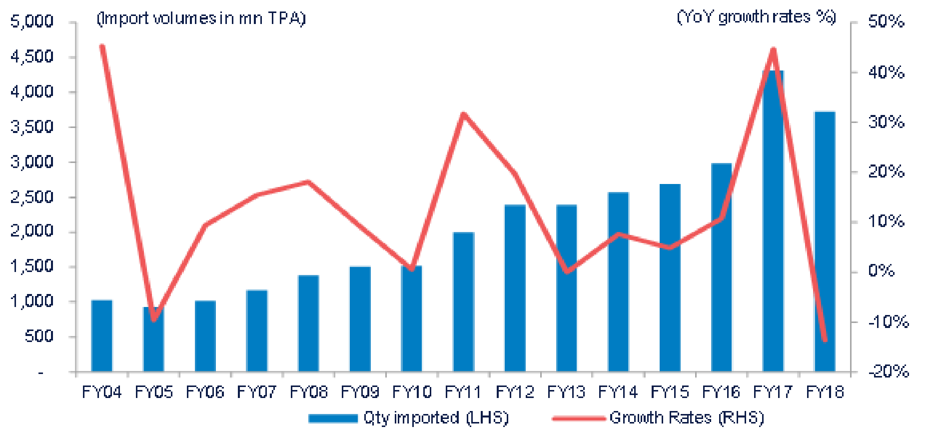
Source: Dept of Commerce, Investec Securities estimates

- Imports of coated paper used for printing [4810] have increased at CAGR of 17.7% from FY13 to FY18. Of these, China constituted 37%, USA 15% and Korea 14% of total coated paper imports in FY18.
- Imports of uncoated paper [4802] have increased at CAGR of 32.8% from FY13 to FY18. Indonesia accounted for 50%, China 9%, and Singapore 6% to uncoated paper imports in FY18.
- Increasing competition from imports will force inefficient domestic companies to consolidate to achieve better economies of scale.

India remains an attractive market for global paper supply

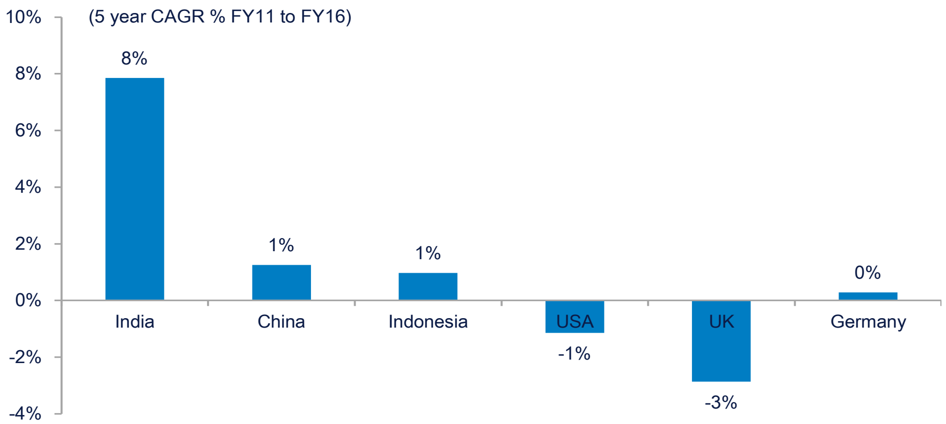
- India is the fastest growing major paper market in the world.
- An appreciating rupee made imports attractive in FY17
- Anti-dumping duties were imposed by US in 2016 & 2017, which led to diversion of supply from US to Indian markets.
- Free Trade Agreements with ASEAN & South Korea led to an increase in exports at 10Yr CAGR of 15% and 8%, respectively.
- Even though this dynamic may change as the rupee depreciates\anti-dumping duty is effected, open imports have already forced companies to increase cost efficiency\consolidate.

Imports grew at 9.3% CAGR from FY13 to FY18



Source: Dept of Commerce, Investec Securities estimates

India is the fastest growing major paper market in the world



Source: FAOSTAT, Investec Securities estimates

Appreciating rupee led to sharp jump in imports in FY17

Source: Bloomberg, Investec Securities estimates

Advent of GST should hasten consolidation process

HSN	Paper Product	GST Rates	Excise Duty	MVAT	Impact
4801	Newsprints	5%	0%	6%	-1%
4810	Coated Paper & Paperboard	12%	6%	6%	0%
4802 & 4805	Uncoated Paper & Paperboard	12%	6%	6%	0%
4803 & 4818	Tissue Paper	18%	13%	6%	-1%
4804	Kraft Paper	12%	6%	6%	0%

The advent of GST will increase costs for the unorganized, tax evading players as they come under the tax net. The margin cushion due to tax evasion will no longer be available to tax evaders and thus, GST will provide a level playing field.

Source: CBEC, Investec Securities estimates

Inorganic acquisition opportunities abound, as many companies are in distress

- 2 out of 3 paper mills in India have already been closed. [As per IPMA]
- Agro or secondary fibre-based paper plants were commissioned with the support of government fiscal policies and second hand imported machinery in the 1980s. These mills now find themselves unable to modernise, given high costs involved, and have shut down.
- Ballarpur Industries (BILT) was the largest paper manufacturer in India. BILT made significant debt-financed investments to modernise, and scale up capacities. Some of these investments took longer than targeted to come on stream. In addition, the domestic paper market became far more competitive, because of increased imports. These conditions have forced the company into debt restructuring.
- 26 out of approximately 50 paper companies listed on BSE have stressed balance sheets.

Company Name	Location	Capacity	Company Name	Location	Capacity
Rainbow Papers Ltd.	Gujarat	466,700	Agio Paper & Industries Ltd.	Chattisgarh	15,500
Sirpur Paper Mills Ltd.	Telangana	138,300	Coral Newsprints Ltd.	Uttar Pradesh	12,600
Servalakshmi Paper Ltd.	Tamil Nadu	109,500	Ashutosh Paper Mills Ltd	Uttar Pradesh	12,000
Mysore Paper Mills Ltd.	Karnataka	105,000	B.K. Duplex Board Ltd	Punjab	12,000
Magnum Ventures Ltd.	Uttar Pradesh	85,000	Soma Papers & Industries Ltd.	Maharashtra	10,000
Sree Sakthi Paper Mills Ltd.	Kerala	75,000	B.J.Duplex Boards Ltd.	Uttar Pradesh	10,000
Shree Bhawani Paper Mills Ltd.	Uttar Pradesh	72,000	Simplex Papers Ltd	Maharashtra	9,000
Rama Paper Mills Ltd.	Uttar Pradesh	61,000	Saurashtra Paper & Board Mills Ltd.	Gujarat	Details N/A
Nath Pulp & Paper Mills Ltd.	Maharashtra	50,000	Victory Paper & Boards (India) Ltd.	Kerala	Details N/A
Aurangabad Paper Mills Ltd.	Maharashtra	32,340	Kalptaru Papers Ltd.	Gujarat	Details N/A
Kay Power and Paper Ltd.	Maharashtra	25,000	Solid Containers Ltd.	Maharashtra	Details N/A
Saffron Industries Ltd.	Maharashtra	21,780	Chadha Papers Ltd.	Uttar Pradesh	Details N/A
Vapi Enterprise Ltd.	Gujarat	19,000	Shree Vindhya Paper Mills Ltd.	Maharashtra	Details N/A

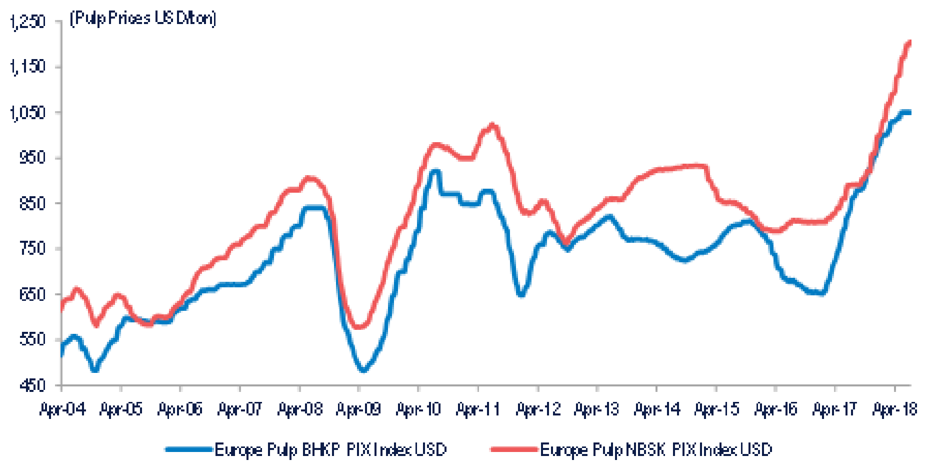
Source: Company, Investec Securities estimates

3. Which players to back?

Integrated pulp mills with water security are better placed

- Pulp cost constitutes approx. 33% of net sales.
- Global pulp prices have been strong in FY18 due to unscheduled mill downtime and slower than expected ramp up of new capacity and no new capacity announcements (It takes minimum 2 years post announcement to get new capacity in the market).
- Consolidating pulp market will lead to further tightening. Fibria & Suzano, which are the 1st (18% of total pulp market) and 2nd largest producers (10%) of eucalyptus pulp in the world have agreed to merge.
- As global pulp prices increase, so do global paper prices, which helps integrated paper manufacturers improve profitability.
- Weakening INR also leads to expensive imports of pulp and wood chips.

Global pulp prices trending upwards



Source: Bloomberg, Investec Securities estimates

Water availability is imperative

- Water is imperative at each stage of production, and can lead to loss of machine days in case of shortage. While JK Paper and WCPM have no issues in sourcing water for plant, TNPL faces water scarcity due to poor rainfall and River Cauvery disputes.
- Efficiency in water consumption has improved with as low as 40 cubic mtr required by most mills.
- In the past 20 years, TNPL has lost minimum 264 machine days due to water shortage. TNPL is using water reservoirs to store water.

Source: FAOSTAT, Investec Securities estimates

Company	Source	Constraint
JKPL	River Nagavali, River Tapi	No
WCPM	River Kali	No
TNPL	River Cauvery	Yes

Source: Bloomberg, Investec Securities estimates

Paper industry in India operates in clusters – driven by water & raw material availability

"Approximately 72% of the total installed capacity in India is concentrated in Andhra Pradesh, Gujarat, Odisha, Karnataka, Maharashtra and West Bengal" – JKPL [Annual Report FY18]

Source: Company, Investec Securities estimates

Pulping capacity, power and raw material availability analysis

Company	Paper Capacity	Integrated Pulp	Required Pulping Capacity*	Actual Pulping Capacity	Integration levels	Captive Power	Raw Material Constrained?
WCPM	320,000	✓	256,000	232,000	91%	✓	-
JKPL	455,000	✓	364,000	276,000	76%	✓	-
ITC	742,000	✓	593,600	350,000	59%	✓	-
TNPL	600,000	✓	480,000	377,600	79%	✓	Water
IP APPM	241,000	✓	192,800	181,500	94%	✓	Labour
Seshasayee	187,000	✓	149,600	115,000	77%	✓	Water
Ballarpur Industries	856,000	✓	684,800	420,000	61%	✓	Labour
Orient Paper	135,000	✓	108,000	62,000	57%	✓	Water
Trident Group	175,000	✓	140,000	125,000	89%	✗	-
Century Textiles	413,810	✓	331,048	193,320	58%	✗	Overhaul
Emami Paper	335,000	✗	-	-	-	✓	-
NR Agarwal	306,000	✗	-	-	-	✓	-
Kuantum	109,500	✗	-	-	-	✓	-
Shreyans Industries	94,000	✗	-	-	-	✓	-
Ruchira Papers	85,800	✗	-	-	-	✓	Overhaul
Genus Paper	215,000	✗	-	-	-	✗	-
Astron Paper	119,000	✗	-	-	-	✗	-
Shree Rama Newsprints	132,664	✗	-	-	-	✗	Labour

Source: Company, Investec Securities estimates

*Assuming 0.8 tonnes Pulp required for 1 tonne of Paper and 320 days to convert daily capacity into annual capacity

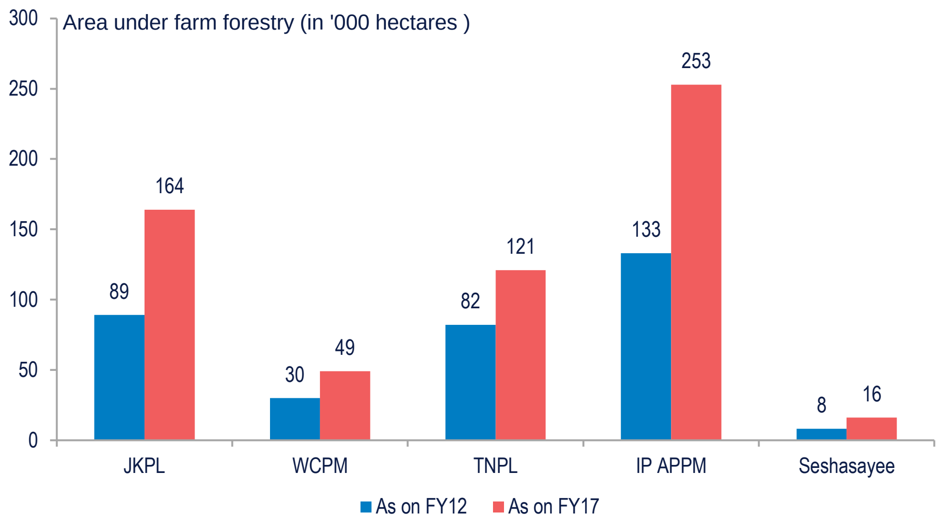
Amongst the majors, JKPL has been the most proactive in securing raw material supply

Paper manufacturing requires three main raw materials – Fibre, Water and Power along with capital

To make 1 ton of paper, requirement of		JKPL	WCPM	TNPL
Wood / Bagasse	2 / 4 tons	Adequate	Some Constraints	Some Constraints
Water	50 m^3	Adequate	Adequate	Some Constraints
Energy	1150 units	Adequate	Adequate	Adequate

Source: Company, Investec Securities estimates

Companies with access to wood from farm forestry will benefit from declining/ stable domestic wood prices



Source: Company, Investec Securities estimates

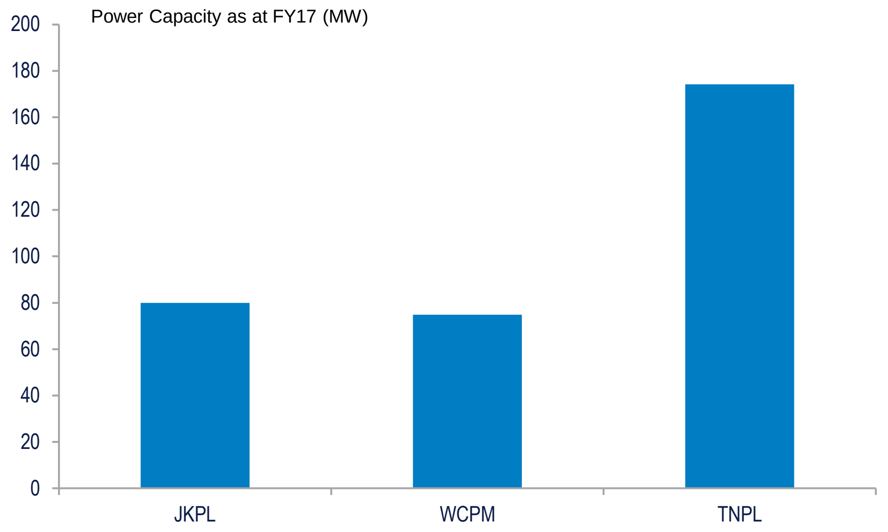
- While global pulp prices are increasing, domestic wood prices are declining due to increased farm forestry efforts of paper companies.
- In 2013 & 2014, when wood prices shot up due to shortage, many farmers were motivated to cultivate wood plantations. These plantations have now hit the market, leading to increased supply.
- Owing to closure and slowdown in operations of few mills, the demand for wood has remained soft.
- JKPL sources 85% of its fibre requirements from farm forestry, WCPM – 60%. TNPL is mainly dependent on government auctions for its wood requirements. Bagasse is a larger portion of fibre requirement for TNPL. It is facing some shortage in sourcing of bagasse, which we expect will improve.

Source: Company, Investec Securities estimates

Companies with captive power plant have ability to plan production schedules and reduce power cost

- Steam in huge quantities is essential input for the paper manufacturing process. Paper plants, therefore, need to install a boiler to ensure a continuous flow of steam. With the high cost of power directly affecting profits of paper industries, the best option is to install own captive power plants to manage production schedules without unplanned downtime and lower costs.
- JKPL, WCPM and TNPL all have captive power plants. Power efficiency has also improved over time.
- Power cost as a % of net sales is higher for TNPL as it includes cost for sourcing bagasse in exchange of steam.
- JKPL and WCPM use mainly wood whereas TNPL uses 60% bagasse, 30% wood and 10% waste paper and thus, its cost of materials consumed was lower than others till FY18. However, costs increased in FY18 as bagasse shortage was faced in south.
- Drought in south has impacted sugar production; impacting bagasse availability. Further, sugar mills use bagasse for captive power generation.
- We expect this increase to normalise over the next few years.

Sufficient Power producing capacity achieved



Source: Company, Investec Securities estimates

Low cost of funds is a competitive advantage, favouring Top 4-5 players

- Credit Ratings of JKPL & WCPM improved on back of improving ratios and strong balance sheets. However, ICRA maintains a negative outlook on TNPL as it faced raw material availability issues.
- As gearing becomes comfortable, we expect these players will be able to raise capital in future for their expansion plans at low cost.
- Debt cost was highest for JKPL [11.8%], followed by WCPM [11.6%] and then TNPL [9.1%] in FY18.
- History of promoters bringing capital to the company during tough times in JKPL & WCPM provides confidence to lenders.

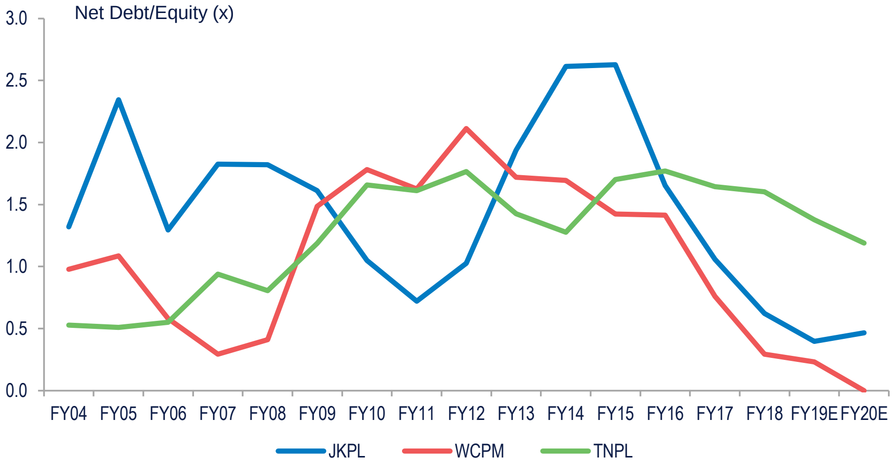
Source: Company, Investec Securities estimates

Investment grade credit ratings

Credit Ratings	Outlook	Long Term	Short Term	Rating Agency
JKPL	Positive	A+	A1	CRISIL
WCPM	Stable	A	A1	CARE
TNPL	Negative	A	A2+	ICRA

Source: Company, Investec Securities estimates

Comfortable gearing ratios will help companies raise capital at low cost



Source: Company, Investec Securities estimates

WCPM and JKPL promoters have contributed growth capital in past

Company	Year	No. of Shares issued	Issue Price	Amt Contributed (Rs Mn)	Required for
WCPM	FY09	26,17,650	85.0	223	Expansion
	FY10	30,00,000	45.0	135	Expansion
	FY10	23,73,578	48.5	115	Expansion
	FY13	33,00,000	54.3	179	Debt Repayment
JKPL	FY06	76,90,000	69	531	Expansion
	FY16	1,19,10,000	42	500	Debt Reduction

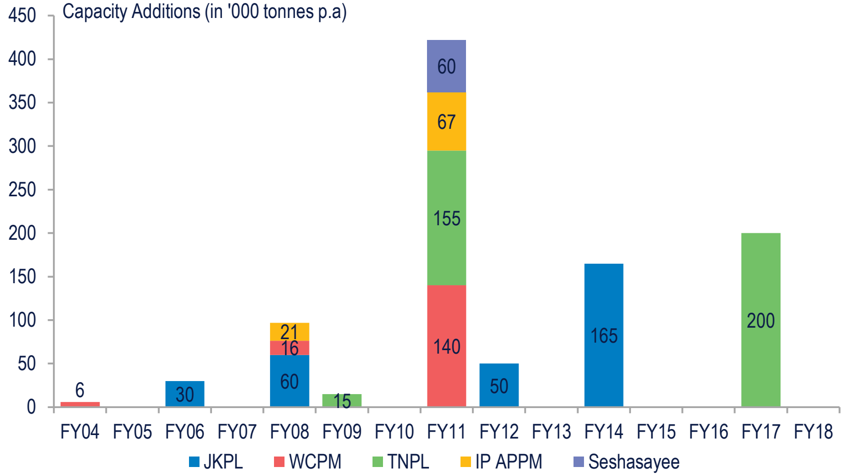
Source: Company, Investec Securities estimates

4. What could go wrong?

Companies overinvesting is a risk, as in the past (FY11-FY12)

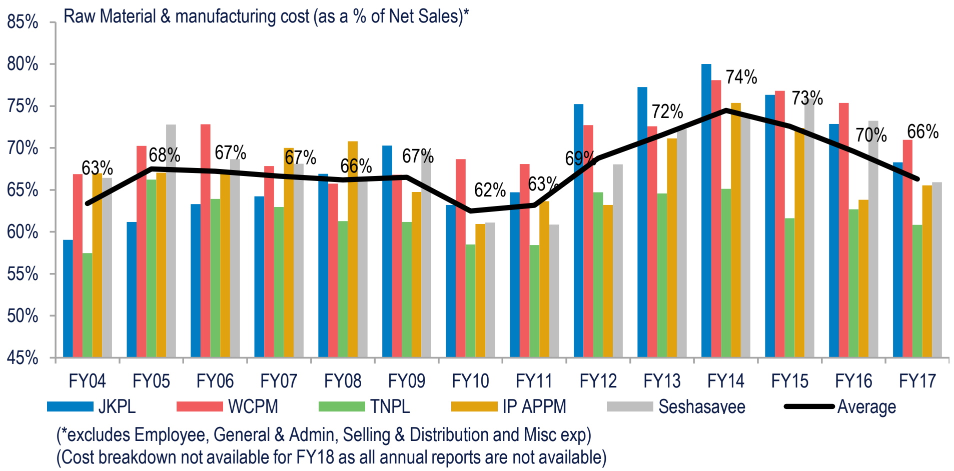
- Increase in paper producing capacities in FY11 and FY12 were not backed by increase in wood plantations.
- This led to sharp increase in wood prices which companies were not able to completely pass-on due to excess paper supply.
- Profits were severely impacted for leveraged companies.
- Some mills had to discontinue their operations:
  - Sirpur Mills
  - Mysore Paper Mills
  - Rainbow papers
  - Hindustan Paper Corporation

Simultaneous expansions in FY11 & FY12 impacted profitability



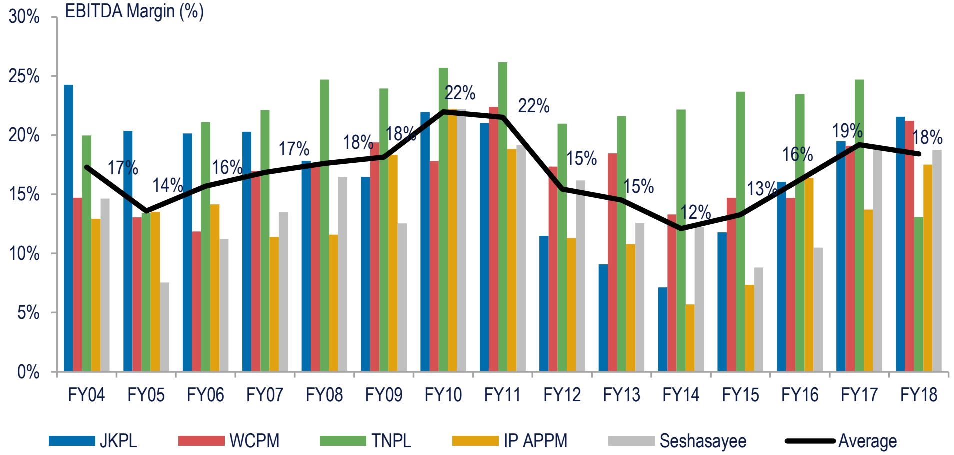
Source: Company, Investec Securities estimates

Material cost increased sharply due to domestic wood shortage



Source: Company, Investec Securities estimates

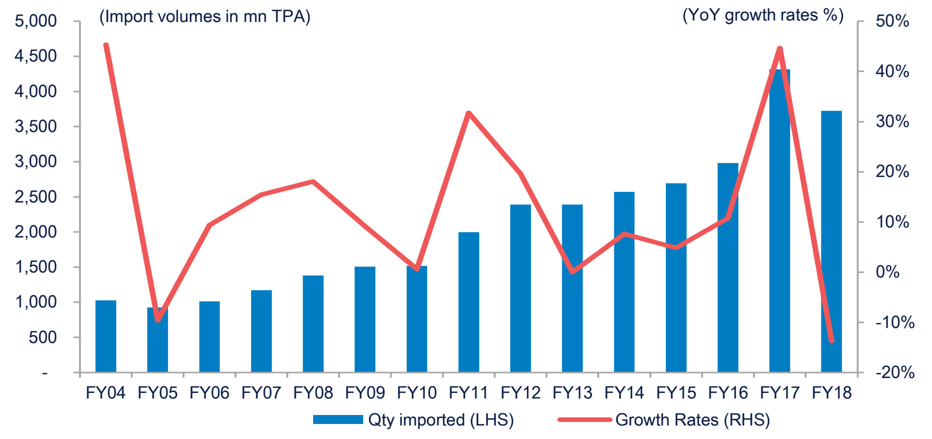
Profitability suffered & companies found it difficult to service debt



Source: Company, Investec Securities estimates

Can it happen again?

Imports also increased sharply leading to excess supply



Source: Department of Commerce, Investec Securities estimates

Can it happen again?

- The recovery in the paper cycle is recent. Our interactions with companies indicate that the management of most companies have become cautious post the downturn in FY14.
- Although there is demand, companies intend to ensure raw material security prior to expansions.
- The industry is consolidating around stronger players. This dynamic brought discipline in the market in the US, and we expect a similar dynamic to play out in India.
- A depreciating rupee, and threat of anti dumping duty mitigates the incremental threat from imports, somewhat.

Multiple capacity expansions have been announced, however, we believe they will take 3-4 years to hit the market

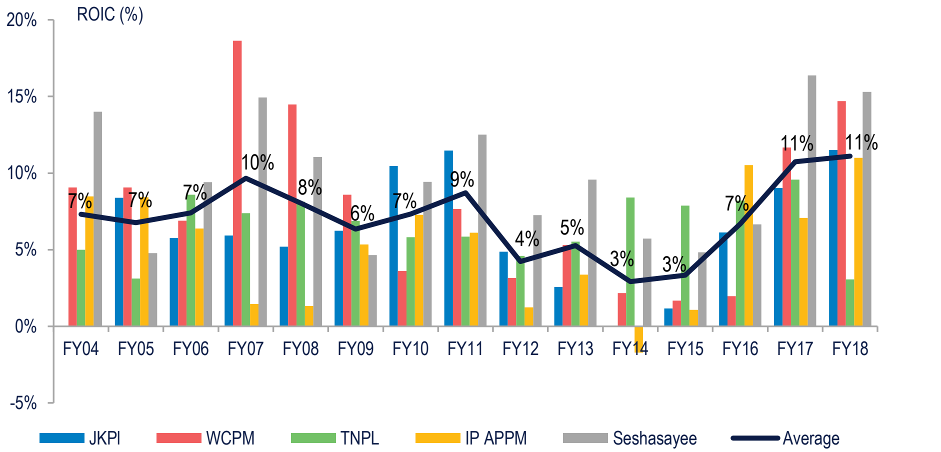
Company	Capacity Additions announced (in TPA)
ITC	Value Added Paperboard - 150,000, Specialty paper - Decor 20,000
JK Paper	Paperboard - 200,000, Pulp – 160,000
Trident Group	WPP - 182,500
TNPL	WPP - 165,000 , Pulp – 146000*
Emami Paper	Paper board - 180,000, WPP - 142,000
Seshasayee	Paper - 88,000, Pulp - 30,000
Ruchira	WPP - 125,000, Pulp - 110,000
Genus Paper	Leased Kraft Paper - 75,000, Greenfield - 300,000

*400 TPD

Source: Companies, Investec Securities estimates

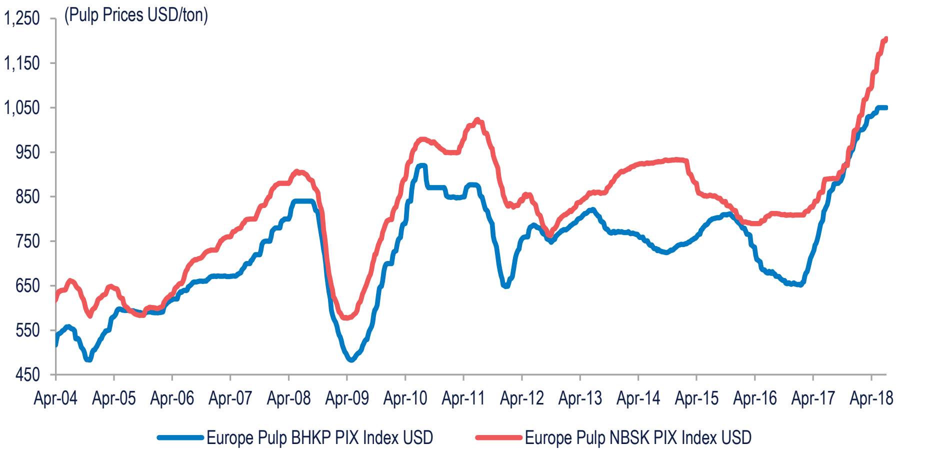
Companies have just started making returns, and we expect a sustainable upturn

Companies have started making reasonable RoIC; & we expect it to sustain…



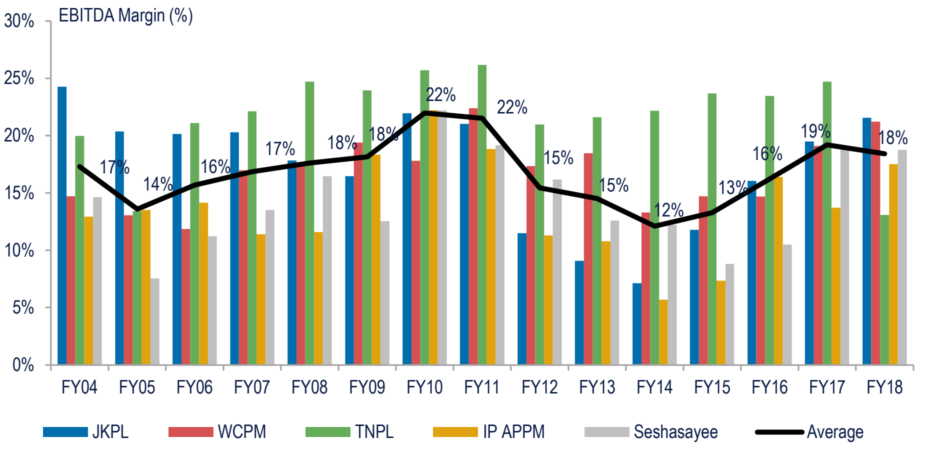
Source: Company, Investec Securities estimates

Solid international pulp prices should support writing & virgin packaging paper prices



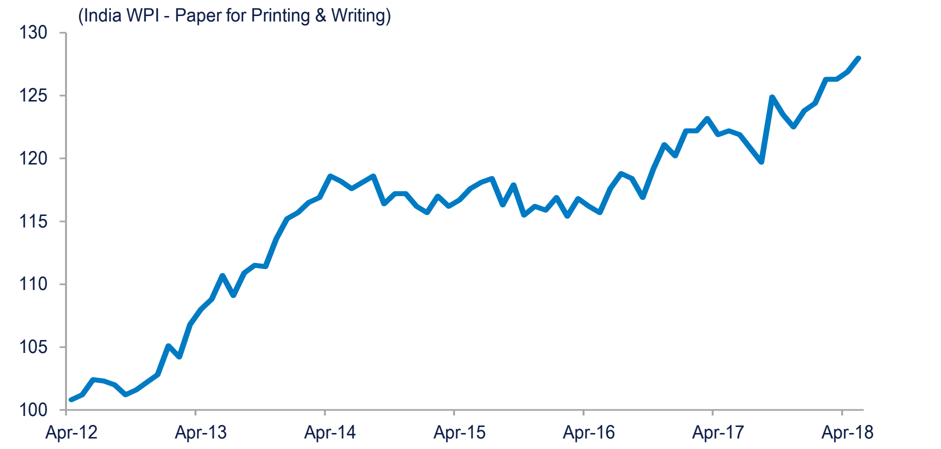
Source: Bloomberg, Investec Securities estimates

… driven by margin stability as paper realizations remain strong, and domestic raw material availability adequate



Source: Company, Investec Securities estimates

Indian paper prices as measured by paper WPI have remained strong



Source: Bloomberg, Investec Securities estimates

Companies have just started making returns, and we expect a sustainable upturn

Why is this upturn sustainable?

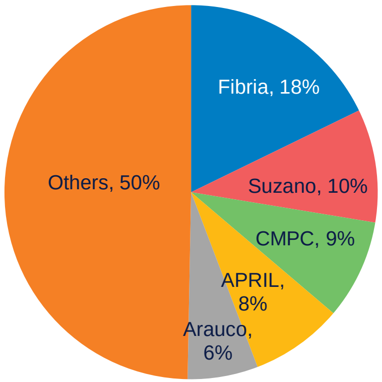
- **Global pulp prices are sustainable** with no new capacities expected to hit the market and a consolidating pulp supply. This will underpin strength in global paper prices. Most printing and writing papers have composition more associated with hardwood than softwood fibres [Fibria website].
  Hardwood pulp market is fairly consolidated with top 5 players together controlling 50% of total capacity. With merger of top 2 players Fibria and Suzano, 4 players will control 50% market. This will allow companies to manage supply to reduce volatility in global pulp prices.

- **Adequate availability of domestic wood -** It usually takes 3-4 years for eucalyptus plantations to grow. In 2013 & 2014 when wood prices shot up due to shortage, many farmers were motivated to cultivate wood plantations. These plantations have now hit the market, leading to increased supply and softening of domestic pulp prices.

- **Paper capacity in India is rationalizing & consolidating**, especially in writing & printing paper. There is more discipline in adding capacity now than before, and pricing is more controlled. Multiple capacity additions are being made in the packaging segment. However, companies and industry experts believe this addition is in line with double digit demand growth.

- **Prospect of anti-dumping duty** is already having an impact on imported paper. With the Rupee depreciating, the gap between imported paper prices and domestic paper prices has narrowed down.

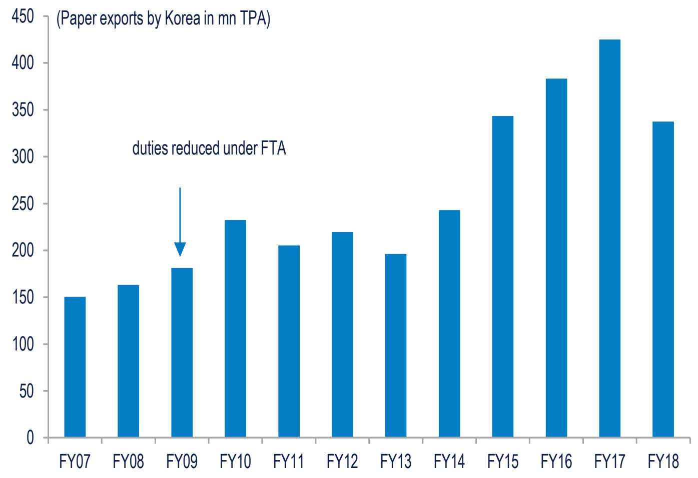
Consolidated Hardwood pulp market



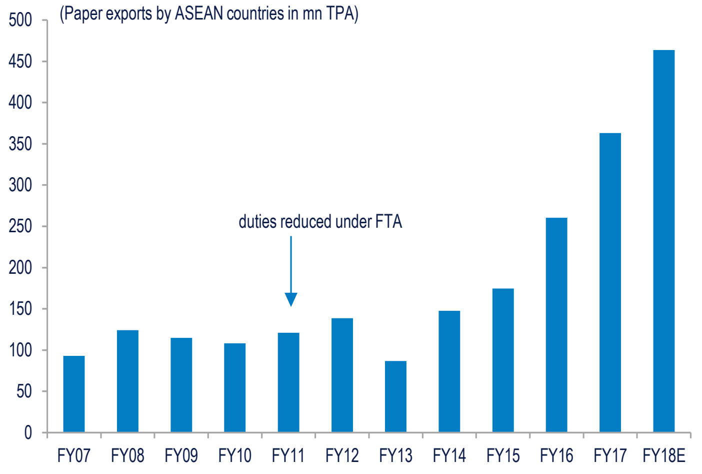
Source: Bloomberg, Investec Securities estimates

Ongoing anti-dumping investigations could provide incremental relief

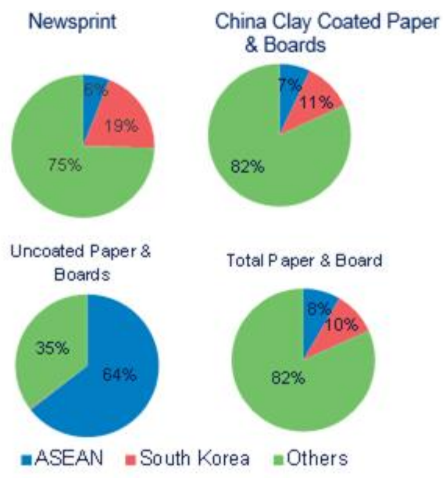
S. Korea paper imports grew at 10Yr CAGR 8%



ASEAN paper imports grew at 10YR CAGR 15%



Contribution to segments



Source: Dept. of Commerce, Investec Securities estimates

- Wood cost for South-East Asian countries is much lower than Indian mills as their government promoted wood plantations by providing generous subsidies. Further, adoption of scientific plantation practices resulted in better yield and quality at cheaper rate. Thus, differential today is $50-60 per ton of wood.
- Adding to the woes, import duties under paper and paperboard have been progressively reduced since 2011 under ASEAN - India FTA. The basic customs duty of paper products were reduced to nil for most products from Jan 2014. [major beneficiaries were Indonesia, Thailand and Malaysia].
- Similarly, India - Korea CEPA progressively reduced customs duty since 2009 and fully exempted since Jan 2017.
- Anti-Dumping investigation concerning imports of “Coated Paper” originating in or exported from China PR, European Union & USA has been initiated on 23rd Jan 2018.
- Similar investigation concerning imports of “Uncoated Copier Paper” originating in or exported from Indonesia, Thailand and Singapore has been initiated on 2nd Nov 2017.

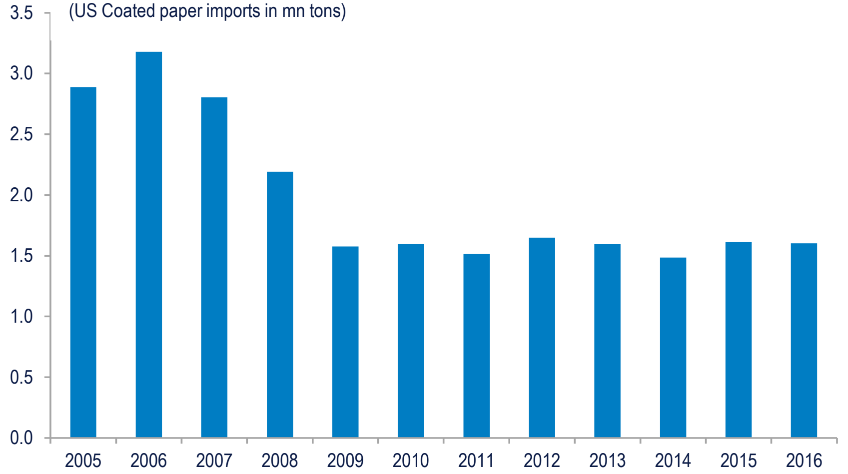
Anti-dumping and Anti-subsidy duties imposed by US & EU

USA has also imposed anti-dumping duty…

Importing Country	Products	Year of original imposition	Validity till date?
Canada	Newsprints	2017	Yes
Australia	Certain Uncoated Paper	2016	Yes
Brazil	Certain Uncoated Paper	2016	Yes
China	Certain Uncoated Paper	2016	Yes
Indonesia	Certain Uncoated Paper	2016	Yes
Portugal	Certain Uncoated Paper	2016	Yes
China	Coated Paper	2010	Yes
Indonesia	Coated Paper	2010	Yes
China	Tissue paper	2005	Yes
India	Certain Lined Paper Products	2006	Yes

Source: WTO and news, Investec Securities estimates

Coated paper imports reduced in the US post anti-dumping duty



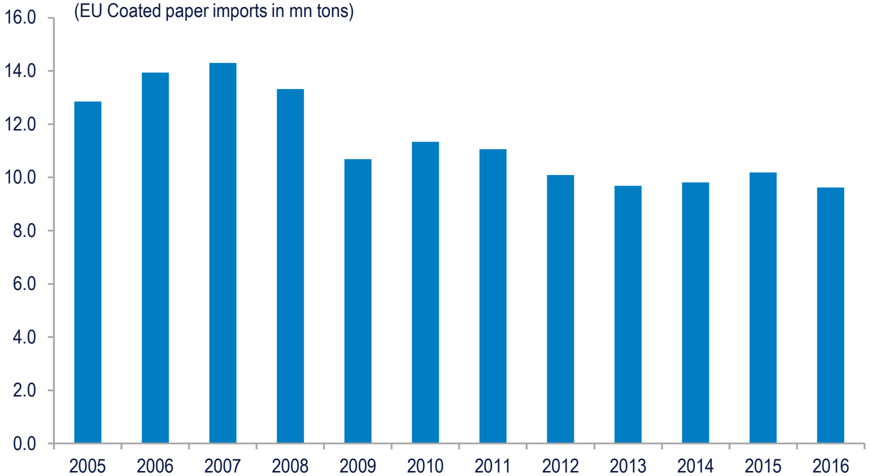
Source: FAOSTAT, Investec Securities estimates

…. As has, EU

Importing Country	Products	Year of original imposition	Validity till date?
China	Coated fine paper	2011	Yes

Source: WTO and news, Investec Securities estimates

Coated paper imports reduced in EU post anti-dumping duty



Source: FAOSTAT, Investec Securities estimates

A strong case for dumping and subsidization?

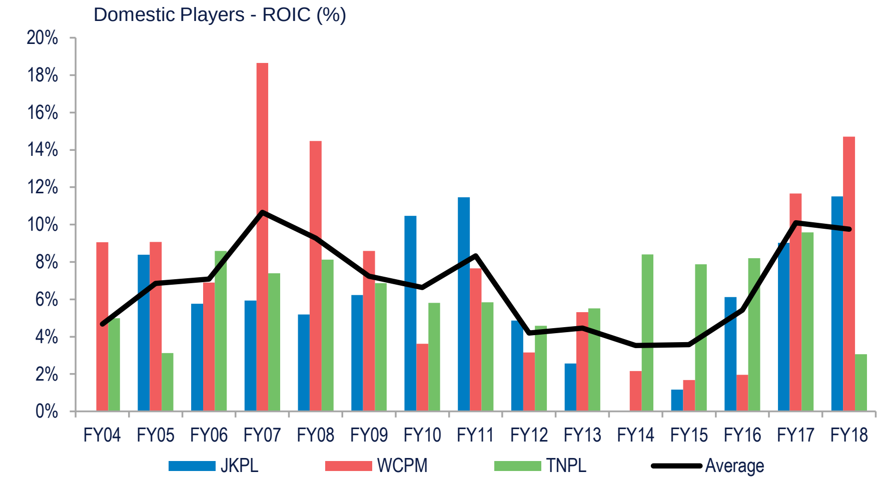
- US has successfully established a case against Indonesia and China for dumping and subsidization and thereby, successfully levied anti-dumping and anti-subsidization duties.
- The supply to US post anti-dumping and anti-subsidization duties have come down and Indian imports have increased, indicating the shift of the US supply to India.
- The low RoICs of exporting companies indicate price undercutting to enter markets.

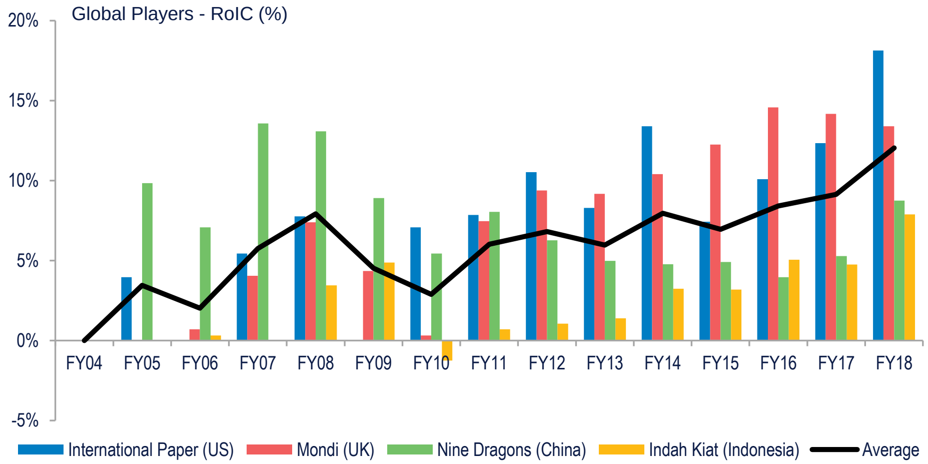
RoICs of companies from exporting countries are low

Company	Country	FY17 ROIC
Nine Dragons paper holdings	China	8.7%
Lee & Man Paper Manufacturing	China	15.0%
Indah Kiat Pulp & Paper TBK	Indonesia	7.9%
Pabrik Kertas Tjiwi Kimia Tbk PT	Indonesia	0.7%
Moorim Paper	South Korea	3.5%
UPP Holdings	Singapore	12.3%

Source: Bloomberg, Investec Securities estimates

RoICs of both domestic and global players has improved in FY17 and FY18

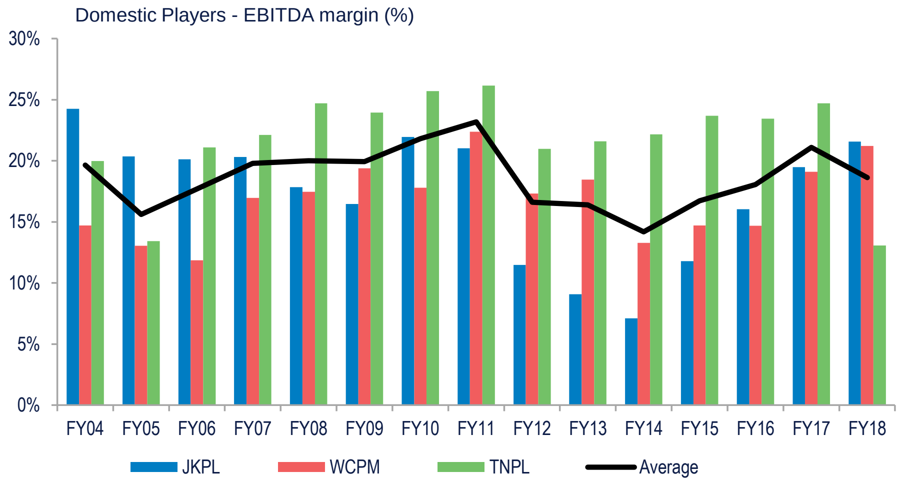


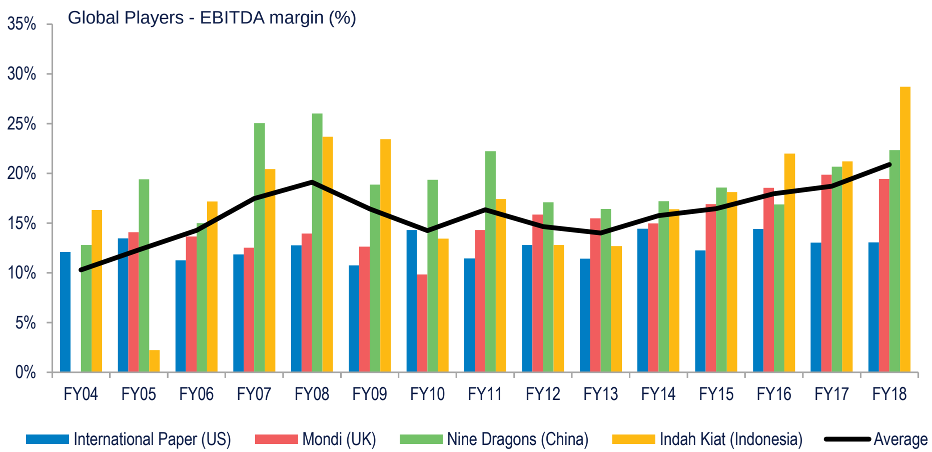


Source: Company, Investec Securities estimates

Source: Bloomberg, Investec Securities estimates

EBITDA Margin of Chinese and Indonesian player is higher than Indian players due to low cost of raw materials. However, their RoICs are relatively lower





Source: Company, Investec Securities estimates

Source: Bloomberg, Investec Securities estimates

Investec

Common Size Statement

Company Name	JK Paper			West Coast Paper Mills			TNPL			Comments
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	
Net Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Total Cost of Materials Consumed	72.9	68.3	66.4	75.4	71.0	67.9	64.6	62.8	74.9	Cost Efficiency is reflected in JK Paper and West Coast Paper Mills numbers. TNPL was impacted due to Bagasse Shortage
Gross Profit	**27.1**	**31.7**	**33.6**	**24.6**	**29.0**	**32.1**	**35.4**	**37.2**	**25.1**	
Employee Cost	7.4	8.3	8.1	6.7	6.7	7.2	7.7	8.4	8.0	
Other Expenses	3.7	3.9	3.9	3.2	3.2	3.6	4.2	4.1	4.1	
EBITDA	**16.0**	**19.5**	**21.5**	**14.7**	**19.1**	**21.3**	**23.4**	**24.7**	**13.1**	
Depreciation	4.8	4.5	4.2	6.7	6.3	6.8	5.9	7.0	7.2	
EBIT	11.2	14.9	17.3	8.0	12.8	14.5	17.5	17.7	5.9	
Interest Cost (Net of other Income)	7.6	6.1	4.1	2.8	3.0	2.5	4.1	7.3	6.8	
Tax	1.2	2.6	4.0	0.8	2.8	0.0	2.6	1.4	0.5	
PAT before Exceptional Items	**2.5**	**6.2**	**9.1**	**4.4**	**7.0**	**12.0**	**10.7**	**9.0**	**-1.4**	TNPL's profits were subdued due to water shortage
Exceptional Items	0.0	0.0	0.0	-2.9	0.0	0.0	0.0	0.0	0.0	
PAT after Exceptional Items	**2.5**	**6.2**	**9.1**	**1.5**	**7.0**	**12.0**	**10.7**	**9.0**	**-1.4**	

Source: Company data, Investec Securities research

JK Paper (JKPA.NS)

JK Paper (JKPL) is inarguably one of the best (top-3) paper companies in India, having successfully navigated several paper cycles over the past few decades. JKPL has an experienced, return focused management team, backed by a very strong industrial group, and a rock solid balance sheet. It has been proactive in taking advantage of stress in the industry, and has successfully bid and acquired Sirpur, in a substantially accretive transaction. We initiate on JK Paper with a BUY rating, and target price of Rs. 220, representing 47% upside.

- The paper industry is enjoying a period of good profitability (likely to continue) – EBITDA margin has expanded for 9 consecutive quarters, backed by strong pulp cycle globally that has allowed the Indian industry to increase pricing, even as local raw material (pulp) prices have been well contained. For instance, 10 ppt of the 14 ppt margin expansion at JKPL has been driven by leverage on pulp price, as JKPL has successfully backward integrated post experiencing pulp shortage in FY14.

- JKPL is third largest paper manufacturing company in India (based on capacity) - ITC and TNPL are largest, and second largest, respectively. It manufactures uncoated paper, coated paper and packaging paper. The 80 year-old company has successfully navigated through multiple paper cycles with timely capacity expansions, and is well placed to emerge strongest out of the current cycle.

- A strong balance sheet and a strong management with experience in turning around sick paper mills (Central Pulp Mills), should allow it to play the role of a choice consolidator in the sector. JKPL has received approval for the Sirpur Mills' (138,300 ton paper mill) acquisition, paying a reported Rs. 5,770 mn for 76% Equity. Our channel checks reveal that Sirpur ticks all the relevant boxes of raw material, water, and easy access to markets. We estimate the transaction to be accretive by Rs 20/sh.

- JKPL has one of the best, most experienced management teams in the industry, and a brand that is able to command a premium in the market. It makes one of the highest EBITDA margin of all companies in India (21.5% in FY18), and we expect EBITDA margin to expand further, driving PAT growth of 30% over the next 2 years.

JKPL is also embarking on expansion of 200,000 tonnes in the packaging segment together with pulping capacity of 160,000 tonnes. Thus, the Sirpur acquisition, and organic expansion ensures that JKPL will continue growth above market rates, and take market share in a consolidating industry. Our target price of Rs 200/sh values JKPL at 9x FY20E EPS, and adds Rs20/sh for the Sirpur acquisition (half our estimated benefit from the transaction, given risk that some benefits may not be fully realized).

West Coast Paper Mills (WCPM.NS)

West Coast Paper Mills (WCPM) is one of the top branded paper company in the country, which is benefitting from a consolidating industry in India, and overseas. WCPM has successfully delevered its balance sheet over the past few years, and we expect it to be practically debt free by FY20. The management team is one of the more experienced team in the industry, and has built a solid distribution network making it capable of quickly expanding capacity, and sales. Valuation of 7.6% FY18 FCF yield, 10x FY18E P/E (8x FY20E EPS) is supportive, even as we expect strong cash flow to sustain. However, a track record of unrelated diversification makes us somewhat cautious, and we initiate on the stock with HOLD rating.

- WCPM is one of the top paper companies in the country by size – it operates a 320,000 integrated paper mill, with sufficient pulping capacity, and a 75 MW power plant. An optimal size of the plant, it is amongst the more profitable paper companies in India today – FY18 EBITDA margin of 21.2%, and RoIC of 14.7%. WCPM also enjoys adequate supply of water, a key ingredient in paper making, ensuring a disruption free production schedule.

- We expect the paper cycle to remain buoyant, which should support profitability of top paper companies like WCPM. Over the past 2 years, WCPM has generated over Rs.5,825.6 mn of free cash flow as it has taken advantage of the 2nd widest distribution network in the country as the paper cycle recovered.

- WCPM has successfully delevered over the past 2 years, and is practically debt free today. While a solid balance sheet positions WCPM to be one of the consolidators, a bank default in one of the group companies has created a stumbling block in the NCLT process. This means that expansion by WCPM has to be organic, making its desire of expanding its manufacturing footprint more challenging than its competitors. For instance, it was ruled out of the NCLT process for Sirpur Mills, which eventually has been acquired by JKPL.

- Like the other majors, WCPM has also sought to control its supply chain for wood fibre. However, success has been somewhat mixed, and it still imports ~43% of its requirement of wood fibre. This exposes WCPM to price volatility of fibre, which has been a key risk for the industry in the past.

WCPM is one of the top paper companies in India, and has established a good brand, and a solid distribution network. It is trading at 9.5x FY18 P/E, with solid FCF generation capability - WCPM generated ~Rs. 1,872.3 mn FCF in FY18, a yield of 7.9% on Enterprise Value. From a valuation perspective, the stock is inarguably attractive. However, we are cautious owing to WCPM's propensity of unrelated diversification, and a relatively patchy track record of past acquisitions. Therefore, we initiate on WCPM with a HOLD rating, and Price Target of Rs. 334. We will become more constructive, if we get comfort on WCPM's capital use policies.

Tamil Nadu Newsprint & Papers (TNNP.BO)

Tamil Nadu Newsprint & Papers (TNPL) is the 2nd largest paper manufacturer in India, and also generates one of the highest, and most consistent EBITDA margin amongst its peers. It is 35.3% owned by Tamil Nadu government, which is also its largest customer. TNPL's profitability suffered in FY18 as Tamil Nadu underwent a drought, and shortage of water impacted production, and consequently bagasse from sugar mills became costlier (to normalize by FY21). TNPL is a professionally managed organization, and our channel checks reveal that the management team is reputed to be one of the most competent in the industry. Unabsorbed capacity in the past has depressed returns, and expect RoIC to improve from here as production\utilization improves. We expect EBITDA margin to expand through FY20, and TNPL to post EPS of Rs. 48.4. Applying target multiple of 9X, we get target price of Rs. 431, and assign a BUY rating to the stock.

- With 600,000 tons per annum of production capacity, TNPL is the 2nd largest paper manufacturer in India. It is also the most cost efficient producer of paper given its access to cheap, and plentiful supply of fibre, and inhouse production of power. Barring the odd hiccup in FY18, owing to a drought situation in Tamil Nadu, it consistently reports higher EBITDA margin than its peers.

- TNPL is 35.3% owned by the TN Government, which is also its largest customer. 25% of its paper sales are to the Tamil Nadu government. In fact, assured demand for TNPL's product has made it unnecessary for the company to develop an extensive distribution network. Our analysis reveals that despite being much larger than both JKPL, and WCPM in terms of capacity, TNPL's distribution network lags both.

- It is a professionally managed organization, and our channel checks reveal that the management is one of the more competent in the industry. The churn at the top is a mild concern - top management is appointed by the government. However, deep mid-management strength means that processes, and longer-term strategic direction are on autopilot, mitigating concern over instability at the top.

- Water shortage, being present in a drought prone state is a problem. TNPL is tackling the water shortage problem with increasing its reservoir capacity, and we expect TNPL to expand its RoIC as utilization at its plant improves.

We believe that the current solid paper cycle is going to sustain, and are initiating on TNPL with a BUY, and target P/E multiple of 9X on FY20E EPS of Rs. 48.4 (TNPL's average forward P/E during the last cycle, FY04-FY08, which is most representative of the current cycle), to arrive at a 1-year target price of Rs. 431. Expect TNPL to generate high incremental RoIC on existing capacity as earnings normalize beyond FY20E. In addition, TNPL is capable of generating consistent free cash flow to equity of ~Rs300cr, which implies an FCFE yield of ~15% (FY18 FCF yield of 11.6%), providing solid support for our BUY recommendation.

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Valuation

Indian Companies (In INR)	Price 04/08/2018	YTD	Market Cap (Rs. mn)	EV (Rs. mn)	EV/ EBITDA	Net Debt/ EBITDA	EPS 2018	EPS 2019E	EPS 2020E	P/E 2018	P/E 2019E	P/E 2020E	FCF Yield
JK Paper	151.3	9.0%	26,959.3	37,193.7	6.1	1.7	15.3	20.8	22.2	9.9	7.3	6.8	12.6%
West Coast Paper Mills	320.6	1.8%	21,172.0	23,634.7	6.5	0.7	33.8	36.6	41.8	9.5	8.8	7.7	7.9%
Tamil Nadu Newsprint & Papers	296.8	-33.9%	20,538.2	46,219.9	11.4	6.4	-6.1	30.2	48.4	0.0	9.8	6.1	11.6%
IP APPM	393.6	24.2%	15,651.5	17,146.4	7.7	0.7	23.1	25.5	28.3	17.0	15.4	13.9	10.7%
Average					**7.9**	**2.3**				**9.1**	**10.3**	**8.6**	

Global Players (In USD)	Price 04/08/2018	YTD	Market Cap (USD mn)	EV (USD mn)	EV/ EBITDA	Net Debt/ EBITDA	EPS 2018	EPS 2019E	EPS 2020E	P/E 2018	P/E 2019E	P/E 2020E	FCF Yield
International Paper	52.6	-12.1%	21,486.5	31,235.5	8.3	2.6	3.5	5.1	5.7	15.2	10.4	9.2	1.3%
Nine Dragons	1.3	-22.7%	5,919.4	8,781.7	7.7	2.5	0.1	0.2	0.2	10.4	6.5	6.7	0.1%
Mondi PLC	2,906.9	15.7%	14,079.9	15,588.4	9.5	0.9	168.9	194.3	204.8	17.2	15.0	14.2	3.2%
Average					**8.5**	**2.0**				**14.3**	**10.6**	**10.0**	

Source: Company, Bloomberg, Investec Securities estimates

Company section begins from page 39

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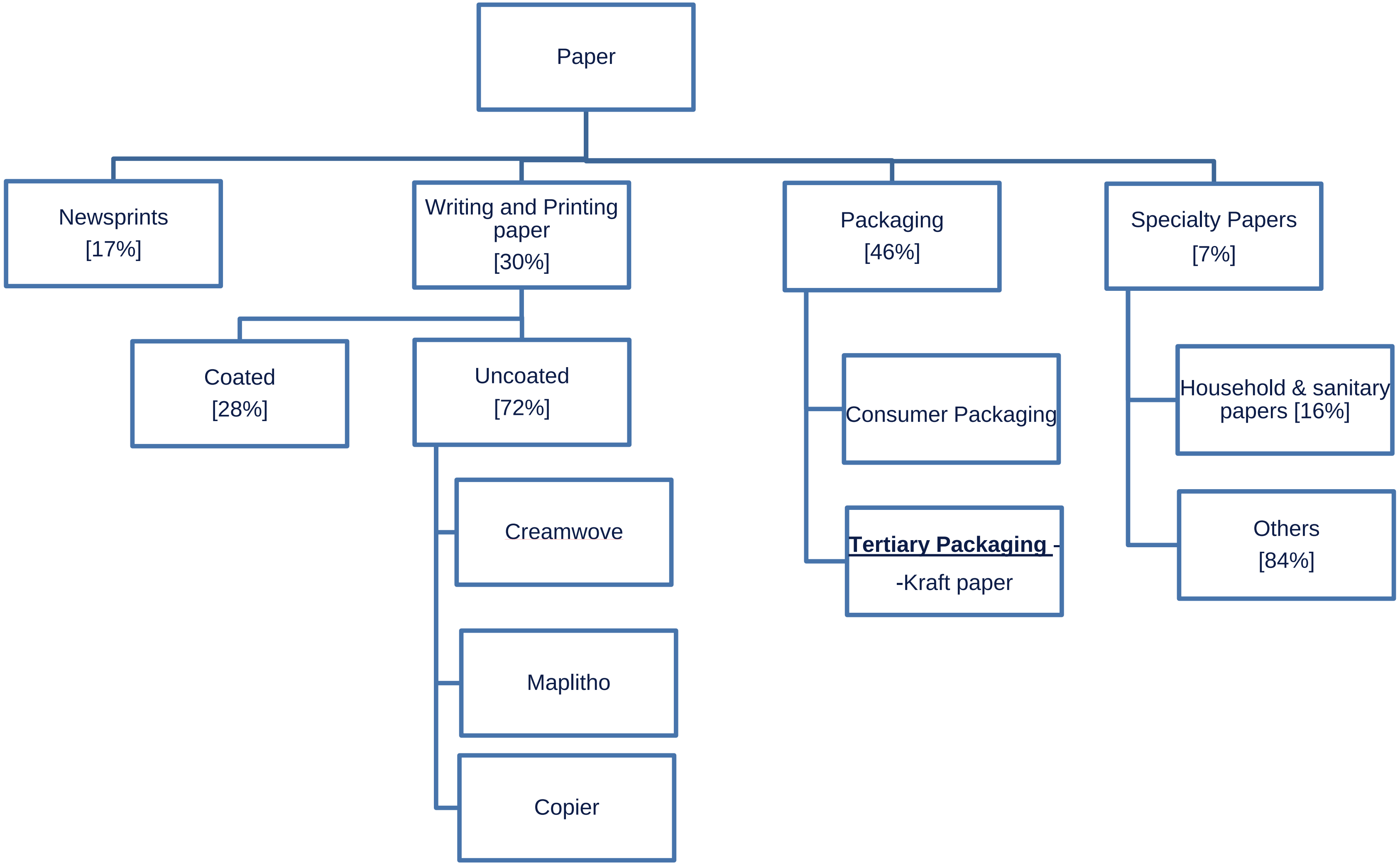
Appendix

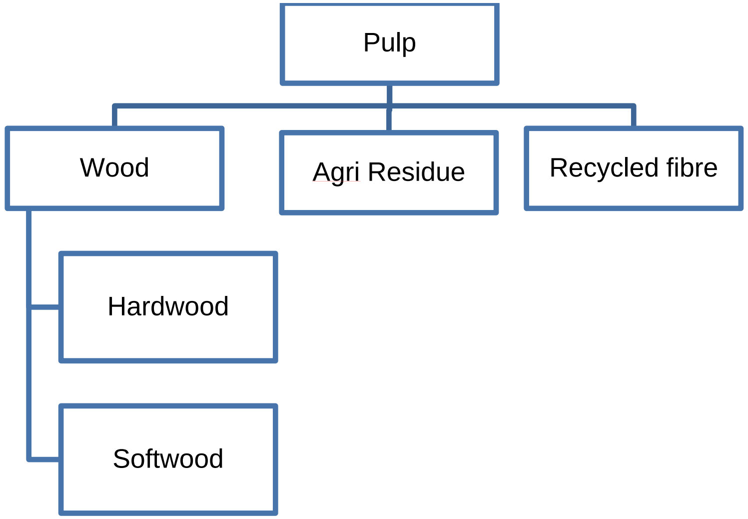
Type of Paper Products



Source: Investec Securities estimates

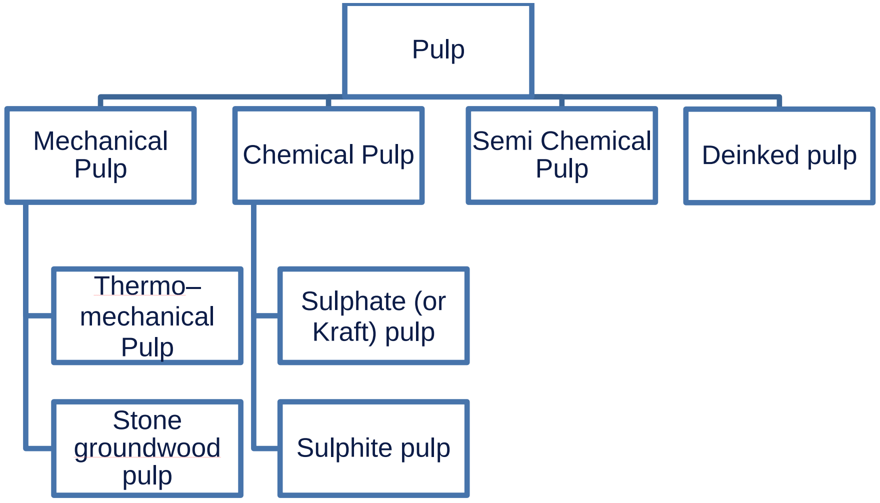
Pulp Varieties

Pulp graded based on fibre source



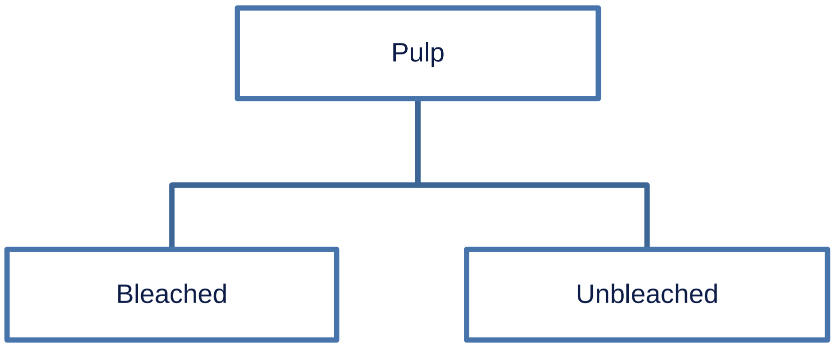
Source: Investec Securities

Pulp based on method of production



Source: Investec Securities

Pulp graded based on level of processing



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- The paper industry is enjoying a period of good profitability (likely to continue) – EBITDA margin has expanded for 9 consecutive quarters, backed by strong pulp cycle globally that has allowed the Indian industry to increase pricing, even as local raw material (pulp) prices have been well contained. For instance, 10 ppt of the 14 ppt margin expansion at JKPL has been driven by leverage on pulp price, as JKPL has successfully backward integrated post experiencing pulp shortage in FY14.
- JKPL is third largest paper manufacturing company in India (based on capacity) - ITC and TNPL are largest, and second largest, respectively. It manufactures uncoated paper, coated paper and packaging paper. The 80 year-old company has successfully navigated through multiple paper cycles with timely capacity expansions, and is well placed to emerge strongest out of the current cycle.
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- JKPL is also embarking on expansion of 200,000 tonnes in the packaging segment together with pulping capacity of 160,000 tonnes. Thus, the Sirpur acquisition, and organic expansion ensures that JKPL will continue growth above market rates, and take market share in a consolidating industry. Our target price of Rs 200/sh is based on a 9x FY20E EPS(benchmarked to global peers), and adds Rs20/sh for the Sirpur acquisition (half our estimated benefit from the transaction, given risk that some benefits may not be fully realized).

BUY

Price: INR151 Target Price: INR220
Market Cap: INR27bn
Forecast Total Return: 47.2%

	2016A	2017A	2018A	2019E	2020E
Revenue (INRm)	24,372.5	26,286.1	28,442.7	30,760.8	32,003.5
EBITDA (INRm)	3,911.6	5,124.3	6,133.3	7,797.9	8,250.3
EBITA (INRm)	2,739.4	3,929.0	4,924.5	6,493.9	6,565.5
PBT (normalised) (INRm)	892.1	2,317.1	3,752.0	5,317.0	5,705.4
Net Income (normalised) (INRm)	571.0	1,620.3	25,888.0	3,695.3	3,965.3
EPS (norm. cont.) – FD (INR)	4.3	10.8	15.3	20.8	22.2
FCFPS - FD (INR)	24.7	32.3	26.8	22.3	(9.0)
DPS (INR)	0.5	1.5	2.5	2.5	2.5
PE (normalised) (x)	35.6	14.0	9.9	7.3	6.8
EV/sales (x)	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	4.9	3.7	3.1	2.5	2.3
FCF yield (%)	16.3	21.4	17.7	14.7	(5.9)
Dividend yield (%)	0.3	1.0	1.7	1.7	1.7

Target Price Basis

9x FY20EPS + Sirpur Mills benefit of Rs. 20/sh.

Key Risks

Cyclicality from falling pulp prices

Where could we go wrong?

JKPL had over leveraged in the FY13 & FY14 for expansion [In FY14, Debt to Equity rose to 2.6x] and was caught off guard in the falling cycle as multiple capacities hit the market simultaneously. Raw materials were not secured by the industry for this additional capacity. This led to increase in cost and this rising costs were not fully passed on due to excess supply of paper from new capacities and imports. PAT margin fell to -4.4% in FY14. However, we believe the Industry has learnt its lessons and the next stage of expansions will be made carefully on the back of full raw material security.

What does JK Paper do?

JKPL is third largest paper manufacturer in India. It is part of the reputed JK Organization. It has two integrated paper manufacturing units – JK Paper mills, Orissa and Central Pulp Mills (CPM), Gujarat with combined capacity of 455,000 tonnes per annum (TPA). Products include writing and printing paper [both coated and uncoated] and packaging boards.

Investment Positives

Key Positives	Details
History of successful M&A, and a sustainable expansion plan	JKPL acquired CPM unit in 1992 through BIFR and effected its turnaround by generating profits from the second year of its operations. In the recent past, it has bid for multiple assets at good economics. JKPL with its experienced management team and strong balance sheet, is one of few paper companies in India capable of acquiring and turning around sick paper mills. We are encouraged by the possible synergies arising from JKPL's takeover of Sirpur Mills. It also has plans to expand packaging board plant capacity by 200,000 TPA, and pulp capacity by 160,000 TPA, largely supported by internal cash generation.
JK Paper is positioned in the more profitable, less competitive paper segments	JKPL operates in 3 segments - Uncoated Paper [62%], Coated Paper [19%] and Virgin Fibre board [18%]. With only two players in the coated paper segment in India, and industry growth expected at 6%, JKPL is well positioned for profitable growth. Further, few players have capacity in the virgin packaging segment, which is expected to grow at 13%. [JK Paper Estimates]
Strong Brand with Multiple product offerings and a strong distribution network	JKPL has a strong brand and is able to charge a premium for its products. Its presence in multiple products along with strong network of 4000 dealers, 208 distributors, with 16 warehouses and 4 regional offices, ensures ability to operate at optimal capacity. JKPL has two integrated paper manufacturing units – JK Paper mills, Orissa and Central Pulp Mills, Gujarat with combined capacity of 455,000 tonnes per annum (TPA).
Easy access to Capital backed by a strong industrial group	Being part of the diversified JK Group, JKPL is able to raise capital relatively cheaply. An investment grade credit rating, and history of successful capital raise for expansion projects, provide additional support. JKPL is generating solid cash flow & steadily reducing leverage. JKPL has generated ~Rs. 4,471.7 mn annual average free cash flow over the past 3 years (FY16-FY18), resulting in net debt reducing from Rs.20.8 bn in FY14 to Rs.10.2 bn in FY18. Net Debt/Equity is at comfortable 0.6x in FY18E.
Raw Material Security – pulp, water & power adequacy	An integrated mill with sufficiency in all major raw materials – fibre, water and power. JKPL can source 100% of wood required in Orissa mill and 60% of wood required in Gujarat mill via farm forestry. In addition, adequate water is available at both the units. JKPL has also achieved self-sufficiency in power with its 80 MW capacity.
Profitability has scope for further improvement	JKPL's EBITDA margin has been improving owing to better realizations and lower raw material cost. In addition, JKPL has focused on improving use of capital by steadily reducing working capital over the years – debtor, and inventory days are reducing (JKPL is sourcing pulp from local catchment, thus reducing inventory). We believe that the resultant improvement in profitability (Return on Capital) is sustainable in the near to medium term, and we expect the Company to generate 15% RoIC in the medium term, which should deliver high shareholder return.

History of successful turnaround & integration

Successful turnaround of Central Pulp Mills (CPM) reflects management capabilities in M&A

1960: Central Pulp Mills ltd (CPML) incorporated

1975: It started paper production with 40,000 TPA

1988: CPML was referred to Board for Industrial & Financial Reconstruction (BIFR)

1992: JK Corp acquired CPML via BIFR

1993: The unit turned profitable

2001: JKPM unit was transferred to CPML.

1960 | 1975 | 1988 | 1992 | 1993 | 2001

Total Capacity at CPM [FY18]

Paper – 55,000 TPA

Packaging board – 90,000 TPA

Pulp – 61,000 TPA

Expansion Plan at CPM

Packaging board – 200,000 TPA

Pulp – 160,000 TPA

Conservative management waiting for right deal

- JKPL had shown interest in multiple assets of companies like Ballarpur Industries, Murli Industries, and Century Textiles & Industries.
- However, the deals were not completed due to disagreements on valuation.
- This would seem to reflect management's prudent and conservative approach.
- It has now completed the acquisition of Sirpur Mills, which seems to be a very profitable transaction for JKPL.

Acquisition of Sirpur mills will add ~ 30% new capacity

- JKPL received NCLT approval for acquisition of Sirpur Mill [138,300 TPA] for Rs. 5,770 mn. [76% stake and balance 24% equity shares of Sirpur Mills issued to secured financial creditors]
- As per industry experts, JKPL will receive benefits from Telangana state worth Rs.1,000 mn per year via cheaper wood (we calculate modestly lower benefit), SGST reimbursement, stamp duty exemptions, cheaper coal, capital subsidy, reimbursement of power cost, grant of degraded land.
- The mill located in Telangana can help company sell its products in south using its existing rich distribution network and brand.
- The acquisition will add Rs 38.9 EPS in FY20.

Sirpur Mill's acquisition valuation

Value of benefits of Sirpur Mills [considering 13% discount rate]

(amount in INR mn)

	Present Value	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Capacity Utilization		40%	50%	60%	70%	75%	80%	80%	80%	80%	80%
Benefits											
100% of SGST	1,462.5	146.9	162.5	172.5	178.1	168.9	159.4	141.1	124.9	110.5	97.8
Capital Subsidy of 20% (max 50cr)	500.0										
Wood at concessional rate of Rs.1,000/ton for 1.5 lacs ton	2,337.1	255.1	293.9	293.6	270.4	248.9	229.1	210.7	193.7	178.1	163.7
Coal at concessional rate of Rs. 1000/ton	755.6	75.9	83.9	89.1	92.0	87.3	82.4	72.9	64.5	57.1	50.5
2% Interest Subvention on new investment for 5 years	289.1	72.7	64.4	57.0	50.4	44.6	-	-	-	-	-
Electricity duty exemption for 10 years	137.7	13.8	15.3	16.2	16.8	15.9	15.0	13.3	11.8	10.4	9.2
Reimbursement of power cost @ Rs 3 per unit for 3 years	544.5	166.0	183.6	195.0	-	-	-	-	-	-	-
Total	**6,026.6**	**730.3**	**803.5**	**823.5**	**607.8**	**565.6**	**485.9**	**438.0**	**394.9**	**356.1**	**321.2**

Sirpur mill adds Rs. 38.9 value per share

	Rs. (in mn)
CALCULATION OF BENEFITS:	
Present Value of benefits (from our calculation above)	6,026.6
Present Value of benefits to JKPL (a) (76% of total)	4,580.2
CALCULATION OF VALUE OF ASSETS ACQUIRED:	
Current EV/Ton of JKPL – based on production\capacity of 455,000 tons	80,871.3
Total enterprise value of Sirpur Mill as per current market value of JKPL's capacity (138,300 tons) (b)	11,184.5
JKPL's share in acquired Sirpur mill asset (b) x 76% = (c)	
CALCULATION OF ACCRETION TO JKPL:	
Value of asset acquired (c)	
Less: Cost of Acquisition of 76% stake	5,770.0
Plus: Value of Benefit Promised by Telangana government (a)	6,945.2
NPV per share (outstanding 178.2 mn shares)	**38.9**

Assumptions

- Realisation of Rs 50,000/ton for paper sold from Sirpur Mills.
- Benefit from subsidised wood provided by Telangana government = Rs. 2,500/ton, for maximum of 1,60,000 tons of wood per annum for 10 years.
- Benefit from subsidised coal provided by Telangana government = Rs. 2,500/ton, per annum for 10 years.
- Coal requirement of 0.62 tons per ton of paper.
- Power requirement of 1,130 units per ton of paper, for which government will reimburse Rs 3/unit.
- Electricity duty of Rs. 0.25/unit, exempted for 10 years.

Growth opportunities - focus on profitable product mix

JKPL's focus is on coated paper and virgin packaging board, which has few competitors, higher demand and better profitability

Products	Product Mix			Expected Industry growth rates	Competitors	Market Share	Remarks
	FY16	FY17	FY18				
Packaging Board	19%	18%	20%	14%	ITC	11%	Additional capacity of 200,000 TPA – will come onstream in 2021
Coated Paper	17%	19%	18%	6%	BILT	16%	A customised segment, outsourcing helps company to offer a wider product range.
Uncoated Paper	63%	62%	62%	4%	ITC, TNPL, IP APPM, West Coast Papers	23%	Market share of 23% in copier paper

Source: Company, Investec Securities estimates

Company's strong brand helps it charge a premium…

Price quotes from market reflects JKPL charges premium

Company	Prices for 75 GSM Copier Paper – (Rs/Ream)			
	Dealer 1	Dealer 2	Dealer 3	Dealer 4
JK paper	160	165	170	180
West Coast Papers mills	143	137	145	160
TNPL	155	145	160	160
BILT	155	140	150	160
Indonesian Brands	135	150	144	138

Source: Investec Securities estimates

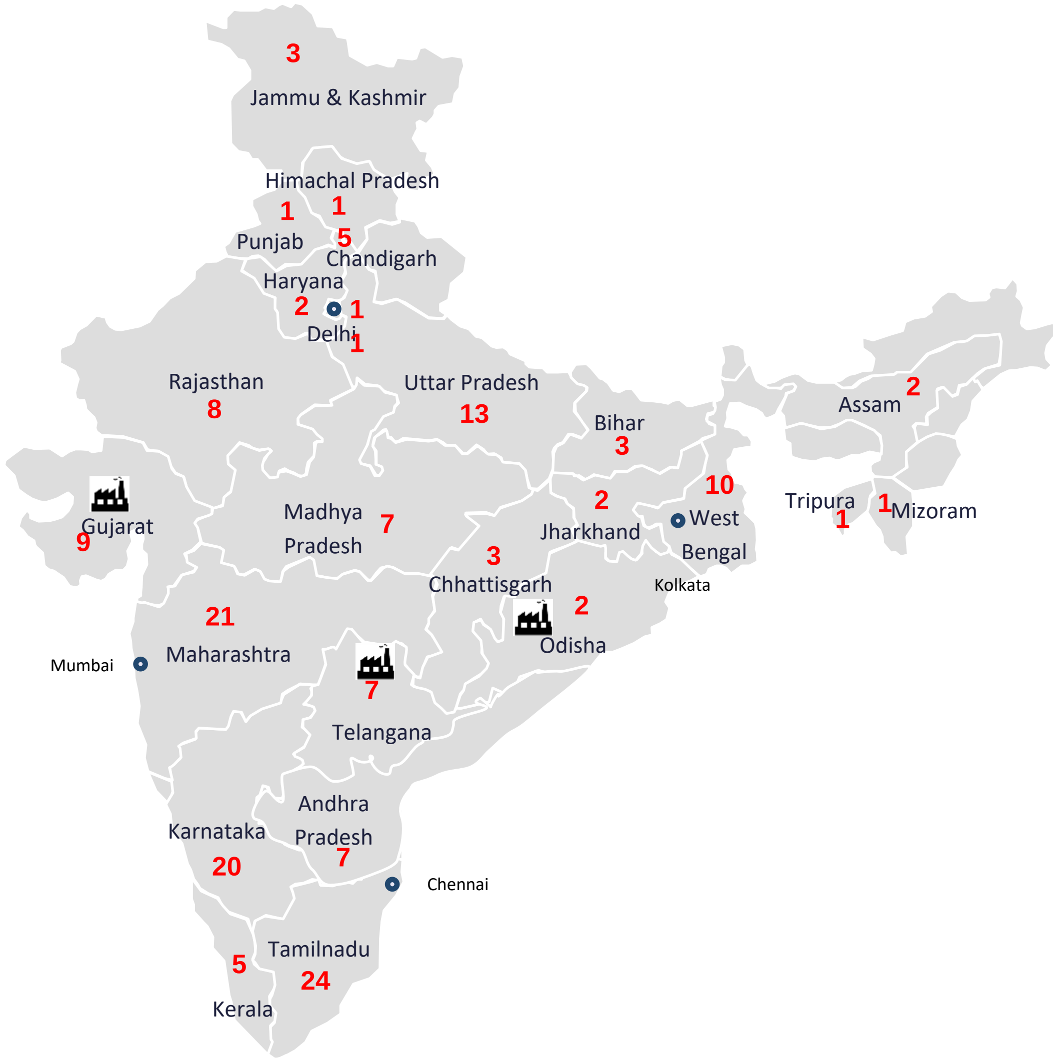
Multiple product offering helps it to cater to both economy and premium segments

Packaging Boards		Office Documentation		Other Uncoated & Coated Paper	
Brand	**GSM**	**Brand**	**GSM**	**Brand**	**GSM**
High Finesse 'Lumina'	60	JK Max	67	JK SS Maplitho (SHB)	58-150
Pigmented Paper	70/75/80	JK Easy Copier	70	JK Parchment Paper	80-105
JK FAB Print	80-140	JK Sparkle	70/75/80	JK Superkote	80-120
JK Carry	90-120	JK Bond	70 & 90	JK MICR Cheque Paper	95
C1S Paper for Carry Bag	125-130	JK Excel Bond	70-100	JK SS Pulpboard	150-285
JK IV Board	185-360	JK CMax	72	JK Cote Chromo	170-280
JK TuffCote	190-450	JK Evervite	75	JK Cote	125-300
JK TuffPac	190-230	JK Copier	75 & 80		
JK Endura	190-450	JK Copier Plus	75 & 80		
JK Dark Buff	200	JK Ledger	80-90		
JK Ultima	200-450	JK Cedar	80-100		
JK Club Card	250-270	Cedar Digital	170-300		

Source: Company, Investec Securities estimates

Brand supported by JKPL's strong dealer network

Location highlighted of 168 distributors of total 208 distributors, representing a strong presence in different States



- JKPL has an extensive distribution network of 4 zonal offices, 16 warehouses, 208 distributors, over 4000 dealers in India.
- Two mill locations help JKPL efficiently manage supply of paper. [JKPM in Gujarat, CPM in Odisha and Sirpur mill in Telangana.]
- Sirpur mill acquisition will improve JKPL's distribution further.
- The company has an export outreach to 54 countries.
- Our dealer channel checks suggest lead time of a single day.

The numbers in Red reflect number of dealers presence in respective State

represents Zonal Offices in respective States

represents mill location

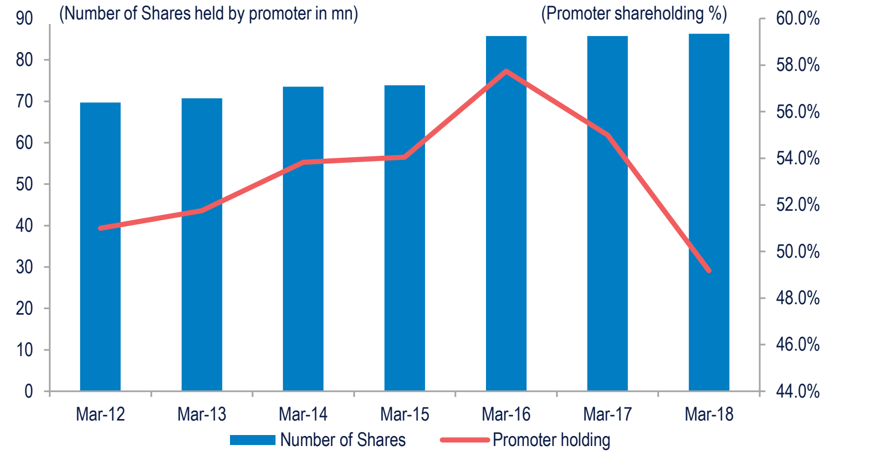
Source: Company, Investec Securities estimates

Backing by a strong promoter group, JKPL has access to cheap capital

Backing by a large industrial group assists company in capital raise

- JKPL is backed by JK group (late Lakshmipati Singhania family), and the diversified group has been in business for over 125 years with a turnover of $ 4 billion.
- Businesses include JK Tyre, JK Lakshmi Cement, JK Fenner, Umang Dairies, JK Seeds, JK Insurance, Global Strategic Technologies, CliniRx Research and Dwarkesh Energy.
- Strong promoter group backing JKPL, ensures ready access to capital at all times.
- Promoter stake has reduced on account of new shares issued on the FCCB conversion.

Promoter shareholding @ 48% provides confidence



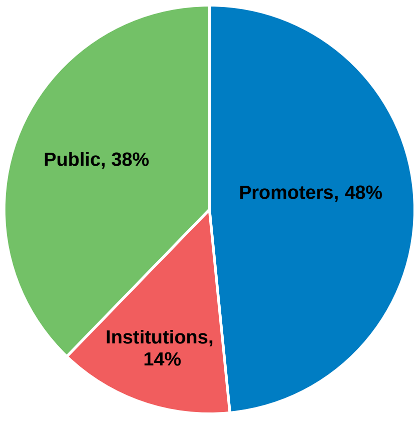
Source: Company, Investec Securities estimates

Promoter has brought capital in JKPL when required

Year	No. of Shares issued	Issue Price	Amt. contributed (in Rs. Mn)	Required for
FY06	76,90,000	69	530.6	Expansion
FY16	1,19,10,000	42	500.2	Debt Reduction

Source: Company, Bloomberg, Investec Securities estimates

Shareholding pattern as on 30th June, 2018



Source: Company, Investec Securities estimates

Capital cost to reduce as gearing has improved

Investment grade credit rating

Credit Rating Agency	Outlook	Long term Rating	Short term Rating
CRISIL	Positive	A+	A1
ICRA	Stable	A	-
INDIA Ratings	Stable	A	A1

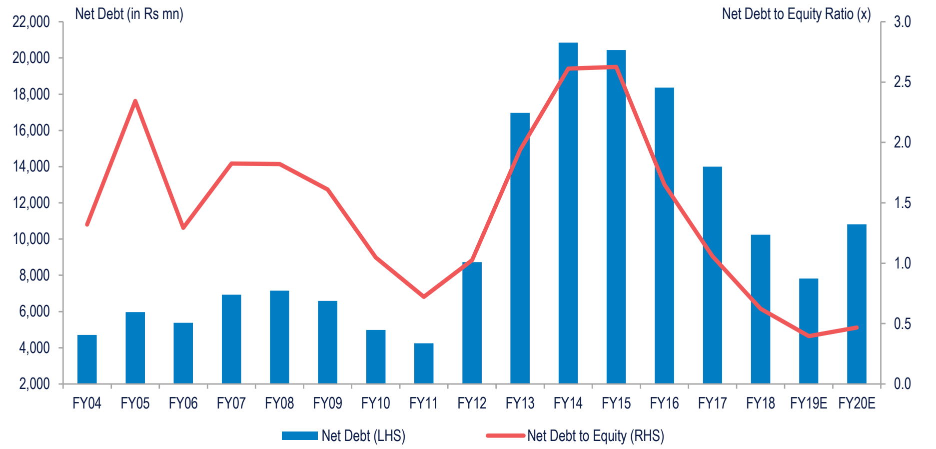
Source: Corporate Announcements, BSE, Investec Securities estimates

History of successful capital raise

Source	Year	Amt (Mn)
Preference Shares	FY02	Rs. 3,620
FCCB	FY06	USD 5
Preference Shares	FY06	Rs. 1,000
GDRs	FY06	Rs. 531
FCCB	FY12	Euro 35
Rights Issue	FY12	Rs. 2,462

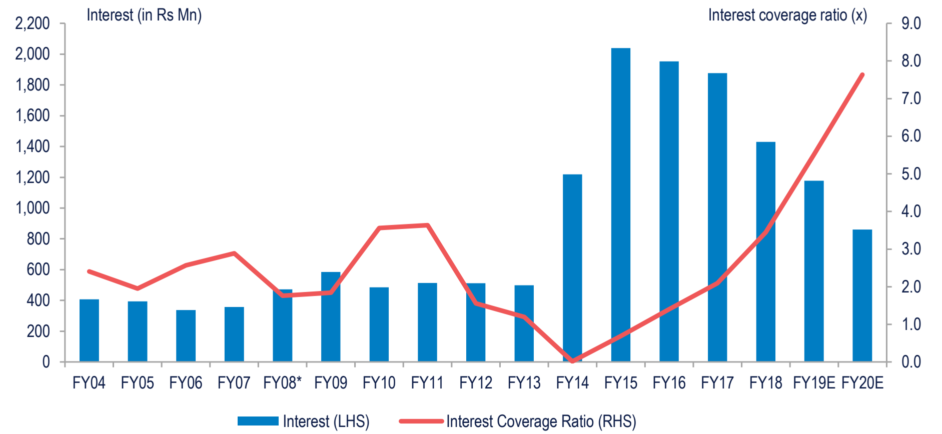
Source: Company, Investec Securities estimates

Gearing to reach 0.5x in FY20



Source: Company, Investec Securities estimates

Comfortable interest coverage ratio to reach 6.6X in FY20s



FY08* annualised (Change in reporting period from June ending to March)

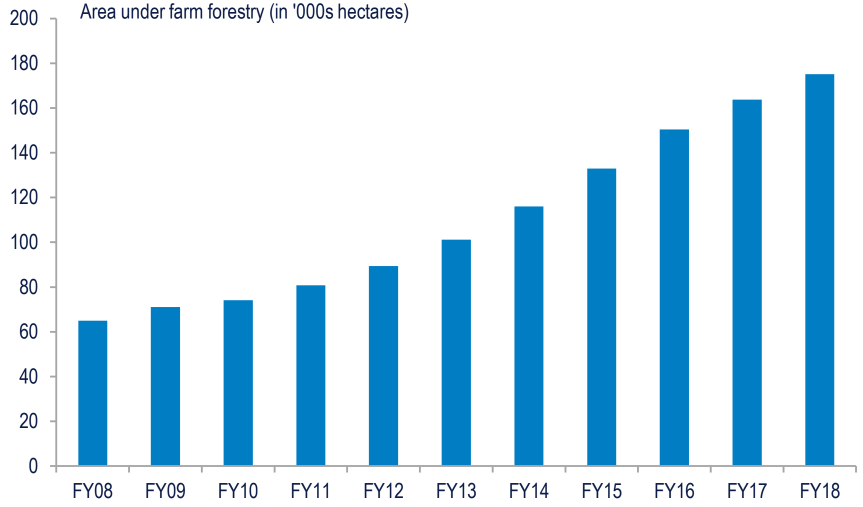
Source: Company, Investec Securities estimates

Raw material security – fibre & pulping capacity

Company sources 85% of fibre from farm forestry

- JKPL started plantation efforts in 1990s by encouraging farmers to plant wood by distributing samplings.
- Over the years, it has managed to bring 163,752 hectares of land under plantation. This has led to 100% assured fibre requirement in Orissa unit and 60% in Gujarat unit. The target is to reach 75% in Gujarat in next few years. This will lead to EBITDA margin improvement of 0.5%.
- Sirpur mill has been promised access to wood from government forest for 10 years at concession for Rs.1000 ADMT for 1.5 lacs ADMT. Additionally, degraded land will be made available exclusively for unit.
- JKPL imports long fibre to add strength in packaging board at Gujarat unit which is not available in India.

Increasing area under farm forestry

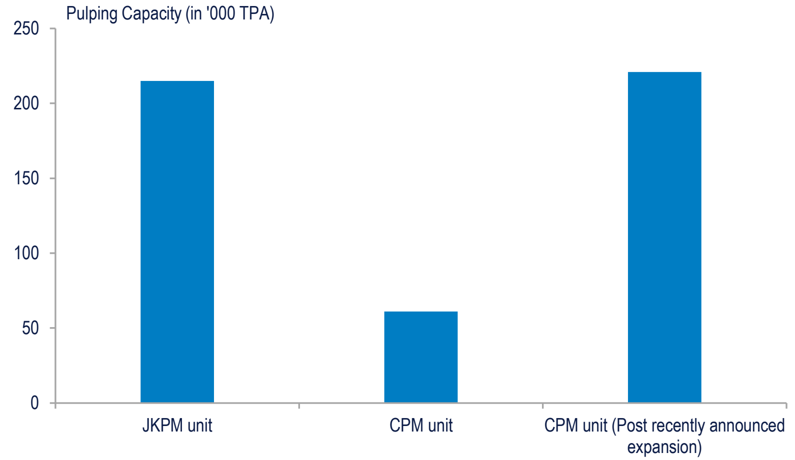


Source: Company, Investec Securities estimates

Increased integrated pulping capacity would lead to lower dependence on imports

- To convert the sourced wood into paper, JKPL has pulping capacity of 276,000 TPA.
- Addition of 160,000 TPA of Pulping capacity has been announced.
- This addition will lead to fully integrated pulping capacity.

Source: Company, Investec Securities estimates



Source: Company, Investec Securities estimates

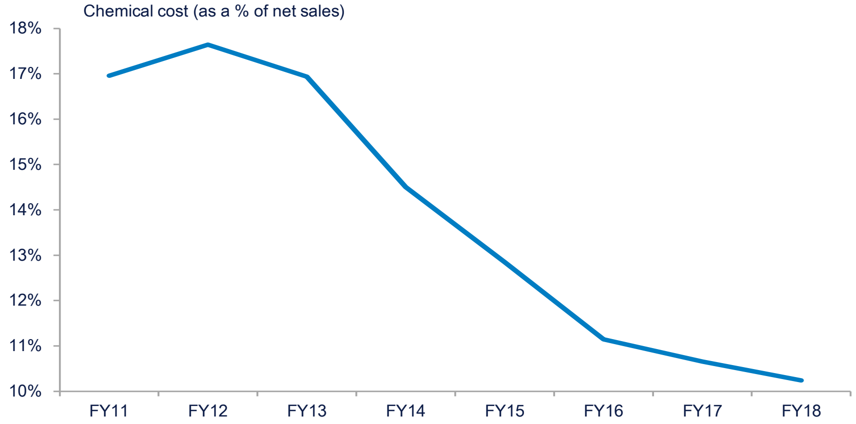
Raw material security & efficiency provides comfort for expansion - water, power & chemicals

Water adequacy & reducing water requirement

- JKPM unit of Orissa meets its water requirement from river Nagavali, a perennial river flowing next to the unit.
- CPM unit of Gujarat meets its requirement from river Ukai left bank canal sourced from river Tapi flowing at a distance of less than 5 km from the unit.
- Water Consumption reduced from 84 m3/ ton of paper in FY12 to 45.4 m3/ton in FY17.

Source: Company, Investec Securities estimates

Reducing chemicals cost as efficiency improves [85% non-crude based]



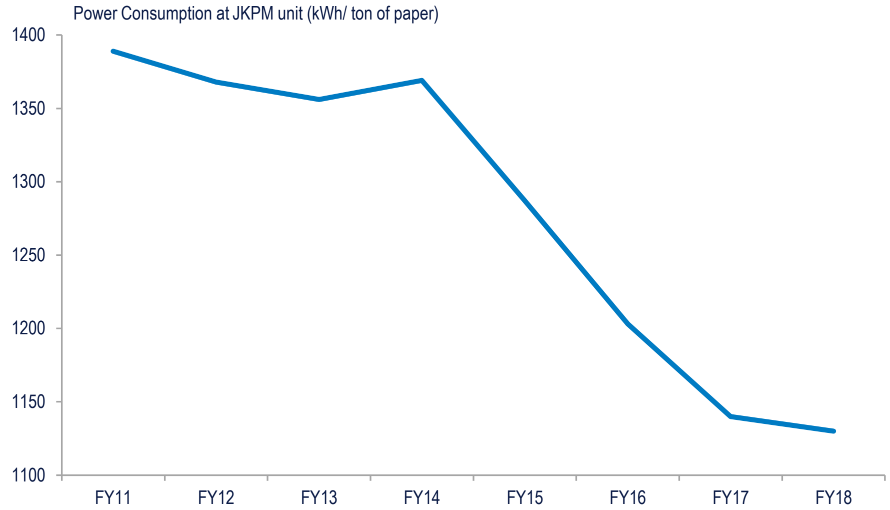
Source: Company, Investec Securities estimates

Power cost reduced from 14.0% of net sales in FY12 to 8.6% in FY18

- It has captive power of 80 MW. [Requirement of 61 MW]
- Cost reduction was partially owing to falling crude prices [Brent crude oil prices reduced from $111 per barrel to current 75 levels].
- Assured coal availability from Coal India reduces JKPL's reliance on open market purchases and savings.
- Coal consumption reduced from 2.1 MT/ ton of paper in FY13 to 0.6 MT in FY18. Power consumption per ton of paper also reduced from 1368 units in FY12 to 1130 units in FY18 on account of investments made in conservation of energy equipment. Use of Renewable fuel sources [22% at CPM unit and 56% at JKPM unit of FY18 requirement] is also helping JKPL to reduce costs.

Source: Company, Investec Securities estimates

Power efficiency achieved over the years

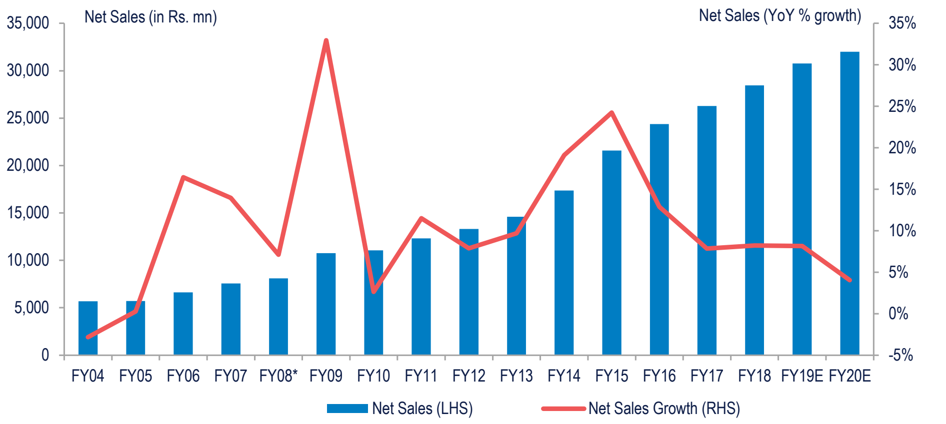


Source: Company, Investec Securities estimates

Note: Details for period prior to FY11 not available

Volume(s) drive growth, operating leverage & margin

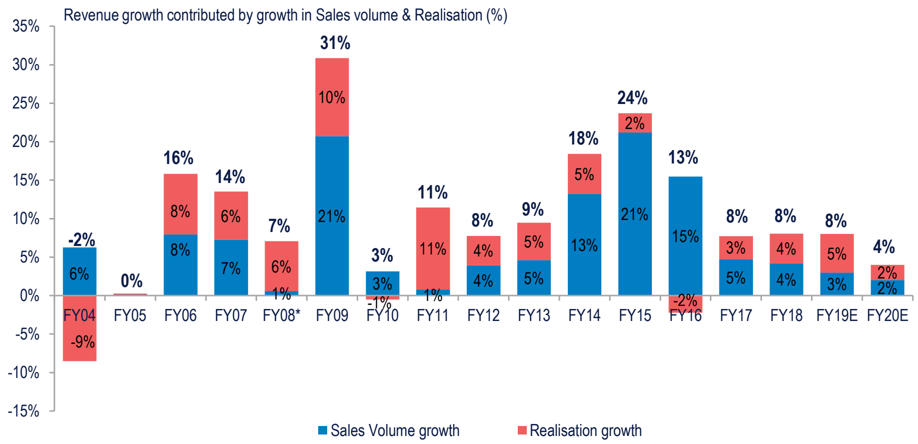
Revenue growth comes in spurts as volume ramps up



FY08* annualised (Change in reporting period from June ending to March)

Source: Company, Investec Securities estimates

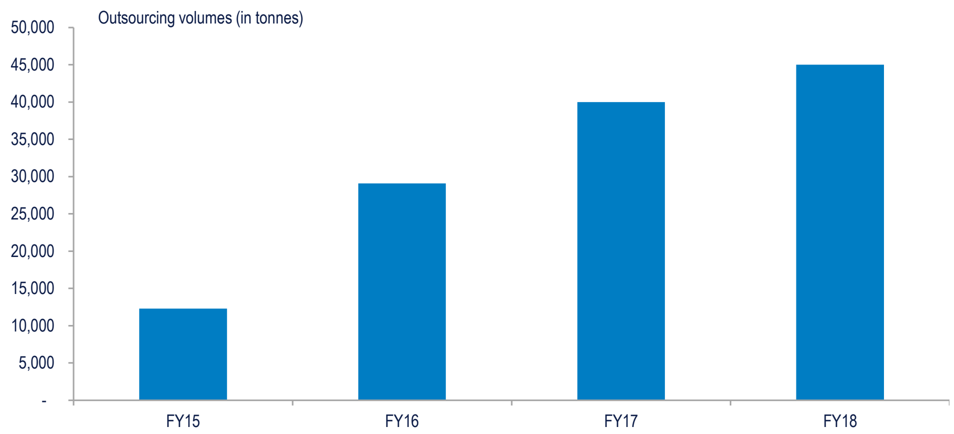
Higher contribution to revenue from volume; realisation grew at inflation



FY08* annualised (Change in reporting period from June ending to March)

Source: Company, Investec Securities estimates

Outsourcing an additional lever for growth as imports became cheap



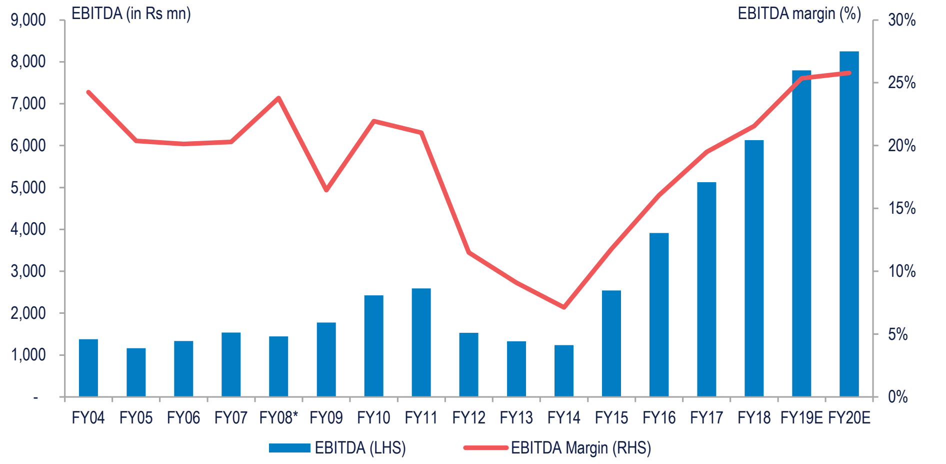
Source: Company, Investec Securities estimates

Product mix to substantially tilt towards packaging post expansion

- Product mix in FY18 was Uncoated paper - 62%, Coated Paper - 19% and Packaging board - 18%.
- The company has announced expansion plans for Packaging board.
- Virgin Packaging board segment has higher ROCE and is the fastest growing segment for JKPL.
- Thus, expansion will further improve company's ROCE.

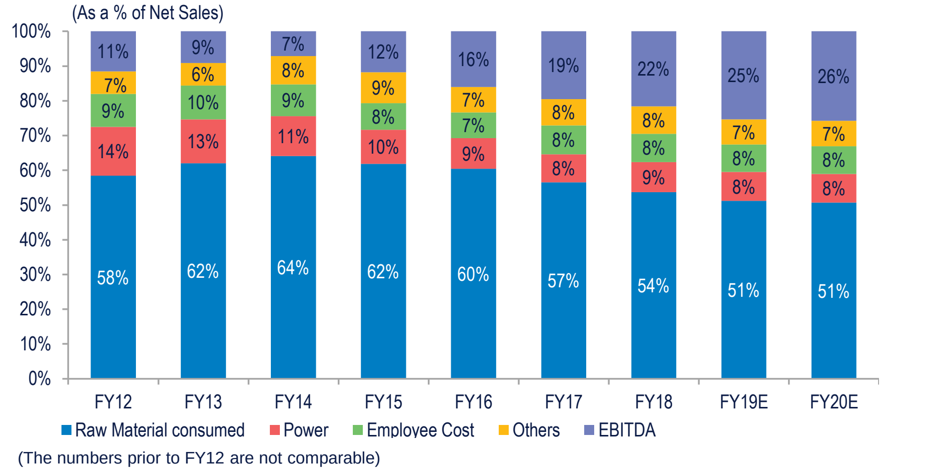
Realization & leverage (operating & financial) to drive earnings growth

Expect further modest improvement from realization & operating leverage



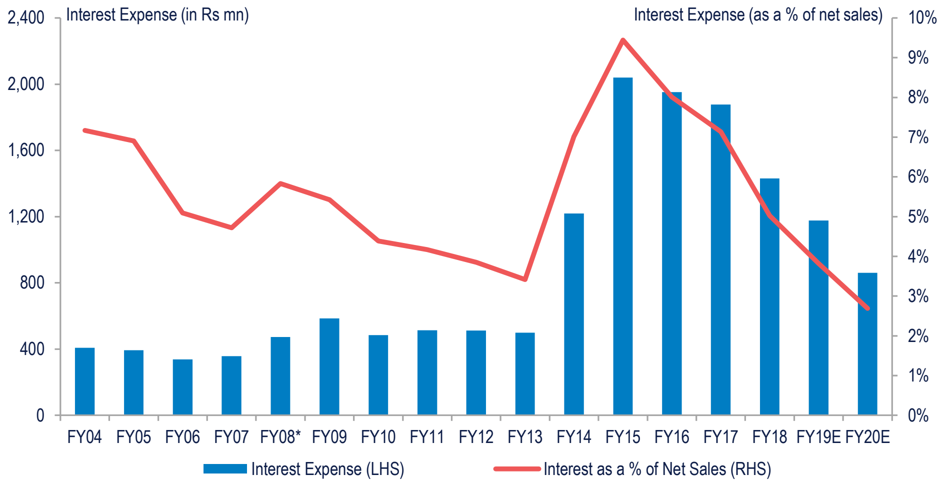
Source: Company, Investec Securities estimates

Contribution to EBITDA margin



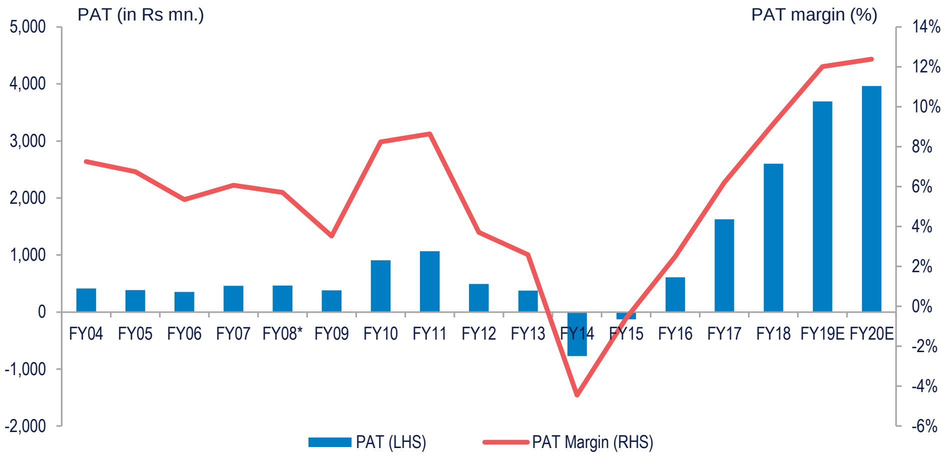
Source: Company, Investec Securities estimates

Reducing interest expense…



Source: Company, Investec Securities estimates

.. will aid PAT growth as company pay down expensive debt



Source: Company, Investec Securities estimates

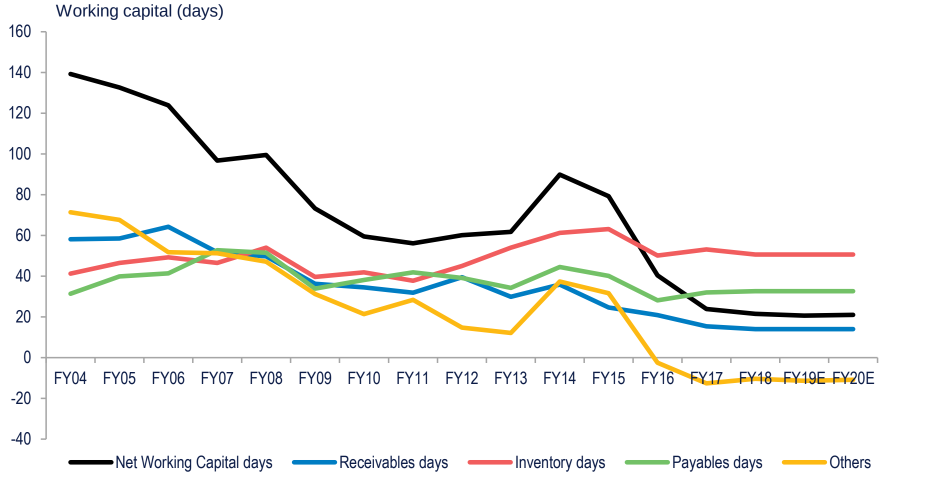
FY08* annualised (Change in reporting period from June ending to March)

Focus on improving balance sheet

Why are working capital days reducing?

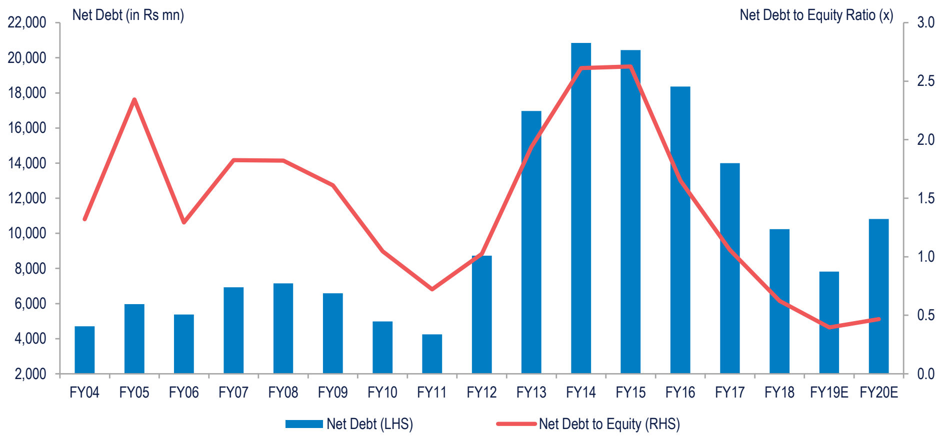
- Focus on collections – reducing receivables, and
- Decrease in inventory days because of steps taken to reduce distance to source wood within 200 km radius of mills. JKPL increased the hardwood proportion procured within 200 km radius from 41% in 2015-16 to 71% in 2017-18.

Reducing working capital days



Source: Company, Investec Securities estimates

Net debt is reducing gradually



Source: Company, Investec Securities estimates

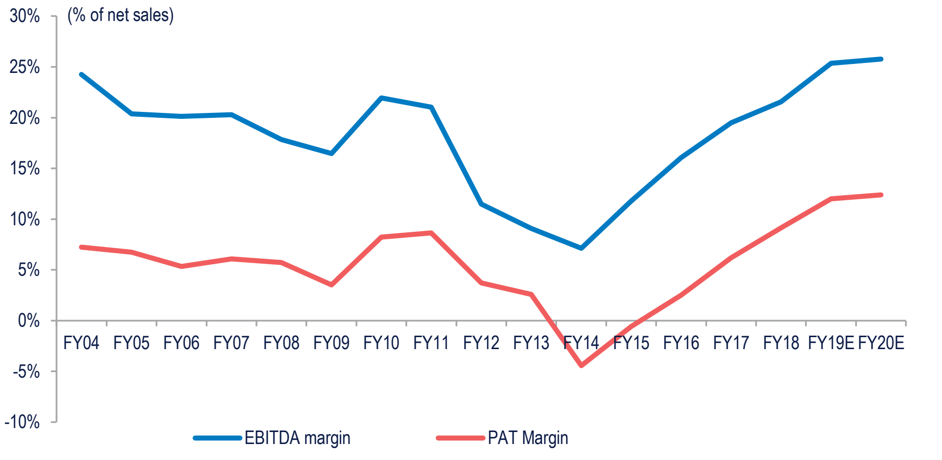
Investment Negatives

Key Negatives	Details
Chequered history of overleverage & raw material shortages	JKPL increased capacity in FY13 at a cost of Rs17.8 bn, funded by a mix of rights issue and debt. This led to a sharp reduction in PAT, owing to high interest, unfortunately timed with severe increase in raw material price. JKPL seems to have miscalculated by not ensuring raw material before expansion, and as profitability suffered the high level of debt ensured that JKPL posted substantial losses in FY14. We believe that JKPL has learnt from past experience, and its current cycle of expansion has been carefully planned – maintaining balance sheet discipline, and ensuring raw material security through substantial effort on the year on farm forestry.
Equity Dilution	Past expansion has focused more on inefficient\costly equity dilution, through share and FCCB issuance. In our opinion, FCCBs are one of the most costly instruments for capital raise, and for the vast majority of structures benefit investors more than the issuer. As a result of these past moves, current holders have been diluted, and shares outstanding have increased from 78.1mn in FY09 to 175.5mn in FY18. JKPL's next phase of expansion is depending substantially on internal cash flow generation, and debt (to a much lower extent). We are encouraged by management's more responsible stance towards equity raising, as a cycle of minimal leveraging, and deleveraging prior to the next expansion will ensure maximum upside for equity investors through cycles.

Investec

As recently as FY14, poorly planned expansion resulted in losses

EBITDA and PAT Margin declined in FY14



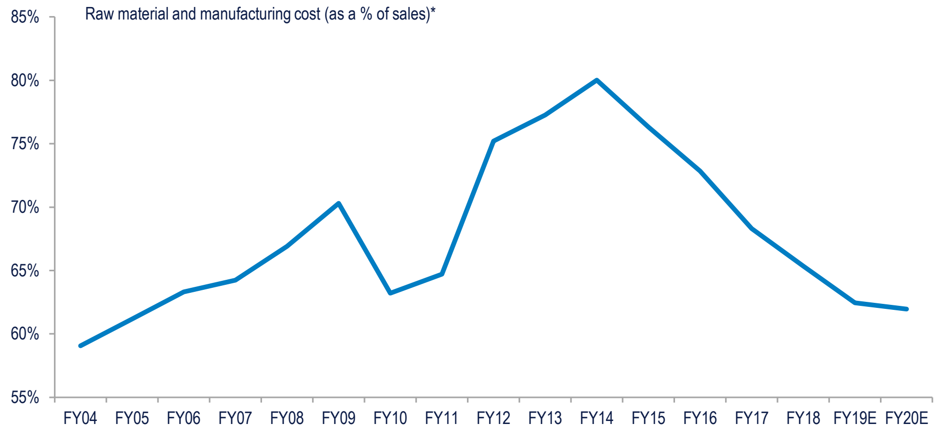
Source: Company, Investec Securities estimates

What went wrong?

- JKPL increased capacity in FY13 at Rs 17.8 bn, funded by a mix of rights issue and debt. This led to a sharp increase in debt.
- Further, simultaneous capacity additions by multiple players in the industry from FY11 without improving fibre availability led to an increase in raw material prices.
- Higher raw material prices could not be fully passed on due to excess supply from new domestic capacities and imports.
- EBITDA margin of JK Paper reduced from 21% in FY11 to 7% in FY14. [fall of 14%]
- PBT margin reduced from 12% in FY11 to -7% in FY14 [fall of 19%] due to higher interest and depreciation burden.

Source: Company, Investec Securities estimates

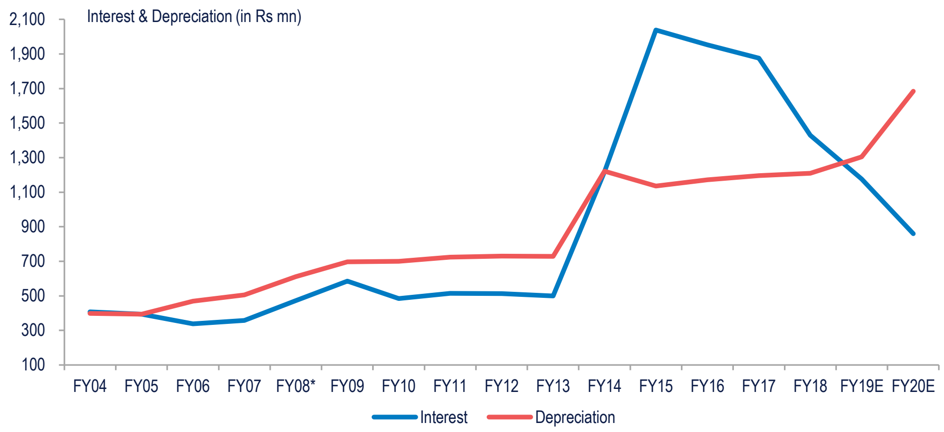
Higher raw material prices impacted EBITDA margin…



*excludes Employee, General & Admin, Selling & Distribution and Miscellaneous expense

Source: Company, Investec Securities estimates

…at a time when balance sheet gearing was high

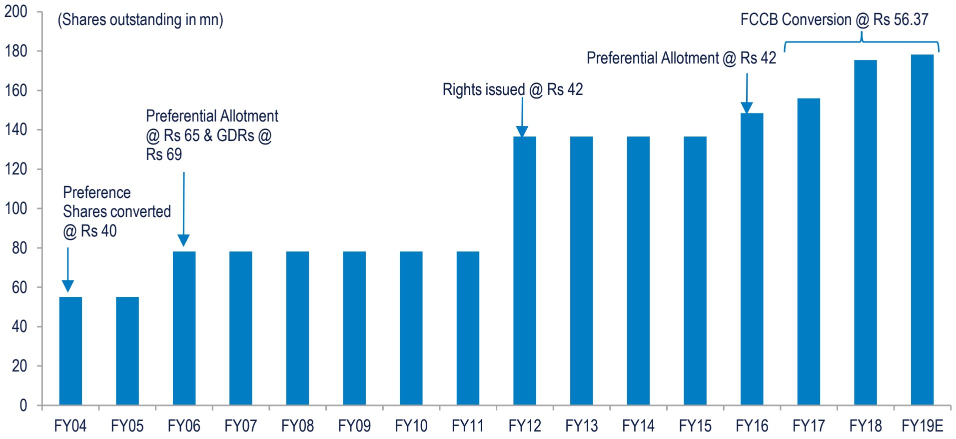


FY08* annualised (Change in reporting period from June ending to March)

Source: Company, Investec Securities estimates

JKPL's past expansion had been funded by expensive equity

Past equity dilution was expensive for minorities



Issue price vs market price

Issue	Date	Issue Price	Market Price
Rights Issue	26-Jul-11	42	45
Preferential Allotment	09-Sep-11	42	44
FCCB Conversion	19-May-17	56	108
FCCB Conversion	09-Jun-17	56	105
FCCB Conversion	03-Jan-18	56	144

Source: Company, Investec Securities estimates

- The Company's past expansion was not only poorly planned (without ensuring raw material security), but also resulted in substantial dilution for Equity investors as internal cash flow generation was insufficient to fund the Rs17,750 mn of committed Capital Expenditure.
- Share count more than doubled between FY11 to FY18. We even question the use of FCCB's, as generally these are more beneficial for new Investors than existing shareholders. Warrants were sold at a cheap price to lower interest rate, which resulted in heavy dilution in the future.
- A more measured pace of expansion funded primarily through internal accrual, and sustainable new debt is preferable. Now, having learned through past experience, we are encouraged that the Company's current expansion plan is geared similarly.

Valuation

- The paper sector in India has come through challenging times, with a reasonable proportion of the sector entering bankruptcy. Factors contributing to the stress include 1) overleverage 2) lack of raw material security and 3) competition from imports as tariffs were lowered over the years as part of free trade treaty with ASEAN countries. However, the remaining companies have regained health, market share and are operating at high profitability.
- JKPL is one such company that has taken leadership of the sector. The company has reduced gearing, Net Debt is only ~Rs.10,234 mn, even as JKPL generated free cash flow of Rs. 5,040.4 mn in FY17, and Rs. 4,699.7 mn in FY18. This implies FCF yield of 12.6%, given the Company's EV of Rs. 37,211.6 mn.
- In addition, JKPL has been expanding RoIC (as capacity is used up) ~11.5% in FY18, expanding to 15% in FY19E, having become working capital neutral over the years, given its efforts of procuring pulp from short distances, and control on receivables. Finally, Incremental RoIC will remain high as JKPL embarks on 1) cheap acquisitions & turnaround and 2) brownfield acquisition, with relatively lower capital requirement.
- Since JKPL's prospects have improved, and it is a choice consolidator in an industry where fewer large, healthy players remain. JKPL's finances have never been this strong as Net Debt\EBITDA is now at 1.7X (FY18). We believe that the stock will trade at a premium to its past distressed multiples, and we benchmark it to global peers, and assign it FY20 P/E of 9x to arrive at a target price of Rs220.

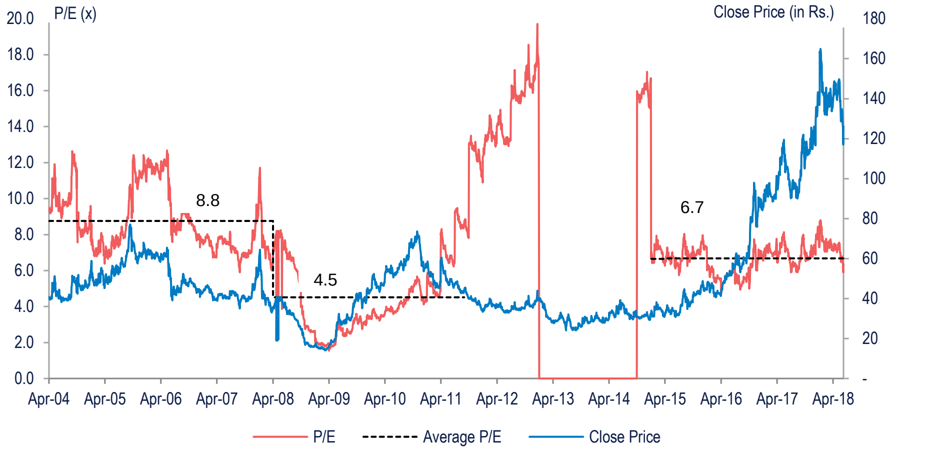
Indian Companies (In INR)	Price 04/08/2018	YTD	Market Cap (Rs. mn)	EV (Rs. mn)	EV/ EBITDA	Net Debt/ EBITDA	EPS 2018	EPS 2019E	EPS 2020E	P/E 2018	P/E 2019E	P/E 2020E	FCF Yield
JK Paper	151.3	9.0%	26,959.3	37,193.7	6.1	1.7	15.3	20.8	22.2	9.9	7.3	6.8	12.6%
West Coast Paper Mills	320.6	1.8%	21,172.0	23,634.7	6.5	0.7	33.8	36.6	41.8	9.5	8.8	7.7	7.9%
Tamil Nadu Newsprint & Papers	296.8	-33.9%	20,538.2	46,219.9	11.4	6.4	-6.1	30.2	48.4	0.0	9.8	6.1	11.6%
IP APPM	393.6	24.2%	15,651.5	17,146.4	7.7	0.7	23.1	25.5	28.3	17.0	15.4	13.9	10.7%
Average					**7.9**	**2.3**				**9.1**	**10.3**	**8.6**	

Global Players (In USD)	Price 04/08/2018	YTD	Market Cap (USD mn)	EV (USD mn)	EV/ EBITDA	Net Debt/ EBITDA	EPS 2018	EPS 2019E	EPS 2020E	P/E 2018	P/E 2019E	P/E 2020E	FCF Yield
International Paper	52.6	-12.1%	21,486.5	31,235.5	8.3	2.6	3.5	5.1	5.7	15.2	10.4	9.2	1.3%
Nine Dragons	1.3	-22.7%	5,919.4	8,781.7	7.7	2.5	0.1	0.2	0.2	10.4	6.5	6.7	0.1%
Mondi PLC	2,906.9	15.7%	14,079.9	15,588.4	9.5	0.9	168.9	194.3	204.8	17.2	15.0	14.2	3.2%
Average					**8.5**	**2.0**				**14.3**	**10.6**	**10.0**	

Source: Company, Bloomberg, Investec Securities estimates

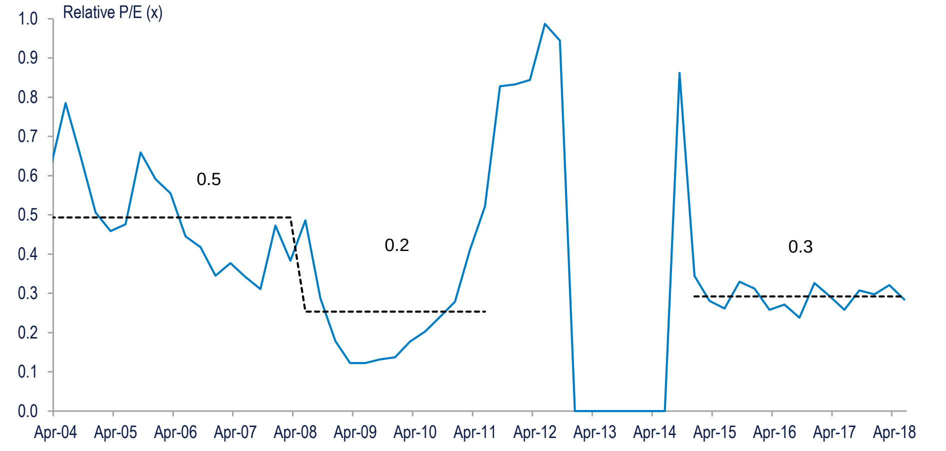
Valuation

Historical P/E ratio [12 month forward]



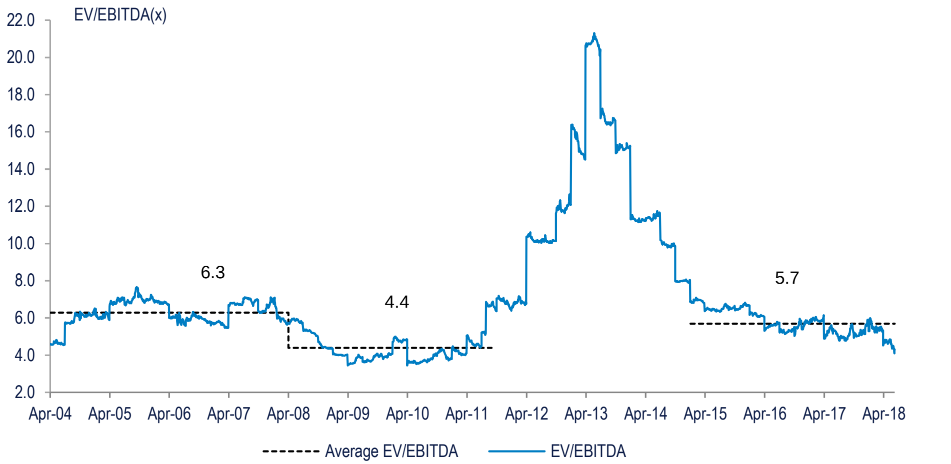
Source: Company, BSE, Investec Securities estimates

Relative P/E ratio [12 month forward]



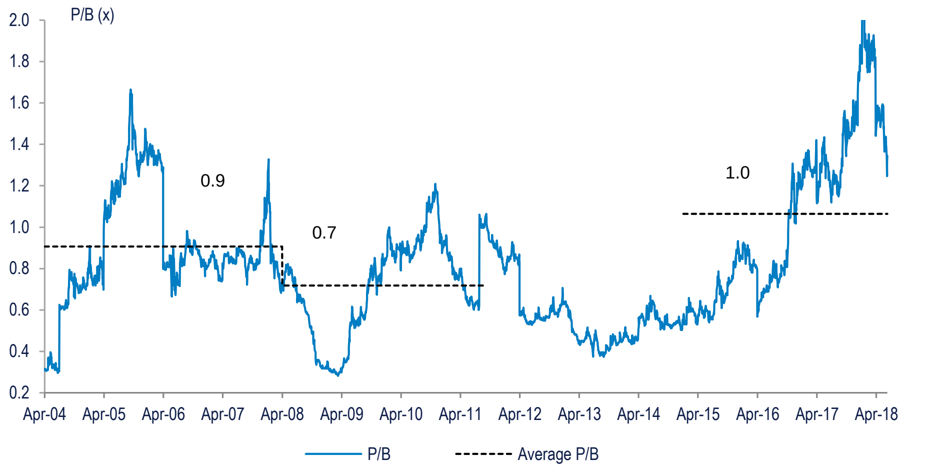
Source: Bloomberg, Investec Securities estimates

Historical EV/EBITDA [TTM]



Source: Company, BSE, Investec Securities estimates

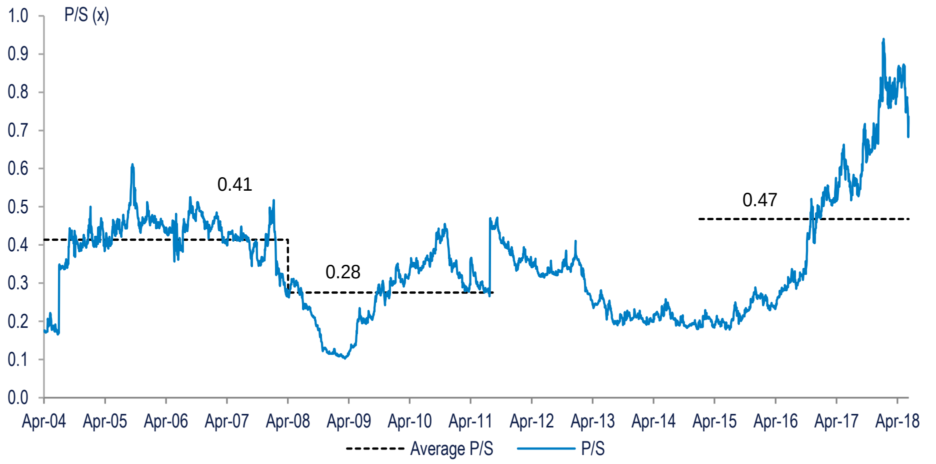
Historical P/B ratio



Source: Company, BSE, Investec Securities estimates

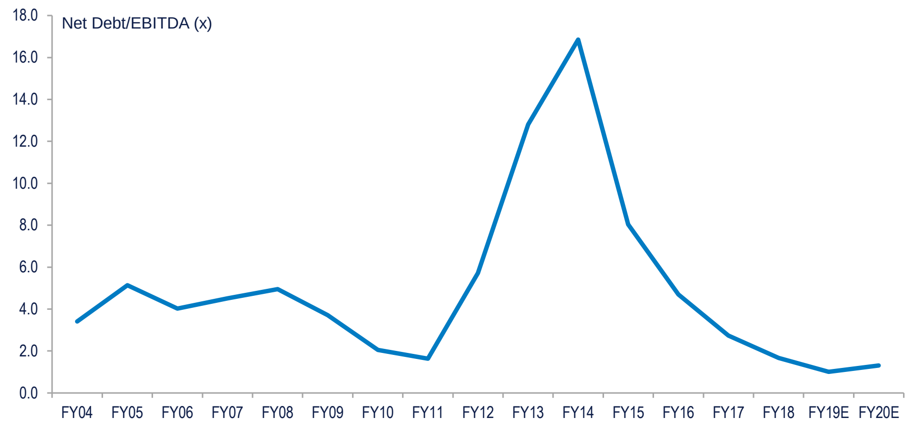
Valuation

Historical Price/Sales



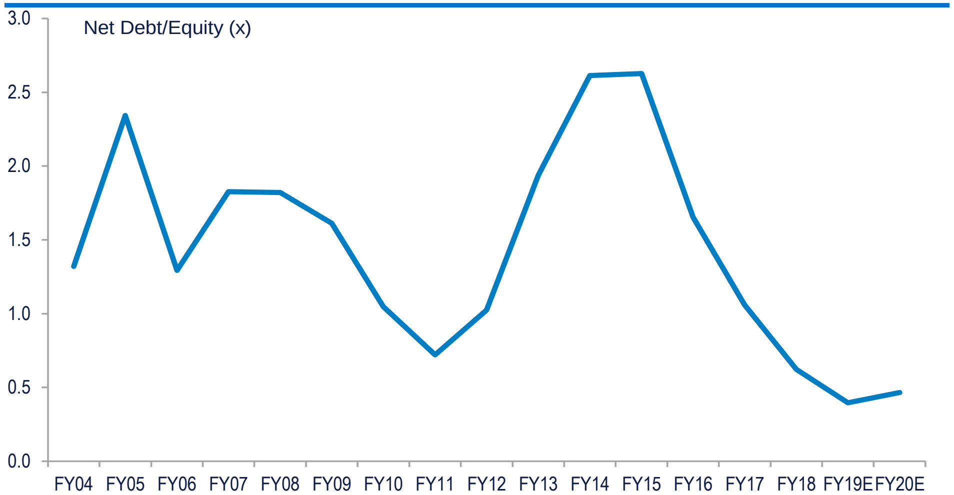
Source: Company, BSE, Investec Securities estimates

Net Debt\EBITDA



Source: Company, Investec Securities estimates

Net Debt\Equity



Source: Company, Investec Securities estimates

Valuation

Du Pont

Du Pont	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
EBIT Margin (%)	18.9%	13.7%	13.3%	14.2%	11.6%	10.4%	15.9%	16.2%	7.8%	4.9%	0.9%	7.1%	11.7%	16.0%	18.2%	21.1%	20.5%
Asset Turnover (x)	0.7X	0.7X	0.7X	0.7X	0.8X	1.0X	1.1X	1.1X	0.7X	0.6X	0.7X	0.9X	0.9X	0.9X	1.0X	1.1X	0.9X
Interest Burden (x)	0.6X	0.5X	0.6X	0.7X	0.5X	0.5X	0.7X	0.7X	0.5X	0.3X	-6.4X	-0.3X	0.3X	0.6X	0.7X	0.8X	0.9X
Tax Burden (x)	0.6X	1.0X	0.7X	0.6X	1.0X	0.7X	0.7X	0.7X	0.9X	1.0X	0.6X	0.2X	0.7X	0.7X	0.7X	0.7X	0.7X
Equity Multiplier (x)	2.3X	3.3X	2.4X	2.8X	2.6X	2.6X	2.2X	1.9X	2.2X	2.9X	3.3X	3.2X	2.4X	2.1X	1.7X	1.4X	1.5X
ROAE	11.6%	15.1%	8.6%	12.1%	11.8%	9.3%	19.1%	18.1%	5.8%	2.5%	-7.5%	-1.6%	5.5%	12.3%	15.8%	18.7%	17.1%

Source: Company, Investec Securities estimates

Company Overview

Established in 1938, The Company started manufacturing paper using its straw board machine. Today JK paper is third largest Paper Manufacturer in India. It is part of the reputed JK Organization.

Operations

- JK paper has two integrated paper manufacturing units – JK Paper mills, Orissa and Central Pulp Mills, Gujarat with combined capacity of 455,000 tonnes per annum (TPA). Products include writing and printing paper (Coated 54,000 TPA and Uncoated 292,000 TPA), packaging boards (90,000) and saleable pulp of 19,000 TPA.

- Both the units have integrated pulping capacity [combined capacity 276,000 TPA]. The company has captive power capacity of 80 MW. Water is abundant for both the units. The strong balance sheet together with strong promoter support ensures JKPL would likely face no shortage of capital.

- It has a strong distribution network of 208 wholesalers covering over 4000 dealers and 2200 sub dealers with 16 warehouses and 4 regional offices. Although paper is a commodity, the products of JKPL have a “brand value” which helps them charge a premium. This brand effect helps JKPL outsource products and overcome its capacity constraints. This helps JKPL maintain its market share as well. JK Paper is the market leader in the copier paper segment and among the top two players in coated and high end packaging boards business.

Future Plans

- It is embarking on expanding its packaging unit [high demand, lower EBITDA margin but high ROCE than writing and printing paper] by 200,000 TPA and pulping capacity by 160,000 TPA. Simultaneously, JKPL is in process of acquiring Sirpur Mills [Capacity of 138,300 TPA] which is under the NCLT.

- This will make JKPL move up to 2nd largest paper manufacturer with combined capacity of 793,300 TPA.

Competition

- Uncoated paper segment is crowded with multiple players both domestic and imports. However, Coated paper and High end virgin packaging paper has few domestic players. Coated paper is manufactured by mere 2 players in India – JK paper & Ballarpur Industries but imports have disturbed the domestic dynamics.
- With Anti-dumping investigations initiated for both coated and uncoated paper, we believe JK paper is well placed in the market.

Timeline

1938 : JKPM Unit started manufacturing straw board at Bhopal with a capacity of 3,600 TPA.

1960 : CPM Unit was incorporated under Companies Act, 1956 as 'The Central Pulp Mills Ltd' promoted by the Parkhe group.

1962 : JKPM Unit was commissioned with an integrated pulp and paper plant of 18,000 TPA in Orissa.

1971 : Set up R&D facility Pulp & Paper Research Institute (PAPRI).

1975 : CPM Unit started paper production with 40,000 TPA.

1988 : CPM was referred to BIFR due to accumulated losses.

1991 : Plantation initiative was started at JKPM Unit and then later extended to CPM Unit.

1992 : JK Corp acquired Central Pulp Mills Limited (CPML) in Gujarat through BIFR.

1997 : Capacity increased to 90,000 TPA in JKPM.

1998 : Pulp mill of 127,000 TPA installed in JKPM.

2001 : Enhanced capacity to 150,000 TPA.

2001 : JKPM unit was transferred from JK Laksmi Cement Ltd to CPML. CPML was subsequently renamed as JK Paper Ltd.

2001 : Commissioned a pulp drying plant imported from Finland

2002 : Started outsourcing products that it did not manufacture.

2002 : Issued commercial Paper of Rs 10 Crores.

2005 : Installed coating plant of 30,000 TPA at JKPM.

2007 : Installed multilayer packaging board of 60,000 TPA at CPM unit.

2011 : Upgradation resulted into increase in the capacity of packaging board from 60000 to 84000 TPA. Total capacity was 290,000 TPA of paper and saleable pulp.

2012 : Entered Joint Venture with Oji Holdings corporation and others to manufacture and sell Corrugated packaging products [20% stake].

2013 : JKPM Unit - Installed new fibre line of 215,000 TPA & high speed paper machine 1,65,000 MT and 55 MW power plant.

2016 : Cessation of JV with Oji holdings.

2018 : Announced 200,000 TPA packaging board & 160,000 TPA pulp expansion at CPM unit.

1938 | 1962 | 1997 | 2002 | 2012 | 2016

Source: Company, Investec Securities estimates

Investec

Insider ownership

Beneficial owner	# of shares as on 30th June 2018 (in '000s)	Mkt value (In Rs. Mn)	% of total shares outstanding
Bengal & Assam Company Ltd	36,418.3	5,511.9	20.4%
BMF Investments Ltd	30,090	4,554.1	16.9%
Florence Investech Ltd	11,833	1,791.0	6.6%
J.K. Credit & Finance Ltd	3,575	541.1	2.0%
Singhania Family	1,406	212.9	0.8%
Nav Bharat Vanijya Ltd	1,191	180.3	0.7%
Juggilal Kamlapat Udyog Ltd	1,190	180.1	0.7%
Accurate Finman Services Ltd	411	62.2	0.2%
Hari Shankar Singhania Holdings Pvt Ltd	175	26.5	0.1%
Total	**86,290**	**13,060.0**	**48.4%**

Source: Company, Investec Securities estimates

Institutional ownership

Beneficial owner	# of shares as on 30th June 2018 (in '000s)	Mkt value (In Rs. Mn)	% of total shares outstanding
JK Paper Employees' Welfare Trust	9,829	1,487.6	5.5%
International Finance Corp.	7,690	1,163.9	4.3%
Edgefield Securities Ltd.	2,500	378.4	1.4%
Dimensional Fund Advisors LP	1,135	171.8	0.6%
BOI AXA Investment Managers Pvt Ltd.	891	134.9	0.5%
Acadian Asset Management LLC	622	94.1	0.3%
APG Asset Management NV	593	89.8	0.3%
Reliance Nippon Life Asset Management Ltd.	420	63.6	0.2%
Van Eck Associates Corp.	357	54.0	0.2%
BNY Mellon Asset Management North America Corp.	156	23.6	0.1%
Others	426	64.5	0.2%
Total	**24,619**	**3,726.1**	**13.8%**

Source: Company, Investec Securities estimates

Management team

Manager	Joining Yr	Affiliation	Brief profile
Harsh Pati Singhania	1992	Managing Director	▪ A seasoned industrialist, he manages a group with combined revenue of $4 billion, comprising 10 companies. Over the years, he has built JKPL into a market leader in paper manufacturing. He directly controls the strategy and finance functions of JKPL. ▪ He has been Vice Chairman of the Board since 2013 and Executive Director since 1992. ▪ Qualifications – MBA from University of Massachusetts, B.com, OPM Programme from Harvard Business School, USA
Om Prakash Goyal	1996	Whole Time Director	▪ Mr. Goyal has solid credentials for turning around various underperforming units into profitable ventures during his career – a unique skill, particularly useful in an industry where sectoral consolidation opportunities exist. His experience also includes the commissioning of large green field projects. ▪ He is also an active Member of Indian Paper Manufacturers Association (IPMA). At JKPL, he is a member of Audit Committee, Stakeholders' relationship committee and CSR Committee ▪ Qualifications – FCA, B. Com.
Kumarasswami Virupakshan	2005	CFO	▪ He has previously worked with Voltas, ITC Group and Ciba-Geigy. Prior to joining Voltas in September 2005 as Vice President of Finance, he was with Atul Limited as General Manager of Finance. ▪ Qualifications – CWA, B. Com, MBA from IIM (A)
A S Mehta	2011	President	▪ Mr. Mehta has contributed to major initiatives taken by JK Group, mainly on mergers and acquisitions, quality certification, corporate governance, cost compression, etc. Mr. Mehta had been entrusted with major capacity expansion plans at JKPL.
Santosh Wakhloo	2009	Chief General Manager - Sales	▪ He has over 22 years of experience in the paper industry and has previously worked with ITC PSPD, Ballarpur Industries Ltd. ▪ Qualifications – BE, MBA, programs from Wharton school, Northwestern university, Fundacao Dom Cabral.
Ashish De	2005	Chief Executive - New Projects	▪ Mr. De previously worked with Orient Paper Mills, Rohit Pulp & Paper Mills, Balkrishna Industries (a subsidiary of Siyaram Silk Mills), BILT Industries, ITC`s paper board and specialty paper division in various capacities. ▪ Qualifications – BSC , post graduate diploma in pulp and paper technology, trained in recycled paper board treatment and coating technology from USA.

Source : Company, Investec Securities estimates

Board of directors

Director	Joining Yr	Affiliation	Brief profile
Bharat Hari Singhania	2013	Chairman	▪ He is an industrialist with over 59 years of experience in covering various multi purpose industrial segments. ▪ He has acted in the capacity of Chairman/Director of several companies within the JK Group together with, Florence Alumina Ltd, Bengal & Assam Co Ltd, Florence Investech Ltd, Henry F. Cockill & Sons Ltd., Rockwood Properties Private Ltd. and Tanvi Commercial Private Ltd. ▪ Qualifications – B.Com
Harsh Pati Singhania	1992	Vice Chairman	See profile in prior section
Om Prakash Goyal	1996	Executive Director	See profile in prior section
Vinita Singhania	2009	Other Non Executive Director	She is the Managing Director of JK Lakshmi Cement Limited. She is president of Cement Manufacturers' Association, and Chairperson of National Council for Cement and Building Materials. She serves as a director at HEG Ltd, Bengal & Assam company Ltd and others. Qualifications – BA
Arun Bharat Ram	2006	Non Exec. & Independent director	▪ He is the Executive Chairman of SRF Ltd since 2008. He served as President of Association of Synthetic Fibre Industry and of National Body of Confederation of Indian Industry. He serves as the Chairman of Indo-Korea Joint Business Council, of Northern Region of Confederation of Indian Industry (CII). ▪ At JK Paper, he is Chairman of Nomination and Remuneration Committee, a member of Audit Committee and Stakeholders' Relationship Committee. ▪ Qualifications - B.Sc (Industrial Eng) and Diploma from Technical University of Darmstadt, Germany
Udayan Bose	2006	Non Exec. & Independent director	▪ He is the founder of Tamara Capital Partners, and serves as its Principal. He served as MD for Lazard UK & USA. He founded Lazard India and served as its Chairman. He was director/chairman at Deutsche Bank, Thomas Cook India Ltd, Reliance Capital Ltd, Pritish Nandy Communications Ltd, Prabhat Dairy and others. ▪ At JK paper, he is chairman of Audit committee, a member of Nomination and Remuneration Committee. ▪ Qualifications - Graduated with Chemistry (Hons.) and Mathematics as Majors. He is a Fellow of the Chartered Institute of Bankers, U.K. and has done Advanced Management at Harvard Business School, USA.

Director	Joining Yr	Affiliation	Brief profile
Rajya Kanoria	2007	Non Exec. & Independent director	▪ He serves in a multitude of Executive roles in Kanoria Chemicals & Industries Ltd, the FICCI, Kirtivardhan Finvest Services Ltd, KPL International Ltd and KCI Alco Chem Ltd. ▪ At JK Paper, he is member of Audit Committee and Nomination & Remuneration Committee, chairman of Stakeholders' relationship committee. ▪ Qualifications - B.Sc., MBA (Hons.) from IMD, Switzerland and has done Advanced Management from Wharton.
Sandip Somany	2014	Non Exec. & Independent director	▪ He has acted as President and other Executive roles at: International Chamber of Commerce India, HSIL Ltd, PHD Chamber of Commerce & Industry, All India Glass Manufacturers Association, Indian Council of Sanitaryware Manufacturers Association, etc. ▪ Qualifications - Undergraduate degree from the University of Delhi
Mridu Hari Dalmia	2009	Non Executive & Independent director	▪ He is a Director of First Capital India Ltd., Dalmia Bharat Sugar and Industries Limited, Hari Machines Ltd, Dalmia Agencies (P) Ltd. and served as the President of Indian Refractories Manufacturers Association and Cement Manufacturers Association. ▪ Qualifications - Bachelor's degree in Chemical Engineering
Dhirendra Kumar	2001	Other Non Executive Director	▪ He has been MD of Camson Bio Technologies Ltd since 2017, and has been Chief Scientific Officer since Aug 2015. ▪ He is eminent personality of Tea industry and is associated with many chambers including Tea Association of India, Indian Tea Association, Calcutta Tea Traders Association, Bharat Chamber of Commerce, etc. ▪ At JK paper, he is a member of Nomination and Remuneration committee. ▪ Qualifications - B.E. in Mechanical from New York University
Shailendra Swarup	2013	Non Executive & Independent director	▪ He is a senior partner of law firm firm Swarup & Company and Director at Bengal & Assam Company Ltd, Eros International Plc, Gujarat Fluorochemicals Ltd., India Thermit Corporation Ltd., Subros, Vis Legis Consult Private Ltd., Xerox India Enterprises Pvt. Ltd., Samtel Color Ltd. and many others. ▪ He served as a Member of the Task Force on Corporate Governance constituted by CII. He served as a member of consultative Group constituted by the RBI. ▪ At JK Paper, he is a member of CSR committee. He served as a Non-Executive Independent Director until Jan, 2011. ▪ Qualifications - He joined the Bar in 1965. He holds a bachelors degree in arts and is also a law graduate.

Source : Company, Investec Securities estimates

Financial models – Quarterly Income Statement

Quarterly Income Statement	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Revenues	**5,853.5**	**5,974.0**	**6,039.0**	**6,506.0**	**6,065.1**	**6,852.4**	**6,379.8**	**6,988.8**	**6,320.7**	**6,714.9**	**7,908.7**	**7,498.4**	**7,950.1**
% YoY	19.5%	11.9%	9.1%	11.8%	3.6%	14.7%	5.6%	7.4%	4.2%	-2.0%	24.0%	7.3%	25.8%
EBITDA	**1,001.0**	**1,012.6**	**951.9**	**922.4**	**1,140.6**	**1,337.5**	**1,240.3**	**1,425.7**	**1,530.5**	**1,388.3**	**1,539.3**	**1,652.7**	**1,993.9**
% of sales	17.1%	17.0%	15.8%	14.2%	18.8%	19.5%	19.4%	20.4%	24.2%	20.7%	19.5%	22.0%	25.1%
Depreciation	265.3	265.7	298.2	270.1	298.2	302.0	302.2	292.9	296.4	303.8	305.6	303.0	307.9
Operating Profit	**735.7**	**746.9**	**653.7**	**652.3**	**842.4**	**1,035.5**	**938.1**	**1,132.8**	**1,234.1**	**1,084.5**	**1,233.7**	**1,349.7**	**1,686.0**
% of sales	12.6%	12.5%	10.8%	10.0%	13.9%	15.1%	14.7%	16.2%	19.5%	16.2%	15.6%	18.0%	21.2%
Interest expenses	514.9	514.3	500.1	470.5	487.9	488.9	487.1	432.3	397.0	333.4	369.7	330.1	282.1
Other income	20.6	51.7	34.6	43.9	33.7	74.7	67.4	88.7	64.8	63.7	59.5	69.7	67.8
Exceptions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	**241.4**	**284.3**	**188.2**	**225.7**	**388.2**	**621.3**	**518.4**	**789.2**	**901.9**	**814.8**	**923.5**	**1,089.3**	**1,471.7**
% to net sales	4.1%	4.8%	3.1%	3.5%	6.4%	9.1%	8.1%	11.3%	14.3%	12.1%	11.7%	14.5%	18.5%
Tax	73.6	86.2	56.8	127.6	121.6	181.7	159.5	226.0	300.8	248.5	224.8	376.4	520.3
Eff tax rate (%)	30.5%	30.3%	30.2%	56.5%	31.3%	29.2%	30.8%	28.6%	33.4%	30.5%	24.3%	34.6%	35.4%
PAT	**167.8**	**198.1**	**131.4**	**98.1**	**266.6**	**439.6**	**358.9**	**563.2**	**601.1**	**566.3**	**698.7**	**712.9**	**951.4**
% to net sales	2.9%	3.3%	2.2%	1.5%	4.4%	6.4%	5.6%	8.1%	9.5%	8.4%	8.8%	9.5%	12.0%
EPS [fully diluted]	**1.2**	**1.3**	**0.9**	**1.6**	**1.6**	**2.6**	**2.1**	**3.2**	**3.4**	**3.2**	**3.9**	**4.2**	**5.3**
% YoY	-170.3%	-188.9%	1.2%	36.1%	40.5%	102.3%	142.4%	99.4%	108.6%	23.2%	89.8%	29.7%	56.5%

Source: Company, Investec Securities estimates

Financial models – Annual Income Statement

Income Statement	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenues	**10,771.8**	**11,055.3**	**12,327.9**	**13,300.6**	**14,591.1**	**17,378.7**	**21,588.3**	**24,372.5**	**26,286.1**	**28,442.7**	**30,760.8**	**32,003.5**
% YoY	33.0%	2.6%	11.5%	7.9%	9.7%	19.1%	24.2%	12.9%	7.9%	8.2%	8.2%	4.0%
EBITDA	**1,773.2**	**2,426.9**	**2,592.3**	**1,528.1**	**1,325.4**	**1,237.5**	**2,543.4**	**3,911.6**	**5,124.3**	**6,133.3**	**7,797.9**	**8,250.3**
% of sales	16%	22%	21%	11%	9%	7%	12%	16.0%	19.5%	21.6%	25.4%	25.8%
Depreciation	696.9	700.4	723.6	729.4	729.1	1,221.0	1,135.9	1,172.2	1,195.3	1,208.8	1,304.0	1,684.8
Operating Profit	**1,076.3**	**1,726.5**	**1,868.7**	**798.7**	**596.3**	**16.5**	**1,407.5**	**2,739.4**	**3,929.0**	**4,924.5**	**6,493.9**	**6,565.5**
% of sales	10%	16%	15%	6%	4%	0%	7%	11.2%	14.9%	17.3%	21.1%	20.5%
Interest expenses	584.7	484.9	513.7	512.5	499.0	1,218.6	2,039.3	1,952.3	1,876.4	1,430.2	1,177.0	860.1
Other income	49.2	27.7	131.9	235.0	118.7	147.6	121.5	105.0	264.5	257.7	0.0	0.0
Exceptions	0.0	0.0	0.0	0.0	157.4	-174.9	0.0	0.0	0.0	0.0	0.0	0.0
PBT	**540.8**	**1,269.3**	**1,486.9**	**521.2**	**373.4**	**-1,229.4**	**-510.3**	**892.1**	**2,317.1**	**3,752.0**	**5,317.0**	**5,705.4**
% to net sales	5%	11%	12%	4%	3%	-7%	-2%	3.7%	8.8%	13.2%	17.3%	17.8%
Tax	160.7	359.0	421.8	28.0	-3.6	-457.5	-382.9	283.4	688.8	1,150.5	1,621.7	1,740.2
Eff tax rate (%)	30%	28%	28%	5%	-1%	37%	75%	31.8%	29.7%	30.7%	30.5%	30.5%
PAT	**380.1**	**910.3**	**1,065.1**	**493.2**	**377.0**	**-771.9**	**-127.4**	**608.7**	**1,628.3**	**2,601.5**	**3,695.3**	**3,965.3**
% to net sales	4%	8%	9%	4%	3%	-4%	-1%	2.5%	6.2%	9.1%	12.0%	12.4%
EPS [Fully Diluted]	**4.7**	**11.3**	**13.6**	**3.5**	**2.2**	**-5.7**	**-0.9**	**4.0**	**9.5**	**14.7**	**20.8**	**22.2**
% YoY	-17.5%	139.0%	20.2%	-74.6%	-37.0%	-359.2%	NA	NA	135.7%	55.0%	41.7%	7.2%
DPS	**1.8**	**2.0**	**2.3**	**1.5**	**0.5**	**0.0**	**0.0**	**0.5**	**1.5**	**2.5**	**2.5**	**2.5**
% YoY	16.7%	14.3%	12.5%	-33.3%	-66.7%	-100.0%	0.0%	100.0%	200.0%	66.7%	0.0%	0.0%

Source: Company, Investec Securities estimates

Financial models – Balance Sheet

Balance Sheet	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net worth	4,088.6	4,757.4	5,889.0	8,514.6	8,754.9	7,981.1	7,780.0	11,110.9	13,215.2	16,455.9	19,769.5	23,198.5
Equity capital	785.6	783.5	782.4	1,366.5	1,366.2	1,366.2	1,366.2	1,485.3	1,559.6	1,755.0	1,782.4	1,782.4
Reserves	3,303.0	3,973.9	5,106.6	7,148.1	7,388.7	6,614.9	6,413.8	9,625.6	11,655.6	14,700.9	17,987.1	21,416.0
Debt	6,958.6	5,482.1	5,383.6	10,935.5	17,460.4	21,892.8	20,888.5	18,917.7	16,977.0	13,095.3	9,660.0	12,654.9
Deferred tax liab	1,099.4	1,345.6	1,284.0	1,218.2	1,199.7	738.1	331.9	778.9	979.4	1,393.7	1,393.7	1,393.7
Others	0.0	0.0	0.0	269.2	311.8	380.5	413.1	476.0	555.3	582.5	582.5	582.5
Total	**12,146.6**	**11,585.1**	**12,556.6**	**20,937.5**	**27,726.8**	**30,992.5**	**29,413.5**	**31,283.5**	**31,726.9**	**31,527.4**	**31,405.7**	**37,829.5**
Capitalised assets	9,287.1	8,795.8	8,444.6	8,070.6	7,726.0	24,684.0	22,968.0	27,509.5	26,357.0	26,029.1	26,725.1	33,040.3
Capital WIP	139.6	208.0	938.9	5,818.6	15,392.7	171.5	274.6	195.6	155.1	344.0	344.0	344.0
Investments	27.5	419.4	827.7	729.6	150.5	955.8	280.2	406.2	2,710.0	1,640.7	1,640.7	1,640.7
Cash	342.2	78.7	308.9	1,476.9	338.0	83.4	173.5	146.4	273.9	1,220.2	200.0	200.0
Non Current Assets	2,110.0	1,734.8	1,829.7	2,074.1	2,358.3	4,126.3	4,507.8	2,501.4	1,556.9	1,532.8	1,735.3	1,843.9
Others	240.2	348.4	206.8	2,767.7	1,761.3	971.5	1,209.4	524.4	674.0	760.6	760.6	760.6
Total	**12,146.7**	**11,585.1**	**12,556.6**	**20,937.5**	**27,726.8**	**30,992.5**	**29,413.5**	**31,283.5**	**31,726.9**	**31,527.4**	**31,405.7**	**37,829.5**

Balance Sheet Key Ratios	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Debt	6,588.9	4,984.0	4,247.0	8,729.0	16,971.9	20,853.6	20,434.8	18,365.1	13,993.1	10,234.4	7,819.3	10,814.2
Net Debt/Equity	1.6X	1.0X	0.7X	1.0X	1.9X	2.6X	2.6X	1.7X	1.1X	0.6X	0.4X	0.5X
Interest Coverage Ratio	1.8X	3.6X	3.6X	1.6X	1.2X	0.0X	0.7X	1.4X	2.1X	3.4X	5.5X	7.6X
Working Capital Ratios												
Inventory Turns	39.7X	41.9X	37.8X	45.1X	54.0X	61.2X	63.2X	50.1X	53.2X	50.6X	50.6X	50.6X
Receivable Turns	36.3X	34.5X	31.9X	39.6X	29.9X	35.9X	24.7X	20.8X	15.4X	14.0X	14.0X	14.0X
Payable Turns	33.9X	38.2X	41.9X	39.2X	34.3X	44.5X	40.2X	28.1X	32.1X	32.7X	32.7X	32.7X
Other Turns	31.3X	21.3X	28.3X	14.8X	12.2X	37.4X	31.7X	-2.5X	-12.6X	-10.4X	-11.3X	-10.9X
Net Working Capital days	**73.3X**	**59.5X**	**56.1X**	**60.2X**	**61.8X**	**89.9X**	**79.3X**	**40.3X**	**23.9X**	**21.5X**	**20.6X**	**21.0X**
Fixed Asset Turns	319.4X	297.3X	277.8X	381.2X	578.3X	522.0X	393.0X	412.0X	366.0X	371.9X	367.6X	444.5X

Source: Company, Investec Securities estimates

Financial models – Cash Flow

Cash Flow	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Profit Before Tax & Exceptional items	540.8	1,269.3	1,484.5	521.2	373.4	-1,191.1	-595.8	892.1	2,317.1	3,751.9	5,317.0	5,705.4
Adjustments	1,264.7	1,098.9	893.5	1,013.4	1,011.8	2,533.7	3,301.0	2,775.9	2,315.8	1,715.1	859.3	804.8
Changes in Working Capital	221.6	70.0	-61.9	-1,482.8	-148.0	31.1	-107.2	366.9	980.2	87.4	-202.5	-108.6
Cash flow from Operating Activities	**2,027.2**	**2,438.3**	**2,316.1**	**51.8**	**1,237.2**	**1,373.7**	**2,598.0**	**4,034.9**	**5,613.1**	**5,554.4**	**5,973.7**	**6,401.6**
(Purchase)/ Sale of Fixed Assets	-318.6	-348.0	-1,241.6	-6,263.5	-8,622.3	-2,673.0	-889.8	-360.0	-572.7	-854.7	-2,000.0	-8,000.0
Purchase / Sale of Investment	0.0	-391.6	-310.1	147.2	605.3	-683.8	689.6	-64.2	-2,133.8	1,223.9	0.0	0.0
Investment Income	66.8	78.3	84.3	160.8	97.4	35.0	55.2	89.1	109.2	95.8	0.0	0.0
Other Investment Activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from Investment Activities	**-251.8**	**-661.3**	**-1,017.8**	**-5,946.1**	**-7,916.6**	**-3,321.2**	**-145.0**	**-335.1**	**-2,597.3**	**465.0**	**-2,000.0**	**-8,000.0**
Issue/ (Repayment) of Borrowings	-654.3	-1,291.0	-100.6	5,202.6	6,378.8	3,084.7	-260.2	-2,348.5	-1,000.2	-3,343.7	-3,435.3	2,994.8
Proceeds/ (Buyback) from Issue of Equity Capital	0.0	0.0	0.0	2,455.8	0.0	0.0	0.0	500.2	0.0	0.0	154.6	0.0
Interest Paid	-618.3	-532.8	-525.0	-512.7	-545.0	-1,276.0	-2,135.2	-1,878.5	-1,798.4	-1,434.6	-1,177.0	-860.1
Dividend Paid	-137.5	-160.1	-386.7	-0.3	-238.4	-79.9	-0.3	-0.2	-89.7	-294.9	-536.3	-536.3
Cash from financing	**-1,468.7**	**-2,040.5**	**-1,068.0**	**7,062.2**	**5,540.5**	**1,728.8**	**-2,395.7**	**-3,727.0**	**-2,888.3**	**-5,073.2**	**-4,993.9**	**1,598.4**
Change of cash	306.7	-263.5	230.3	1,167.9	-1,138.9	-218.7	57.8	**-27.2**	**127.5**	**946.2**	**-1,020.2**	**0.0**
FCFF	**1,708.6**	**2,090.3**	**1,074.5**	**-6,211.7**	**-7,385.1**	**-1,299.3**	**1,708.2**	**3,674.9**	**5,040.4**	**4,699.7**	**3,973.7**	**-1,598.4**
FCFE	**1,054.2**	**799.3**	**973.9**	**-1,009.1**	**-1,006.3**	**1,785.4**	**1,448.0**	**1,326.4**	**4,040.2**	**1,356.0**	**538.4**	**1,396.4**

Source: Company, Investec Securities estimates

Summary Financials

(INRm)

Year end: 31 March

Income Statement	2016	2017	2018	2019E	2020E
Revenue	**24,372.5**	**26,286.1**	**28,442.7**	**30,760.8**	**32,003.5**
EBITDA	**3,911.6**	**5,124.3**	**6,133.3**	**7,797.9**	**8,250.3**
Depreciation and amortisation	2,739.4	3,929.0	4,924.5	6,493.9	6,565.5
Operating profit	**2,739.4**	**3,929.0**	**4,924.5**	**6,493.9**	**6,565.5**
Other income	105.0	264.5	257.7	0.0	0.0
Net interest	1,952.3	1,876.4	1,430.2	1,177.0	860.1
Share-based-payments	0.0	0.0	0.0	0.0	0.0
PBT (normalised)	**892.1**	**2,317.1**	**3,752.0**	**5,317.0**	**5,705.4**
Impairment of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Non-recurring items/exceptionals	892.1	2,317.1	3,752.0	5,317.0	5,705.4
PBT (reported)	**892.1**	**2,317.1**	**3,752.0**	**5,317.0**	**5,705.4**
Taxation	283.4	688.8	1,150.5	1,621.7	1,740.2
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Discontinued/assets held for sale	0.0	0.0	0.0	0.0	0.0
Net Income (normalised)	571.0	1,620.3	25,888.0	3,695.3	3,965.3
Attributable profit	608.7	1,628.3	2,601.5	3,695.3	3,965.3
EPS (reported)	4.3	10.8	15.3	20.8	22.2
EPS (norm., cont.) – FD (INR)	4.3	10.8	15.3	20.8	22.2
EPS (norm., cont., IAS19R adj.) – FD	-	-	-	-	-
DPS (INR)	0.5	1.5	2.5	2.5	2.5
Average number of group shares - FD (m)	148.5	156.0	175.5	178.2	178.2
Average number of group shares (m)	148.5	156.0	175.5	178.2	178.2
Total number of shares in issue (m)	148.5	156.0	175.5	178.2	178.2

Cash Flow	2016	2017	2018	2019E	2020E
Operating profit	2,739.4	3,929.0	4,924.5	6,493.9	6,565.5
Depreciation & amortisation	(2,739.4)	(3,929.0)	(4,924.5)	(6,493.9)	(6,565.5)
Other cash and non-cash movements	2,044.7	3,343.1	4,831.3	6,621.0	7,390.2
Change in working capital	366.9	980.2	87.4	(202.5)	(108.6)
Operating cash flow	**2,411.6**	**4,323.3**	**4,918.7**	**6,418.4**	**7,281.6**
Interest	1,849.4	1,765.8	1,327.1	1,177.0	860.1
Tax paid	(225.7)	(476.0)	(691.3)	(1,621.7)	(1,740.2)
Dividends from associates and JVs	(0.4)	0.0	(0.1)	0.0	0.0
Cash flow from operations	**4,034.9**	**5,613.1**	**5,554.4**	**5,973.7**	**6,401.6**
Maintenance capex	(360.0)	(572.7)	(854.7)	(2,000.0)	(8,000.0)
Free cash flow	**3,674.9**	**5,040.4**	**4,699.7**	**3,973.7**	**(1,598.4)**
Expansionary capex	0.0	0.0	0.0	0.0	0.0
Exceptionals & discontinued operations	0.0	0.0	0.0	0.0	0.0
Other financials	(1,854.0)	(3,823.0)	(115.0)	(1,177.0)	(860.1)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Net share issues	500.2	0.0	0.0	154.6	0.0
Dividends paid	(0.2)	(89.7)	(294.9)	(536.3)	(536.3)
Change in net cash	**2,320.9**	**1,127.7**	**4,289.8**	**2,415.1**	**(2,994.8)**
Net cash/(debt)	18,365.1	13,993.1	10,234.4	7,819.3	10,814.2
FCFPS - FD (INR)	24.7	32.3	26.8	22.3	(9.0)

Balance Sheet	2016	2017	2018	2019E	2020E
Property plant and equipment	27,705.1	26,512.1	26,373.1	27,069.1	33,384.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investments and other non current assets	930.6	3,384.0	2,401.3	2,401.3	2,401.3
Cash and equivalents	146.4	273.9	1,220.2	200.0	200.0
Other current assets	1,335.2	831.1	1,050.2	1,050.2	1,050.2
Total assets	**34,856.2**	**35,938.6**	**36,078.6**	**36,164.7**	**42,699.8**
Total debt	18,917.7	16,977.0	13,095.3	9,660.0	12,654.9
Preference shares	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1,219.0	1,518.7	1,910.7	1,910.7	1,910.7
Provisions & other current liabilities	1,644.2	1,782.0	1,943.8	1,943.8	1,943.8
Pension deficit and other adjustments	0.0	0.0	0.0	0.0	0.0
Total liabilities	**23,745.3**	**22,723.4**	**19,622.7**	**16,395.2**	**19,501.3**
Net assets	**58,601.5**	**58,662.0**	**55,701.3**	**52,559.8**	**62,201.2**
Shareholder's equity	11,110.9	13,215.2	16,455.9	19,769.5	23,198.5
Minority interests	0.0	0.0	0.0	0.0	0.0
Total equity	**11,110.9**	**13,215.2**	**16,455.9**	**19,769.5**	**23,198.5**
Net working capital	3,246.4	2,510.0	2,530.4	2,658.2	2,804.0
NAV per share (INR)	74.8	84.7	93.8	110.9	130.2

Source: Company accounts, Investec Securities estimates

Tamil Nadu Newsprint & Papers (TNNP.BO)

Tamil Nadu Newsprint & Papers (TNPL) is the 2nd largest paper manufacturer in India, and also generates one of the highest, and most consistent EBITDA margins amongst its peers. It is 35.3% owned by Tamil Nadu government, which is also its largest customer. TNPL's profitability suffered in FY18 as Tamil Nadu underwent a drought, and shortage of water impacted production, and consequently bagasse from sugar mills became costlier (to normalize by FY21). TNPL is a professionally managed organization, and our channel checks reveal that the management team is reputed to be one of the most competent in the industry. Unabsorbed capacity in the past has depressed returns, and expect RoIC to improve from here as production\utilization improves. We expect EBITDA margin to expand through FY20, and TNPL to post EPS of Rs. 48.4. Applying target multiple of 9X, we arrive at target price of Rs. 431, and assign a BUY rating to the stock.

- With 600,000 tons per annum of production capacity, TNPL is the 2nd largest paper manufacturer in India. It is also the most cost efficient producer of paper given its access to cheap, and plentiful supply of fibre, and inhouse production of power. Barring the odd hiccup in FY18, owing to a drought situation in Tamil Nadu, it consistently reports higher EBITDA margin than its peers.
- TNPL is 35.3% owned by the TN Government, which is also its largest customer. 25% of its paper sales are to the Tamil Nadu government. In fact, assured demand for TNPL's product has made it unnecessary for the company to develop an extensive distribution network. Our analysis reveals that despite being much larger than both JKPL, and WCPM in terms of capacity, TNPL's distribution network lags both.
- It is a professionally managed organization, and our channel checks reveal that the management is one of the more competent in the industry. The churn at the top is a mild concern - top management is appointed by the government. However, deep mid-management strength means that processes, and longer-term strategic direction are on autopilot, mitigating concern over instability at the top.
- Water shortage, being present in a drought prone state is a problem. TNPL is tackling the water shortage problem with increasing its reservoir capacity, and we expect TNPL to expand its RoIC as utilization at its plant improves.
- We believe that the current solid paper cycle is going to sustain, and are initiating on TNPL with a BUY, and target P/E multiple of 9X on FY20E EPS of Rs. 48.4 (TNPL's average forward P/E during the last cycle, FY04-FY08, which is most representative of the current cycle), to arrive at a 1-year target price of Rs. 431. Expect TNPL to generate high incremental RoIC on existing capacity as earnings normalize beyond FY20E. In addition, TNPL is capable of generating consistent free cash flow to equity of ~Rs300cr, which implies an FCFE yield of ~15% (FY18 FCF yield of 11.6%), providing solid support for our BUY recommendation.

BUY

Price: INR296   Target Price: INR431
Market Cap: INR20bn
Forecast Total Return: 46.4%

	2016A	2017A	2018A	2019E	2020E
Revenue (INRm)	24,175.4	29,496.8	30,942.3	35,616.5	38,579.9
EBITDA (INRm)	5,668.6	7,288.8	4,044.0	7,028.6	8,659.8
EBITA (INRm)	4,230.9	5,212.0	1,825.7	4,757.1	6,146.2
PBT (normalised) (INRm)	3,235.7	3,061.3	(279.8)	2,654.6	4,259.5
Net Income (normalised) (INRm)	2,959.5	2,575.3	(390.5)	0.0	0.0
EPS (norm. cont.) – FD (INR)	37.5	38.2	(6.1)	30.2	48.4
FCFPS - FD (INR)	(40.9)	26.5	77.5	74.0	38.8
DPS (INR)	0.5	1.5	2.5	2.5	2.5
PE (normalised) (x)	7.9	7.7	(48.6)	9.8	6.1
EV/sales (x)	0.9	0.7	0.7	0.6	0.5
EV/EBITDA (x)	3.6	2.8	5.1	2.9	2.4
FCF yield (%)	(13.8)	8.9	26.2	25.0	13.1
Dividend yield (%)	0.2	0.5	0.8	0.8	0.8

Target Price Basis

9x FY20EPS

Key Risks

Cyclicality from falling pulp prices & Water scarcity in Tamil Nadu

Investment Positives

Key Positives	Details
History of being the lowest cost producer	TNPL has had the highest, and most consistent EBITDA margin, amongst its peer group in India (FY18 being an aberration). TNPL uses bagasse (60% of overall fibre needs) from nearby sugar mills, and is the primary reason for the low cost of its paper production.
Assured supply of fibre, and inhouse power production reduces volatility in results	Through its efforts over the years, TNPL has enough fibre availability from its primary source – bagasse, or through the option of buying wood from its farm forestry effort, or from the government of Tamil Nadu.
Assured government orders & strong exports	TNPL sells 25% of its printing and writing paper to government, and exports 20%. The remaining 55% gets absorbed [mainly in southern markets]. The Tamil Nadu government has agreed to purchase all its paper requirement from TNPL, providing it an assured buyer.
Focus on improving product mix	TNPL stopped manufacturing newsprints, as it became uneconomical and moved to manufacturing writing and printing paper. With growing demand in paper board, TNPL is in the process of changing its product mix again. It is now targeting high end packaging segment [coated board and FBB] for better profitability.

Investec

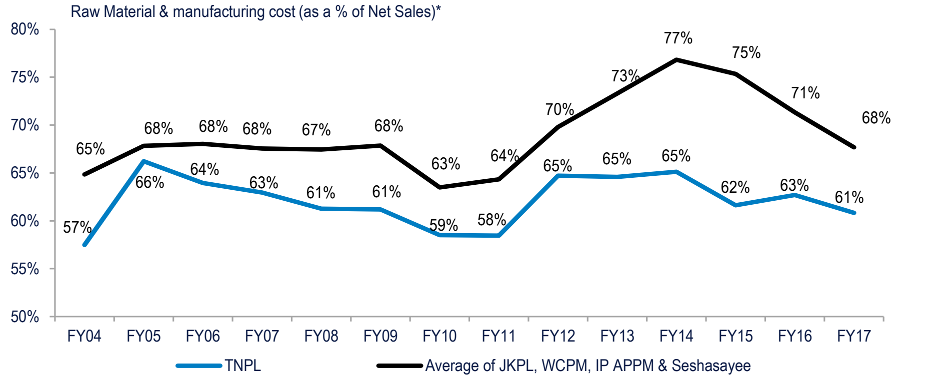
Historically lowest cost producer

Bagasse as a source of fibre is a competitive advantage

- TNPL is the largest paper producer using bagasse. [60% of its fibre requirement is sourced from bagasse]. It has long term agreements with 8 sugar mills to procure bagasse in exchange of steam. A portion of power cost includes bagasse's procurement cost and thus, making direct comparison of raw material cost with other Companies problematic. However, comparing total manufacturing cost of TNPL vs others reveal it to be the most cost efficient producer of paper in the country.
- We believe that some of this cost efficiency is owed to bagasse being a cheaper source of raw material (fibre) than wood.

Source: Company, Investec Securities estimates

Manufacturing cost lower than average of top industry players

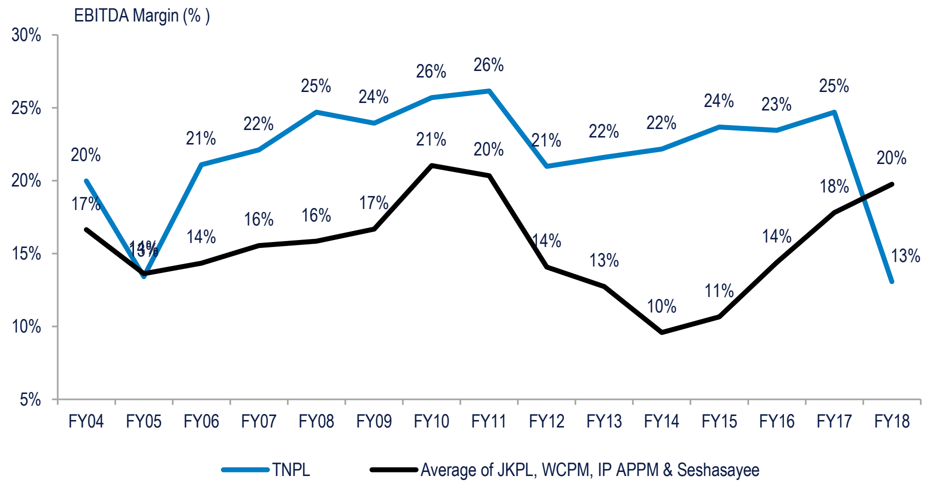


(*excludes Employee, General & Admin, Selling & Distribution and Misc exp)
(Cost breakdown not available for FY18 as all annual reports are not available)

Source: Company, Investec Securities estimates

TNPL enjoys highest and least volatile EBITDA margin of all Companies

- This cost efficiency has resulted in TNPL consistently registering the highest EBITDA margin in the industry. Even as their EBITDA margin is higher than peers, it has been less volatile as the company is assured of fibre supply from nearby sugar mills.
- FY18 EBITDA margin is an exception as the Company suffered from shortage of water, and low capacity utilization (83% vs average of 93% over prior 5 years) resulted in substantial drop in EBITDA margin.



Source: Company, Investec Securities estimates

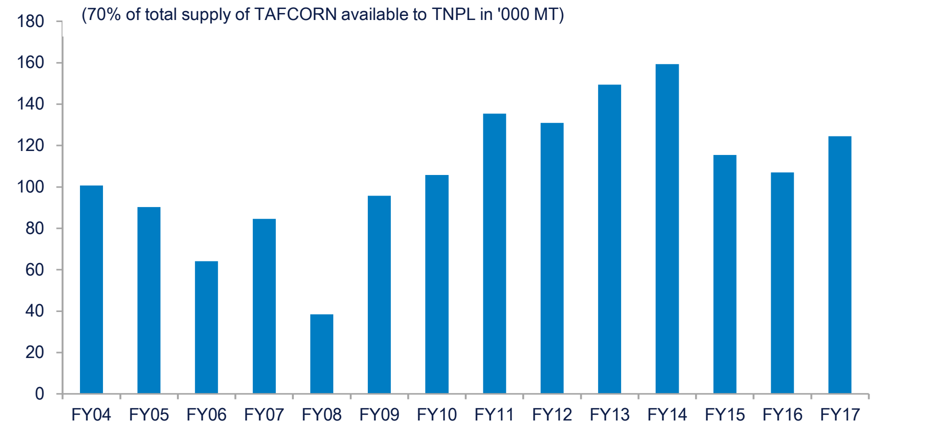
Source: Company, Investec Securities estimates

Raw material security – wood & bagasse

TNPL ensures fibre security via long term agreements with suppliers

- TNPL uses Bagasse (60%), Wood (30%) & Waste paper (10%).
- There are long term agreements with 8 sugar mills to procure bagasse in exchange of steam. In addition, the company can also source wood from government's TAFCORN and from farm forestry & captive plantations.
- TNPL has entered into a 15-year supply contract in Nov 2004 with Tamil Nadu Forest Plantation Corporation (TAFCORN), where TAFCORN will sell up to 70% of their annual production to TNPL at prices fixed by government on recommendation of Finance Sub-Committee.
- This agreement expires in 2019. Non-Renewal of this supply agreement poses a risk. However, management is confident on obtaining this renewal.

Wood availability from TAFCORN [70% of total supply]

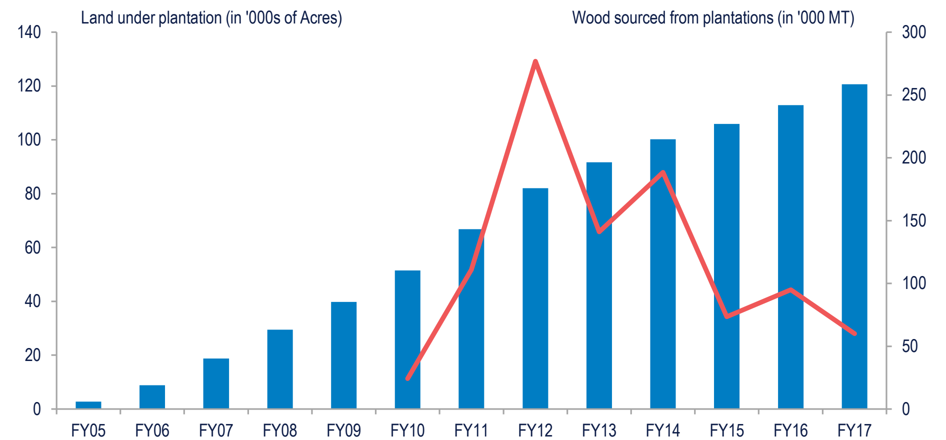


Source: TAFCORN's website, Investec Securities estimates

Increasing land under wood plantation via farm forestry, and captive plantations

- TNPL developed two plantation schemes – Farm forestry & Captive plantation in 2005.
- Gradually, land under plantations has increased from 2,735 acres to 120,715 acres.
- This has created an optional source of supply of fibre for the company, keeping volatility in raw material price low, and profitability high.
- Currently, wood is mainly sourced from TAFCORN.

Source: Company, Investec Securities estimates



Source: Company, Investec Securities estimates

Note- FY18 numbers are not available as annual report is not available

Raw material security – wood & bagasse

Temporary sourcing issues in FY17 & FY18 for bagasse…

- Owing to drought conditions in Tamil Nadu, sugarcane cultivation reduced, impacting sugar production. This impacted supply of bagasse to TNPL, making it purchase bagasse from far of mills, and at higher rates.
- In the recent past, most sugar mills have started using bagasse for captive power generation, impacting availability of bagasse for paper mills.

Source: Company, Investec Securities estimates

…. and Wood

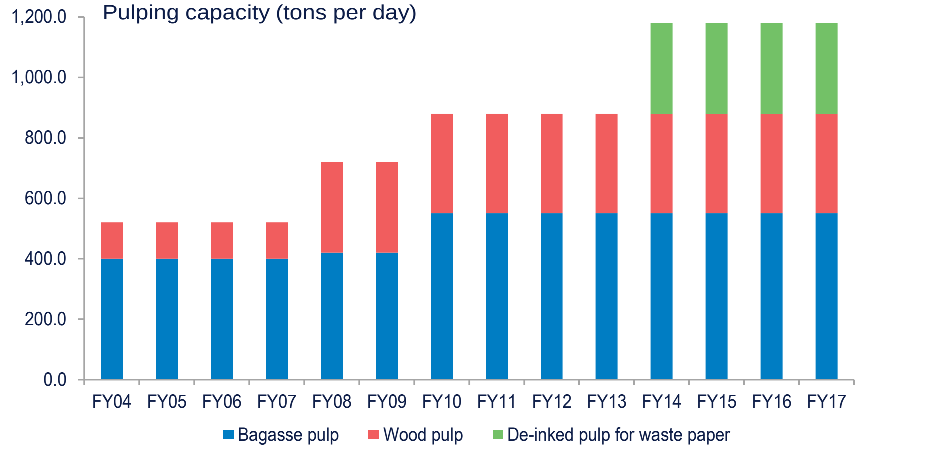
- "While there has been some improvement in the availability of wood from within the State, unprecedented shortage of wood felt in the neighbouring State of Andhra Pradesh in 2013-14, which has been the primary sourcing point for the Andhra based mills and few upcountry Mills had forced these mills to turn to Tamil Nadu for meeting, at least a part, of their shortfall. This has seriously affected the availability and cost of wood for the Tamil Nadu based mills" – Seshasayee Paper & Boards FY18 annual report.

Source: Seshasayee Paper & Boards FY18 Annual Report, Investec Securities estimates

Higher pulping capacity & water efficiency

TNPL's pulping capacity is increasing, but will remain insufficient

- TNPL has invested in pulping capacity in line with its increasing production capacity. Recently TNPL announced an expansion plan of 400 tpd pulping capacity.
- However, even though it has sufficient fibre availability in the form of bagasse\wood, it has to rely on 100,000 tons of imported pulp to meet its pulp requirement.

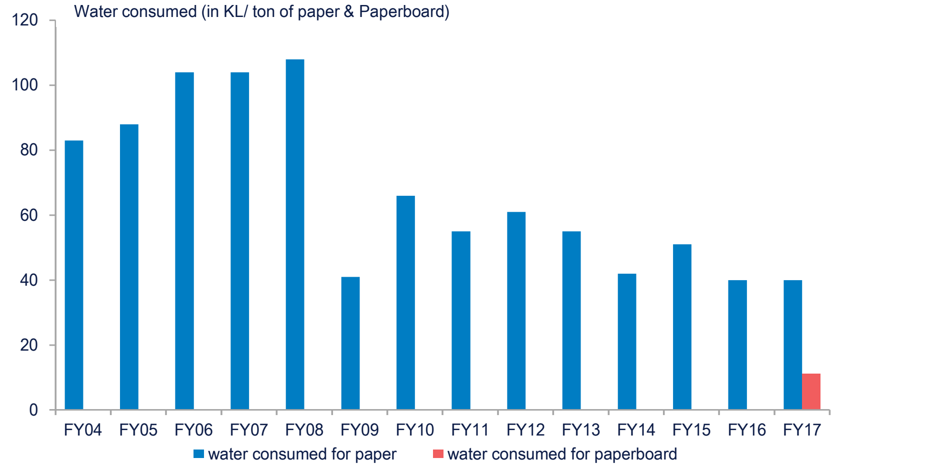


Source: Company, Investec Securities estimates

Increased water efficiency to combat water shortage

- TNPL faces severe shortage of water owing to low rainfall in Tamil Nadu.
- To combat this water shortage, TNPL has reduced its consumption of water significantly from 83 cubic m/ ton of paper in FY04, to 40 cubic m/ton of paper in FY17.
- TNPL is also increasing the capacity of its water reservoirs to cater for its higher water requirement (on account of higher paper production capacity).

Source: Company, Investec Securities estimates

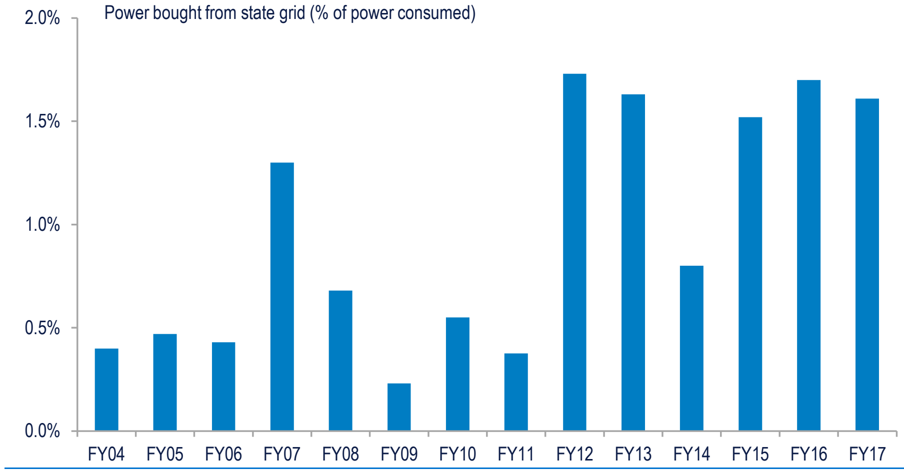


Source: Company, Investec Securities estimates

Power self-sufficiency ensures lower cost, and uninterrupted supply

Power sufficiency achieved in 2002; low dependence on state ensures low cost, and uninterrupted supply

- TNPL achieved self-sufficiency in power in 2002 and thus, its dependence on supply from the state grid has remained below 2%.
- Power capacity increased to 138.6 MW, from 61.1 MW in FY04 in FY17. Its wind farm capacity also increased to 35.5 MW from 21.8 MW in FY04 in FY17.
- Power consumed per ton of paper has reduced to 1416 kWh from 1657 kWh in FY04 in FY17, thereby improving efficiency.

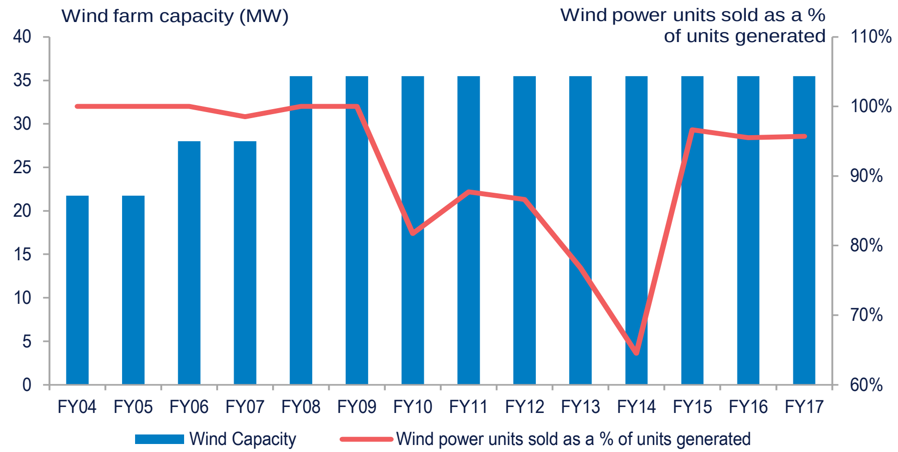


However, excess investment in power capacity is unnecessary

- The company has made excess investments into power generating assets – 10% of total assets value. However, revenue contribution from power is a mere 1% of total net sales [FY17].
- The company was self-sufficient in power in 2002 itself. However, it continued to add power capacity, and exporting power to the state grid.
- A very small portion of wind power is used in paper production, and rest is sold externally [96% in FY17].
- ROICs of TNPL would be somewhat higher, if it focused on paper production, and not built excess capacity in power/cement.

Source: Company, Investec Securities estimates

Most of wind power generated is sold to government



Source: Company, Investec Securities estimates

Note- FY18 numbers are not available as Annual report is not available

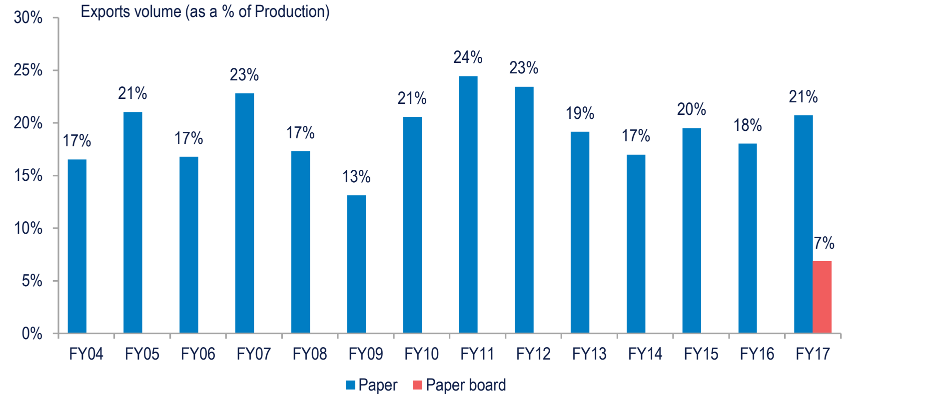
Assured government orders & solid exports

Government orders provide an assured revenue stream

- 35.32% of TNPL's shares are owned by Tamil Nadu government.
- The TN government has agreed to procure 100% of its paper needs from TNPL. Most of these orders are for paper used in notebooks.
- Thus, with the growing spend of government on education, TNPL is assured of a ready and profitable market for its paper. Approximately, 25% of TNPL's Writing and Printing paper sales are through government orders. The company also exported 21% of its paper, and 7% of its paperboard in FY17.

Source: Company, Investec Securities

Increasing exports [dealer points at 25 countries]



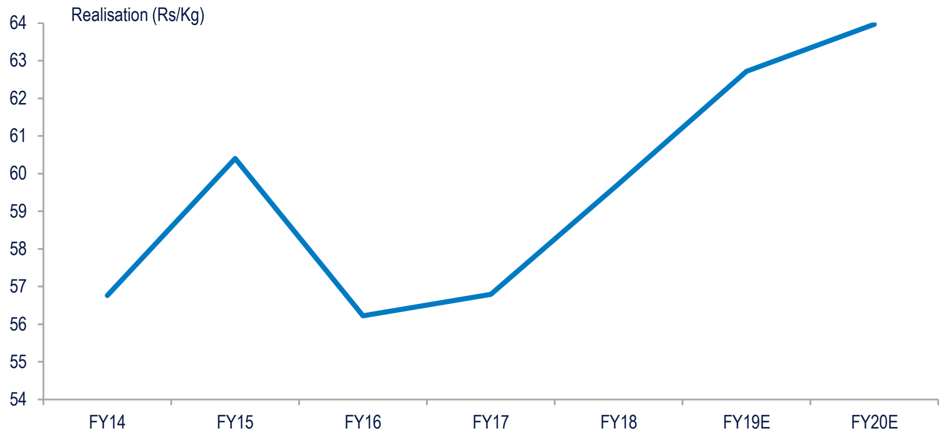
(Sales volume figures before FY13; thus, production is taken as a base)

Source: Company, Investec Securities

Focus on value added products led to improvement in realisations

- TNPL has been slowly upgrading its product mix over the years, which has resulted in improved profitability. They stopped manufacturing newsprints in 2010, and converted the machine to higher EBITDA margin Writing & Printing Paper.
- In 2017, TNPL started to produce paper board. The focus is now on increasing the contribution from high grade paper board, which should aid in expanding EBITDA margin.

Source: Company, Investec Securities estimates



Note - Sales Volume details prior to FY14 not available

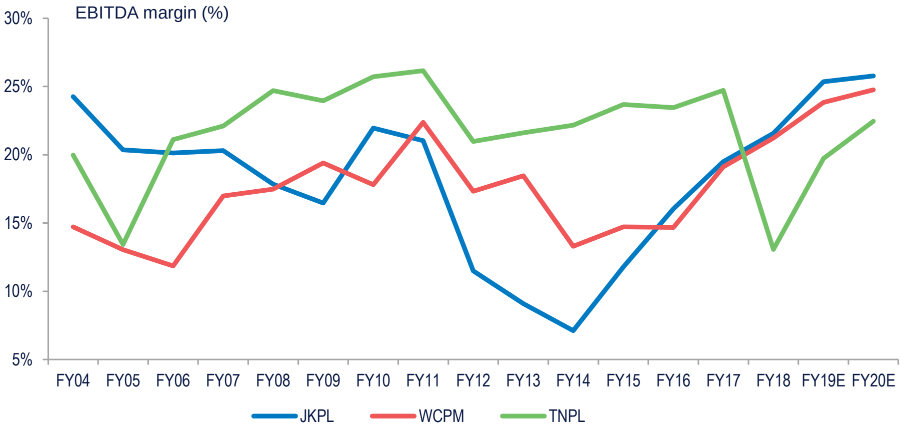
Source: Company, Investec Securities estimates

Investment Negatives

Key Negatives	Details
Water shortage in Tamil Nadu has potential to impact profits	The mill faces acute shortage of water during poor rainfall. This lack of water disrupts paper production, its farm forestry, eucalyptus production of TAFCORN, and bagasse availability. Bagasse shortage has led to a temporary increase in raw material prices, as TNPL has to source bagasse from sugar factories further away from the mill.
TNPL may miss out on inorganic expansion opportunities	We believe that the paper industry will consolidate. However, the down cycle of FY14 forced many mills to discontinue operations, and these mills make ideal targets for acquisition by large mills like TNPL. However, TNPL being a government company, there are challenges in it bidding aggressively to acquire assets. In addition, unlike JKPL, it does not yet have experience in acquiring and turning around stressed assets.
Frequent changes in leadership	The Management and directors of the company are nominated by the government and change frequently. This potentially impacts the ability of TNPL to have continuity in strategy, and direction.
Distribution network	The company has not developed a strong dealer network in non-southern states, as 75% of its sales are from Government orders, exports and Southern India. This could potentially limit TNPL's ability to expand production.

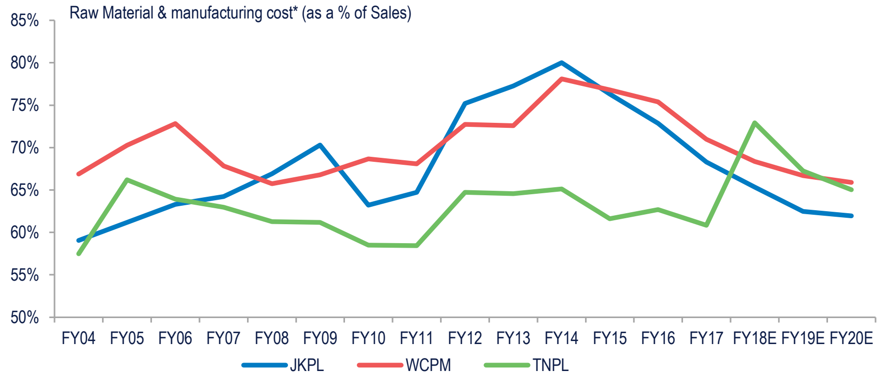
EBITDA margin was hit adversely due to water shortage in FY18

EBITDA margin fell in FY18…



Source: Company, Investec Securities estimates

...as Cost of Material rose sharply



(*excludes Employee, General & Admin, Selling & Distribution and Misc exp)
(Cost breakdown not available for FY18 as all annual reports are not available)

Source: Company, Investec Securities estimates

Higher pulp cost and production disruption impacted profitability

- The company sources bagasse [60% of its fibre requirement] from its long-term agreements with sugar mills.
- Owing to drought conditions, sugar production came down in FY18, also impacting availability of bagasse. This led to open market buying of bagasse from areas away from the mill at higher prices, increasing cost of production for TNPL.
- Rainfall shortage led to production disruption for both pulping and paper production in FY17 and FY18, which also impacted the EBITDA margin.

Source: Company, Investec Securities estimates

Will these costs normalise?

- We expect bagasse availability to improve, and costs to gradually normalize lower over the coming years. Management has acknowledged improvement in bagasse availability. However, EBITDA margin will take time to fully normalize as TNPL continues sourcing bagasse from longer distances, increasing its cost of procurement.

Source: ISMA, Company, Investec Securities estimates

Water shortages & inability to expand inorganically

Acute water problems has led to…

- Integrated wood based mills are highly water intensive. Due to low rainfall in paper mill area, TNPL has to depend on River Cauvery for water. During summer months, most water bodies remain dry till monsoons.
- The area faces acute water shortage, and agitation by villagers in the past (FY18, for instance) during times of stress, has forced diversion of water from the mill to villages, resulting in reduced production at TNPL.
- From consuming 83 m3 of water per tonne of paper produced in FY04, TNPL has reduced its consumption to 40 m3 in FY17 through water recycling. It also has 19 lac tons of water reservoir, which it plans to increase to 21 lac tons. Still, water availability is a recurring concern for TNPL.

Source: Company, Investec Securities estimates

…the company losing at least 264 machine days in last 20 years

Year	Machine Days lost due to water scarcity
FY98	Not available
FY99	Not available
FY00	Not available
FY03	26
FY04	37
FY05	58
FY17	25
FY18	118
Total	**264**

Source: Company, Investec Securities estimates

Inability to expand inorganically

- We believe that consolidation in the paper sector is inevitable.
- Companies with a strong balance sheet, and management teams experienced in turning around trouble companies will be able to buy cheap stressed assets.
- In the past, TNPL has not bid for any stressed paper mills. As per our interactions with company expert and management of TNPL, it does not intend to grow via acquisitions.

Source: Company, Investec Securities estimates

Multiple Stressed assets are available and thus, it is an opportunity loss

- As discussed in the Industry section, the paper industry has numerous acquisition opportunities, with 2 out of 3 mills having shut operations as per IPMA.
- In the listed space itself, 26 out of 50 paper companies on BSE have gone into BIFR.
- This provides incumbents, with substantial opportunity to grow inorganically.
- Multiple mill locations can provide access to multiple markets and reduce operational risk for a company.

Source: Company, Investec Securities estimates

TNPL's leadership changes frequently

In the past 8 years, there have been 11 appointees to MD

Name	Joining Month	Cessation Month
S Sivashanmugaraja	Nov-17	-
Dr. R Selvaraj	Apr-17	Nov-17
Vikram Kapur	Sep-16	Apr-17
Rajeev Rajan	Aug-16	Sep-16
C V Sankar	Oct-13	Aug-16
N S Palaniappan	Dec-12	Oct-13
Md. Nasimuddin	May-12	Dec-12
Santosh K Misra	Jan-12	May-12
G Prakash	Jan-12	Jan-12
T K Ramachandran	May-10	Jan-12
Md Nasimuddin	Feb-08	May-10

Source: Company, Investec Securities estimates

Board rotation is also frequent

Board of Director as on 31 Mar 2015	Do they hold directorship today?
C V Sankar	No
T Udhayachandran	No
Mahesan Kasirajan	No
A Velliangiri	No
R Mani	No
N Kumaravelu	No
M R Kumar	No
Sarada Jagan	No
V Narayanan	Yes
V Nagappan	Yes

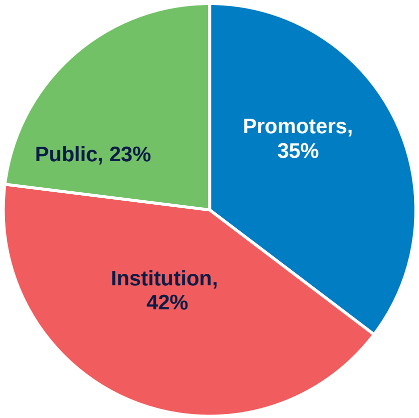
Source: Company, Investec Securities estimates

Why does the MD and board change so frequently?

- TNPL is promoted by the Government. The managing directors and board are appointed by government and they are mainly IAS officers.
- Their availability is dependent on overall government priorities, and requirement for other government projects.

Source: Company, Investec Securities estimates

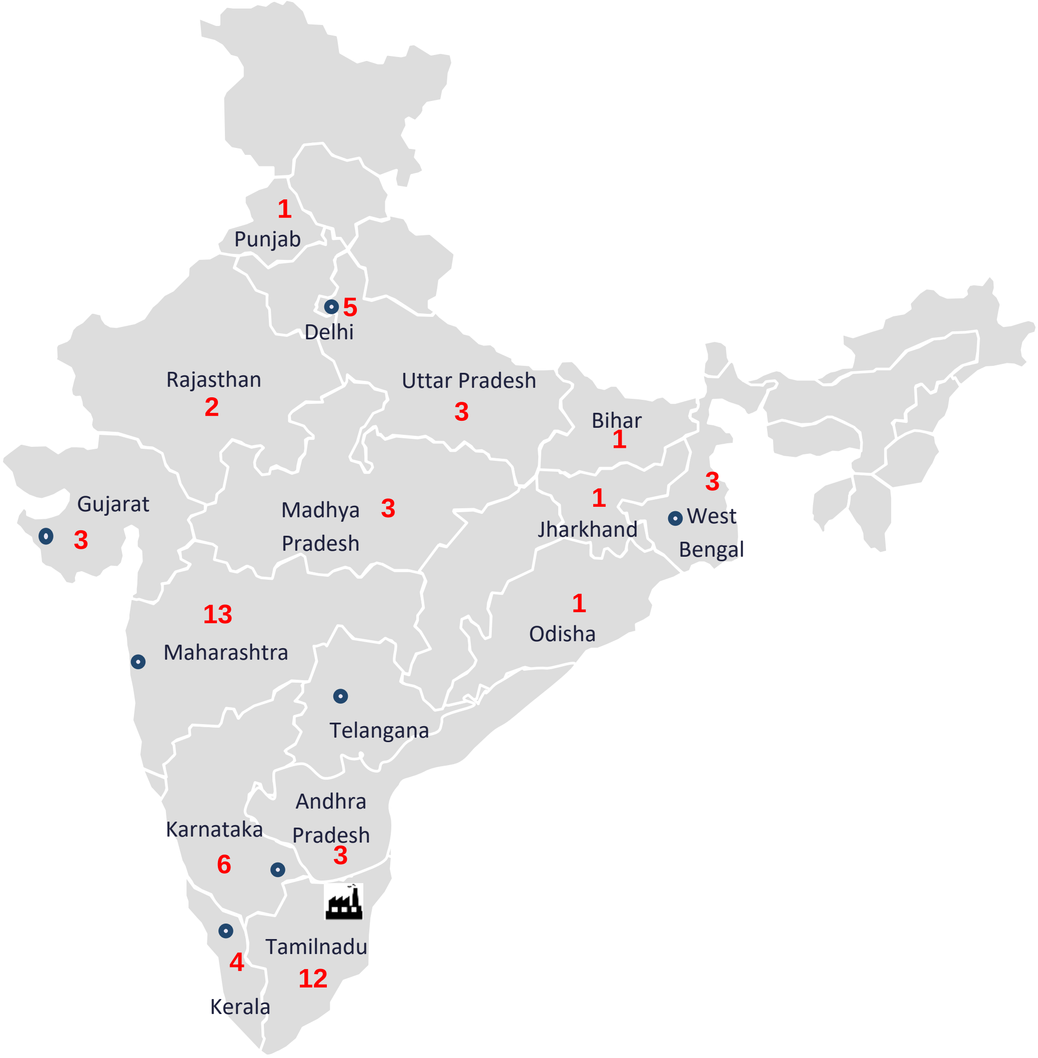
Shareholding pattern as on 30th June, 2018



Source: Company, Investec Securities estimates

Distribution network is skewed towards the South and West

Mere 61 distributors reflects poor distribution points in North India



- JKPL has 193 distributors in 24 states, and WCPM has 77 distributors with presence in 15 states.
- In comparison, TNPL has only 61 distributors with presence in 15 states [41% in southern states].
- Even as TNPL has opened its products to exports, lack of comprehensive domestic network is a limitation in selling increased production in the future.

The numbers in Red reflect number of dealers presence in respective State.

represents Zonal Offices in respective States

represents mill location

Valuation

- The paper sector in India has come through challenging times, with a reasonable proportion of the sector entering bankruptcy. Factors contributing to the stress include 1) overleverage 2) lack of raw material security and 3) competition from imports as tariffs were lowered over the years as part of free trade treaty with ASEAN countries. However, the remaining companies have regained health, market share and are operating at high profitability.

- TNPL has been one of the most consistently profitable companies in the sector, and as a result has always garnered premium multiples. However, drought conditions in Tamil Nadu in FY18 exposed some of its weaknesses – single site dependence, and insufficient water capacity. While TNPL is augmenting its reservoir capacity, and expects to minimize disruption in future, expect profitability to take a few years to normalize.

- We are assigning a FY20E P/E multiple of 9X to TNPL, inline with JKPL's multiple. While TNPL in the past has typically traded at a modest premium to JKPL, given more consistent profitability, we are assigning a similar multiple to both given JKPL's improved competitive positioning, Like JKPL, TNNP is also highly cash generative, and currently trades at an FCF yield of 11.6%. We also believe that current Free Cash Flow generation by the industry is sustainable, given ongoing consolidation.

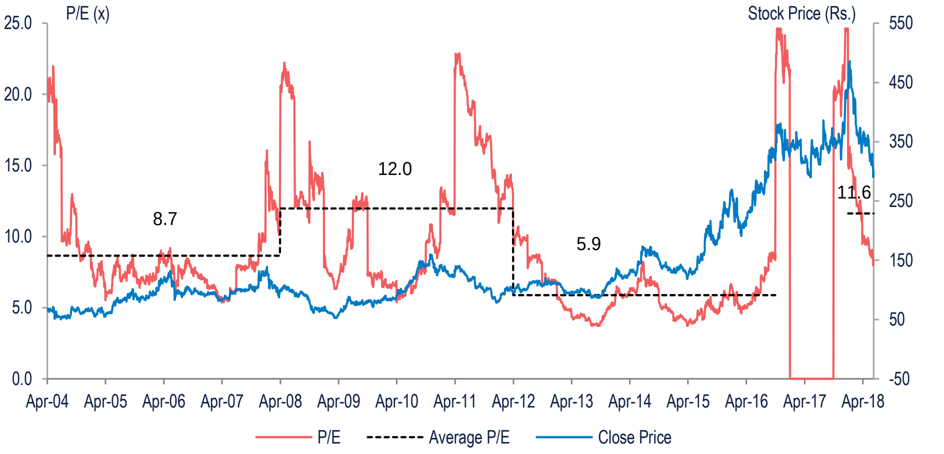
Indian Companies (In INR)	Price 04/08/2018	YTD	Market Cap (Rs. mn)	EV (Rs. mn)	EV/ EBITDA	Net Debt/ EBITDA	EPS 2018	EPS 2019E	EPS 2020E	P/E 2018	P/E 2019E	P/E 2020E	FCF Yield
JK Paper	151.3	9.0%	26,959.3	37,193.7	6.1	1.7	15.3	20.8	22.2	9.9	7.3	6.8	12.6%
West Coast Paper Mills	320.6	1.8%	21,172.0	23,634.7	6.5	0.7	33.8	36.6	41.8	9.5	8.8	7.7	7.9%
Tamil Nadu Newsprint & Papers	296.8	-33.9%	20,538.2	46,219.9	11.4	6.4	-6.1	30.2	48.4	0.0	9.8	6.1	11.6%
IP APPM	393.6	24.2%	15,651.5	17,146.4	7.7	0.7	23.1	25.5	28.3	17.0	15.4	13.9	10.7%
Average					**7.9**	**2.3**				**9.1**	**10.3**	**8.6**	

Global Players (In USD)	Price 04/08/2018	YTD	Market Cap (USD mn)	EV (USD mn)	EV/ EBITDA	Net Debt/ EBITDA	EPS 2018	EPS 2019E	EPS 2020E	P/E 2018	P/E 2019E	P/E 2020E	FCF Yield
International Paper	52.6	-12.1%	21,486.5	31,235.5	8.3	2.6	3.5	5.1	5.7	15.2	10.4	9.2	1.3%
Nine Dragons	1.3	-22.7%	5,919.4	8,781.7	7.7	2.5	0.1	0.2	0.2	10.4	6.5	6.7	0.1%
Mondi PLC	2,906.9	15.7%	14,079.9	15,588.4	9.5	0.9	168.9	194.3	204.8	17.2	15.0	14.2	3.2%
Average					**8.5**	**2.0**				**14.3**	**10.6**	**10.0**	

Source: Company, Bloomberg, Investec Securities estimates

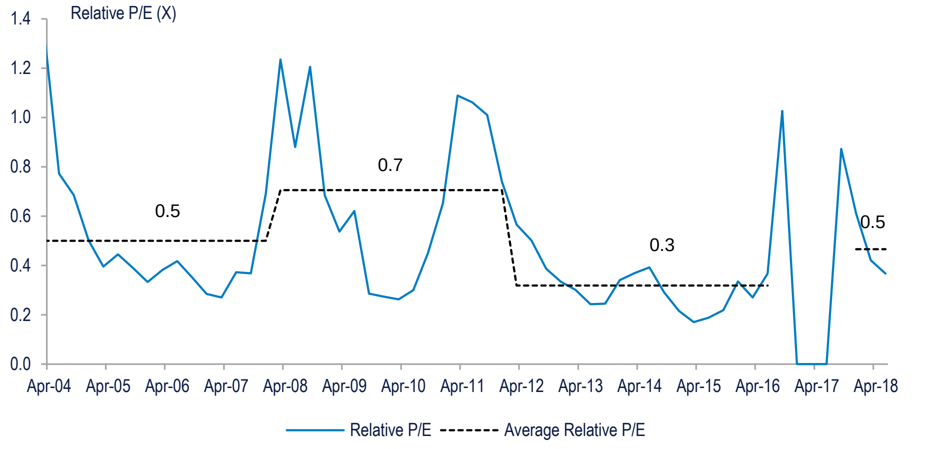
Valuation

Historical P/E ratio [12 month forward]



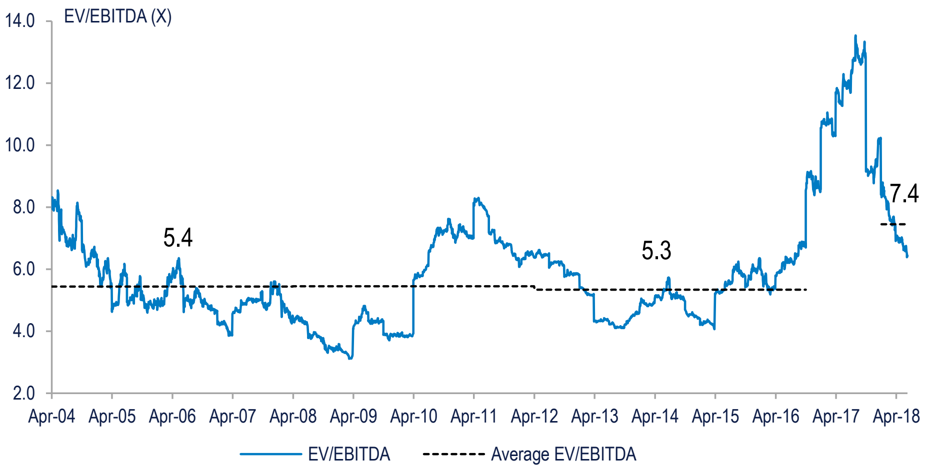
Source: Company, BSE, Investec Securities estimates

Relative P/E ratio [12 month forward]



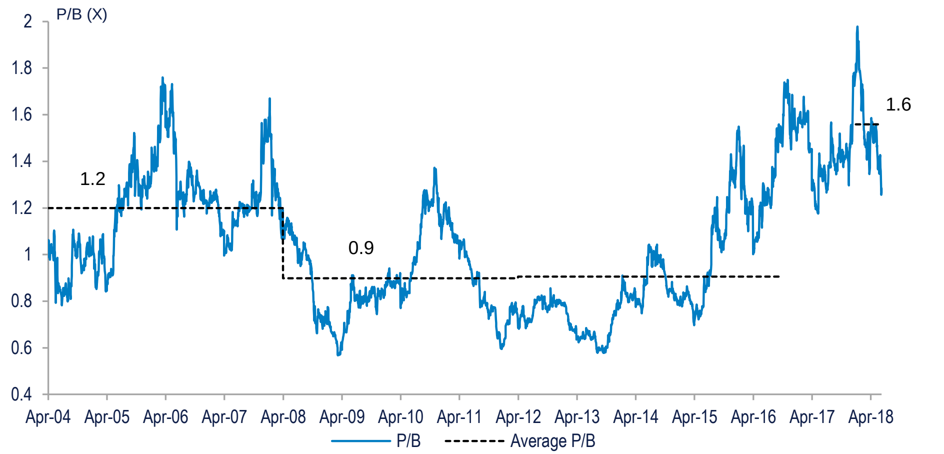
Source: Company, Bloomberg, Investec Securities estimates

Historical EV/EBITDA [TTM]



Source: Company, BSE, Investec Securities estimates

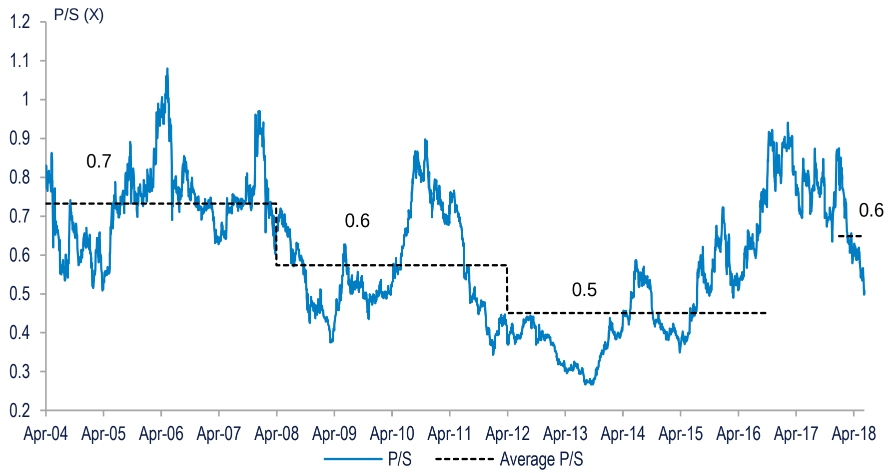
Historical P/B ratio



Source: Company, BSE, Investec Securities estimates

Valuation

Historical Price/Sales

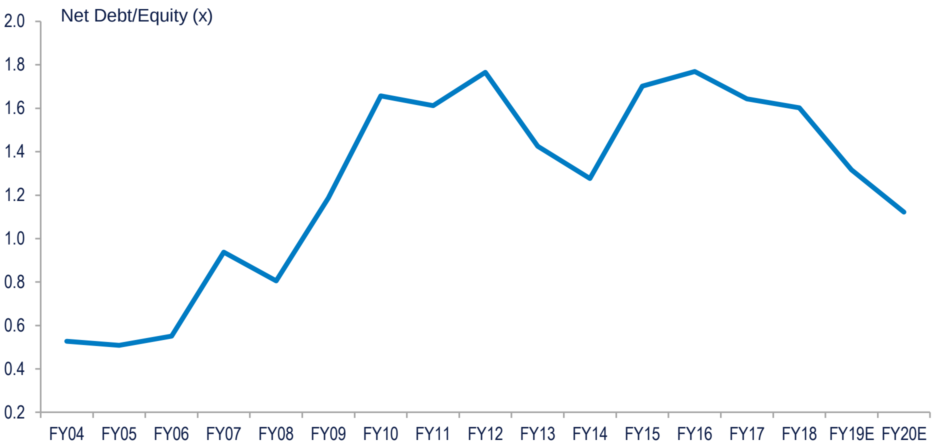


Source: Company, BSE, Investec Securities estimates

Net Debt/EBITDA

Source: Company, Investec Securities estimates

Net Debt/Equity



Source: Company, Investec Securities estimates

Investec

Valuation

Du Pont

Du Pont	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
EBIT Margins (%)	14.5%	8.3%	16.4%	17.3%	20.0%	17.7%	19.1%	17.3%	10.9%	13.3%	14.5%	18.0%	18.4%	18.9%	7.0%	14.0%	16.5%
Asset Turnover (x)	0.7X	0.9X	0.9X	0.7X	0.8X	0.7X	0.5X	0.5X	0.7X	0.9X	1.0X	0.7X	0.6X	0.8X	0.9X	1.0X	1.0X
Interest Burden (x)	0.8X	0.7X	0.8X	0.9X	0.9X	0.7X	0.8X	0.8X	0.2X	0.5X	0.6X	0.6X	0.7X	0.5X	-0.1X	0.5X	0.7X
Tax Burden (x)	0.8X	1.0X	0.8X	0.7X	0.7X	0.6X	0.8X	0.7X	0.4X	0.7X	0.8X	0.7X	0.8X	0.9X	1.5X	0.8X	0.8X
Equity Multiplier (x)	1.7X	1.6X	1.7X	2.1X	1.9X	2.2X	2.4X	2.4X	2.2X	2.0X	1.9X	2.5X	2.5X	2.2X	2.1X	2.0X	1.9X
ROAE	11.8%	8.2%	16.4%	15.3%	17.7%	13.4%	14.7%	13.0%	0.9%	8.8%	14.1%	13.9%	17.2%	15.5%	-2.6%	11.8%	16.2%

Source: Company, Investec Securities estimates

Company Overview

Operations

TNPL was promoted by Government in 1979 with an installed capacity of 90,000 TPA of Newsprints and Writing Paper in Tamil Nadu. In 2010, the company stopped manufacturing newsprints as it became economically unviable. It uses Bagasse for 60% of its production.

Gradually, the capacity was increased to 400,000 tonnes of Writing and Printing Paper and Packaging segment was added with 200,000 tonnes of capacity in FY17. The company focuses on Maplitho paper which is used in notebooks. It sells 25% of its paper produced to Tamil Nadu government which uses it to manufacture books and another 25% is exported. The strong presence in South helps company to sell 50% of its dealer order book. Due to its large order book from Government, it is relatively less impacted during downturns. TNPL also procures wood from government auctions.

The strong education demand in India on back of improvement in literacy rates is a major support for TNPL's products demand. Multiple publications also source paper from the organization. EBITDA margin has been one of the highest in the industry. In FY18, this EBITDA margin was impacted due to water shortage and bagasse shortage. Normalization of this, will lead to better EBITDA margin future.

Future Plans

The Company has announced capacity expansion of 165,000 MT Printing paper and 400 TPD of Pulp.

Competition

The company has low competition as it has assured supply to government and export market. However, TNPL's presence in non-southern markets is low. Currently, the production is getting absorbed in its current market. Thus, as the company grows, it has to improve its network in non-southern markets.

Timeline

1979 : Promoted by Tamil Nadu Government.
1984 : Commissioned initial capacity of 90,000 TPA of newsprints & Writing paper along with 26 MW of Power.
1994 : First wind arm installed.
1995 : Added power capacity.
1996 : Added 90,000 TPA additional paper capacity.

1998/1999/2000 : Problems with intake of water from river affected production

2002 : Added power capacity & became self sufficient in power

2002 : 50,000 TPA rebuilt by increasing machine operating speed at Rs. 140 Crs

2003 : Lost 26 machines days due to water shortage.

2003 : Entered into a long term agreement with Sugar mills for procuring bagasse in exchange for steam.

2004 : Lost 37 machine days due to water shortage. Installed Rain water harvesting system.

2004 : TN government allotted 756 acres of land to TNPL under Waste Land Development Programme for pulp wood cultivation

2004 : Added wind capacity

2004 : Entered into long term agreement with TAFCORN to supply 70% of Eucalyptus wood production for 15 yrs.

2005 : Lost 58 machine days due to water shortage.

2005 : Developed two plantation schemes – Farm forestry & Captive plantation.

2005 : An agreement has been entered with a Sugar mill for sourcing bagasse [55,000 MTPA bagasse].

2006 & 2007 : Installed Wind Power Generators.

2008 : A new 300 TPD Hardwood Pulp & a 500 TPD Chemical Bagasse Pulp capacity have been installed [Reached 720 TPD pulp capacity]

2008 : Added 20 MW of turbo generator

2009 : Added 15,000 MT production capacity.

2010 : Discontinued manufacturing newsprints as it was no longer economical

2011 : Added 30 TPD hardwood pulp capacity & 130 TPD of Chemical pulp

2011 : The plantation programmes started yielding benefits

2012 : Installed a new Paper Machine with a production capacity of 1,55,000 MTPA.

2014 : Augmented power capacity.

2014 : Commissioned a 600 TPD Cement plant to produce cement using the mill waste materials namely lime sludge and Fly ash.

2014 : The company installed a new 300 TPD deinked pulp .

2016 : Cement production capacity was increased from 600 TPD to 900 TPD.

2017 : Lost 25 machine days due to water shortage.

2017 : Commissioned a greenfield project of 200,000 TPA Multilayer Coated Paper Board, along with a 35 MW captive co-generation power plant.

2018 : Lost 118 machine days due to water shortage.

1979 | 1998 | 2003 | 2005 | 2008 | 2011 | 2017

Source: Company, Investec Securities estimates

Insider Ownership

Beneficial owner	# of shares as on 30th June 2018 (in '000s)	Mkt value (In Rs. Mn)	% of total shares outstanding
Governor of Tamilnadu	24,445	7,236	35.3%

Source: Company, Investec Securities estimates

Institutional Ownership

Beneficial owner	# of shares as on 30th June 2018 (in '000s)	Mkt value (In Rs. Mn)	% of total shares outstanding
Life Insurance Corp. of India	6,306.0	1,866.6	9.1%
HDFC Asset Management Co. Ltd. (Invt Mgmt)	3,520	1,041.9	5.1%
Aditya Birla Sun Life AMC Ltd.	3,436	1,017.1	5.0%
Central Government/ State Government(s)/ President of India	2,808	831.2	4.1%
General Insurance Corp. of India (Invt Port)	2,110	624.6	3.0%
Norges Bank Investment Management	1,770	523.9	2.6%
United India Insurance Co. Ltd.	1,606	475.4	2.3%
Credit Suisse AG	1,300	384.8	1.9%
SBI Funds Management Pvt Ltd.	1,297	383.9	1.9%
ICICI Lombard General Insurance Co. Ltd.	810	239.8	1.2%
Others	3,873	1,146.3	5.6%
Total	**28,836**	**8,535.3**	**41.7%**

Source: Company, Investec Securities estimates

Management Team

Manager	Joining Yr	Affiliation	Brief profile
Thiru S. Sivashanmugaraja	2017	Managing Director	▪ He has held many positions in the departments of Government of Tamil Nadu. Served as Collector, Kancheepuram District, Anna Institute of Management, Tamil Nadu Housing Board, SIDCO and the office of the Hon'ble Governor of Tamil Nadu. ▪ Qualifications - B.Sc., B.E. (Civil) and IAS [2003]
Thiru SVR Krishnan	N/A*	ED Operations	▪ Has 33 years of experience in the Paper Industry, including 23 years at ITC Ltd. (Paper Division), and 10 years at Balakrishna Industries Ltd. ▪ Qualification: EMBA (IIBM); PDMM; BSc. - Physics
Thiru Avtar Singh Matharu	N/A*	ED Marketing	▪ 38 years of combined experience in India and abroad, and has held senior management positions in Ballarpur Industries Ltd., Asia Pulp and Paper Ltd., International Paper India Pvt. Ltd. And Khanna Paper Mills. ▪ Qualification: A.M.I.E PG Diploma in Business Management
Thiru V Ramanathan	N/A*	CFO	▪ Post Qualification 31 years of experience in Finance, Acc's and Treasuries, in Commodities, Power and Telecom; Associated with Vedanta Ltd. For 26 years before joining TNPL as CFO. ▪ Qualification: BSc., FCA
Thiru Kushal Pal Singh	N/A*	CGM Board Plant	▪ Paper mill experience of over 34 years. Previously worked at Ballarpur Industries Ltd. ▪ Qualification: B.E (Pulp and Paper Technology) Diploma in Pulp and Paper Technology.
Thiru K Thangaraju	N/A*	GM Paper /Production	▪ A total of 33 years experience in TNPL , started out as an Engineer (Trainee) in 1983 ▪ Qualification: BSc., B.Tech, PGDBA, PGDCA
Thiru A Balasubrmanian	N/A*	GM (E&I)	▪ Combined 28 years experience in Fertilizer, and PVC Plant Operations, Maintenance, Erection and Commissioning in Project Management ▪ Worked at SPIC and Chemplast and in L&T ▪ Qualification: B.E (Hons) – Electrical and Electronics MBA (Personnel)

Source: Company, Investec Securities estimates

Investec

Board of Directors

Director	Joining Yr	Affiliation	Brief profile
Thiru K Gnanadesikan, IAS	2018	Chairman	▪ He served on TNPL's Board as a Nominee Director of GOTN, holding positions as Non-Executive Director of the Company from May 2005 to January 2007. ▪ He has held numerous positions in departments of Government of Tamil Nadu and was Director /MD in many State Owned Companies. ▪ Currently, he holds the position of Additional Chief Secretary to Government, Industries Dept. ▪ Qualifications - M.Sc. (Social Sciences) (UK), B.E. (Hons) (E&CE) and IAS [1982]
Thiru S. Sivashanmugaraja IAS	2017	Managing Director	▪ See profile in prior section
Thiru K Shanmugam IAS	2016	Non Executive Director	▪ He has 31 years of service in various departments of Government of Tamil Nadu. Currently, he holds the position of Additional Chief Secretary to Government, Finance Department. ▪ Qualifications - MSc (Agriculture), IAS [1985]
Thiru V Nagappan	2013	Independent Director	▪ With more than two decades of experience in Capital Markets & Financial Services Industry, he has been the Chairman of Federation of Indian Stock Exchanges - FISE and a Member of Secondary Markets Advisory Committee (SMAC) of SEBI. He is currently the Member of the Advisory Committee of SEBI. ▪ Qualifications - B. Com , MBA
Thiru V Narayanan	2002	Independent Director	▪ He was the former Chief Secretary to the Government of Tamil Nadu. ▪ He has served on TNPL Board as nominee Director of GOTN from 1989 till 1995. He was also CMD of the Company from 1998 to 2002 and again Nominee Director from 2002 to 2005. As he has been on the Board of TNPL for more than 13 years, he has extensive experience in paper industry. ▪ Qualifications – Electrical Engineer , IAS [1970]
Thiru Narayanan, IAS (Retd.)	1989	Independent Director	▪ He was the former Chief Secretary to the Government of Tamil Nadu. ▪ He has served on TNPL Board as nominee Director of GOTN from 1989 till 1995. He was also CMD of the Company from 1998 to 2002 and again Nominee Director from 2002 to 2005. As he has been on the Board of TNPL for more than 13 years, he has vast experience in paper industry. ▪ Qualifications – Electrical Engineer , IAS [1970]

Director	Joining Yr	Affiliation	Brief profile
Tmt. Soundara Kumar	2017	Independent Director	▪ She worked for 39 years as officer in State Bank of India from 1975 to 2014 with various responsibilities. ▪ Served on the Boards of SIDBI Ventures, SBICIL (State Bank of India Commercial and International Bank Ltd.) and CERSAI (Central Registry of Securitization Asset Reconstruction and Securities Interest) ▪ She served as a member of RBI Working Group to recommend measures for scaling up the Business Correspondent (BC) model for Financial Inclusion and participated in several panel discussions etc. relating to SME, Stressed Assets Management etc. ▪ Qualifications - B.Sc (Maths), C.A.I.I.B
Thiru V Chandrasekaran	2017	Independent Director	▪ He has worked for nearly 32 years in Finance and Investment functions of Life Insurance, Housing Finance and Mutual Fund in LIC. ▪ He serves on the board of various companies including Dena Bank, UTI Venture Funds Management Company Pvt. Ltd, Legal Entity Identifier India Ltd and LICHFL Asset Management Company Ltd. ▪ Qualifications - B.Com, F.C.A.
Tmt. Anu George, IAS	2017	Director	▪ She has held various key positions in Depts of Govt of Tamil Nadu as Sub-Collector Tiruppattur, Additional Collector - Tiruvannamalai, Deputy Commissioner - Education, etc. ▪ Qualifications – IAS [2003]

Source: Company, Investec Securities estimates

Financial Models – Quarterly Income Statement

Quarterly Income Statement	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenues	**6,476.3**	**5,551.4**	**4,811.2**	**7,336.5**	**7,564.3**	**6,789.8**	**7,122.8**	**8,020.6**	**5,634.8**	**5,360.3**	**9,441.9**	**10,505.3**
% YoY	33.4%	17.5%	1.4%	4.3%	16.8%	22.3%	48.0%	9.3%	-25.5%	-21.1%	32.6%	31.0%
EBITDA	**1,364.7**	**1,410.7**	**1,135.0**	**1,820.2**	**1,799.5**	**1,764.1**	**1,893.1**	**1,832.8**	**309.5**	**672.3**	**1,453.0**	**1,609.2**
% of sales	21.1%	25.4%	23.6%	24.8%	23.8%	26.0%	26.6%	22.9%	5.5%	12.5%	15.4%	15.3%
Depreciation	352.4	334.0	346.0	373.0	463.9	528.7	542.7	541.6	543.5	546.5	558.3	570.0
Operating Profit	**1,012.3**	**1,076.7**	**789.0**	**1,447.2**	**1,335.6**	**1,235.4**	**1,350.4**	**1,291.2**	**-234.0**	**125.8**	**894.7**	**1,039.2**
% of sales	15.6%	19.4%	16.4%	19.7%	17.7%	18.2%	19.0%	16.1%	-4.2%	2.3%	9.5%	9.9%
Interest expenses	385.0	343.2	276.6	358.3	646.0	513.3	676.3	684.7	631.6	582.2	653.4	579.1
Other income	29.2	32.8	42.0	77.5	87.3	73.0	99.8	109.6	68.5	74.8	81.1	116.4
Exceptions	-	-	-	-	-	-	-	-	-	-	-	-
PBT	**656.5**	**766.3**	**554.4**	**1,166.4**	**776.9**	**795.1**	**773.9**	**716.1**	**-797.1**	**-381.6**	**322.4**	**576.5**
% to net sales	10.1%	13.8%	11.5%	15.9%	10.3%	11.7%	10.9%	8.9%	-14.1%	-7.1%	3.4%	5.5%
Tax	140.1	167.9	115.7	210.2	81.8	89.3	163.3	82.0	94.4	-249.6	51.4	245.5
Eff tax rate (%)	21.3%	21.9%	20.9%	18.0%	10.5%	11.2%	21.1%	11.5%	-11.8%	65.4%	15.9%	42.6%
PAT	**516.4**	**598.4**	**438.7**	**956.2**	**695.1**	**705.8**	**610.6**	**634.1**	**-891.5**	**-132.0**	**271.0**	**331.0**
% to net sales	8.0%	10.8%	9.1%	13.0%	9.2%	10.4%	8.6%	7.9%	-15.8%	-2.5%	2.9%	3.2%
EPS [fully diluted]	**7.5**	**8.7**	**6.3**	**13.8**	**10.0**	**10.2**	**8.8**	**9.2**	**-12.9**	**-1.9**	**3.9**	**4.8**
% YoY	96.8%	78.7%	16.5%	37.9%	34.6%	17.9%	39.1%	-33.7%	-228.3%	-118.7%	-55.6%	-47.8%

Source: Company, Investec Securities estimates

Financial Models – Annual Income Statement

Income Statement	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues	**10,664.6**	**10,256.8**	**12,085.0**	**15,229.2**	**18,612.6**	**22,852.2**	**21,357.3**	**24,175.4**	**29,496.8**	**30,942.3**	**35,616.5**	**38,579.9**
% YoY	13.6%	-3.8%	17.8%	26.0%	22.2%	22.8%	-6.5%	13.2%	22.0%	4.9%	15.1%	8.3%
EBITDA	**2,554.6**	**2,637.0**	**3,160.6**	**3,194.8**	**4,021.5**	**5,064.9**	**5,057.5**	**5,668.6**	**7,288.8**	**4,044.0**	**7,028.6**	**8,659.8**
% of sales	24%	26%	26%	21%	22%	22%	24%	23.4%	24.7%	13.1%	19.7%	22.4%
Depreciation	1,008.0	1,155.6	1,233.7	1,690.5	1,749.9	1,923.2	1,373.0	1,437.7	2,076.8	2,218.3	2,271.5	2,513.6
Operating Profit	**1,546.6**	**1,481.4**	**1,926.9**	**1,504.3**	**2,271.6**	**3,141.7**	**3,684.5**	**4,230.9**	**5,212.0**	**1,825.7**	**4,757.1**	**6,146.2**
% of sales	15%	14%	16%	10%	12%	14%	17%	17.5%	17.7%	5.9%	13.4%	15.9%
Interest expense	492.7	461.8	442.4	1,412.7	1,209.7	1,282.1	1,549.3	1,218.5	2,520.2	2,446.3	2,339.8	2,124.0
Other income	338.4	479.4	165.4	160.7	199.2	167.2	166.4	223.3	369.5	340.8	237.3	237.3
Exceptions	185.4	81.8	301.5	998.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	**1,577.7**	**1,580.8**	**1,951.4**	**1,251.2**	**1,261.1**	**2,026.8**	**2,301.6**	**3,235.7**	**3,061.3**	**-279.8**	**2,654.6**	**4,259.5**
% to net sales	15%	15%	16%	8%	7%	9%	11%	13.4%	10.4%	-0.9%	7.5%	11.0%
Tax	504.7	320.0	461.5	161.7	346.3	415.0	634.0	637.7	416.4	141.7	566.5	909.0
Eff tax rate (%)	32%	20%	24%	13%	27%	20%	28%	19.7%	13.6%	-50.6%	21.3%	21.3%
PAT	**1,073.0**	**1,260.8**	**1,489.9**	**1,089.5**	**914.8**	**1,611.8**	**1,667.6**	**2,598.0**	**2,644.9**	**-421.5**	**2,088.1**	**3,350.5**
% to net sales	10%	12%	12%	7%	5%	7%	8%	10.7%	9.0%	-1.4%	5.9%	8.7%
EPS [Fully Diluted]	**15.4**	**17.6**	**18.5**	**15.7**	**13.2**	**23.3**	**24.1**	**37.5**	**38.2**	**-6.1**	**30.2**	**48.4**
% YoY	-5.7%	14.7%	5.1%	-15.1%	-16.0%	76.2%	3.4%	55.8%	1.8%	-115.9%	NA	60.5%
DPS	**4.5**	**4.5**	**5.0**	**5.0**	**5.0**	**6.0**	**6.0**	**7.5**	**7.5**	**5.0**	**5.0**	**5.0**
% YoY	0.0%	0.0%	11.1%	0.0%	0.0%	20.0%	0.0%	100.0%	0.0%	-33.3%	0.0%	0.0%

Source: Company, Investec Securities estimates

Investec

Financial Models – Balance Sheet

Balance Sheet	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net worth	6,643.2	8,045.0	9,157.9	9,706.9	10,354.8	11,459.8	12,016.4	15,096.0	17,046.5	16,031.3	17,702.9	20,636.8
Equity capital	693.8	693.8	693.8	693.8	693.8	693.8	693.8	693.8	693.8	693.8	693.8	693.8
Reserves	5,949.4	7,351.2	8,464.1	9,013.1	9,661.0	10,766.0	11,322.6	14,402.2	16,352.7	15,337.5	17,009.1	19,943.0
Debt	8,064.5	13,629.1	14,881.0	17,337.9	15,002.1	14,751.1	20,656.6	26,868.9	28,234.2	25,964.0	23,523.6	23,377.1
Deferred tax liab	2,198.5	2,101.3	2,496.1	2,697.6	2,904.6	3,166.4	3,595.9	2,337.9	2,058.3	2,216.6	2,216.6	2,216.6
Others	0.0	0.0	0.0	743.4	839.7	915.4	1,013.3	1,004.0	1,055.5	1,103.9	1,103.9	1,103.9
Total	**16,906.2**	**23,775.4**	**26,535.0**	**30,485.8**	**29,101.2**	**30,292.7**	**37,282.2**	**45,306.8**	**48,394.5**	**45,315.8**	**44,547.0**	**47,334.4**
Capitalised assets	12,212.6	12,537.1	22,070.9	22,000.9	21,053.5	24,544.2	24,259.2	24,444.4	41,069.9	40,779.8	39,608.3	42,094.7
Capital WIP	2,627.0	8,525.0	1,305.2	3,137.9	4,568.6	949.9	6,312.3	18,145.5	590.2	181.4	181.4	181.4
Investments	11.4	114.0	11.4	11.4	11.4	11.4	11.4	9.9	10.7	10.3	10.3	10.3
Cash	176.7	193.6	122.2	197.4	245.1	122.1	203.3	162.1	214.5	272.0	200.0	200.0
Non Current Assets	1,878.5	2,405.8	1,797.0	4,036.6	2,319.7	2,184.1	2,447.2	1,612.3	5,436.2	3,288.5	3,763.2	4,064.2
Others	0.0	0.0	1,228.3	1,101.5	902.5	2,481.0	4,048.8	932.6	1,069.8	783.8	783.8	783.8
Total	**16,906.2**	**23,775.5**	**26,535.0**	**30,485.7**	**29,100.8**	**30,292.7**	**37,282.2**	**45,306.8**	**48,391.3**	**45,315.8**	**44,547.0**	**47,334.4**

Balance Sheet Key Ratios	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Debt	7,887.8	13,332.9	14,758.8	17,140.5	14,757.0	14,629.0	20,453.3	26,706.8	28,019.7	25,681.7	23,313.3	23,166.8
Net Debt/Equity	1.2X	1.7X	1.6X	1.8X	1.4X	1.3X	1.7X	1.8X	1.6X	1.6X	1.3X	1.1X
Interest Coverage Ratio	3.1X	3.2X	4.4X	1.1X	1.9X	2.5X	2.4X	3.5X	2.1X	0.7X	2.0X	2.9X
Working Capital Ratios												
Inventory Turns	67.2X	60.2X	61.9X	78.5X	51.9X	45.6X	74.1X	58.5X	70.7X	57.1X	57.1X	57.1X
Receivable Turns	58.1X	71.0X	62.2X	87.2X	54.3X	60.2X	85.7X	73.3X	65.6X	70.6X	70.6X	70.6X
Payable Turns	60.5X	49.8X	59.9X	82.0X	79.7X	74.4X	99.2X	88.4X	69.0X	90.7X	90.7X	90.7X
Other Turns	-0.6X	4.2X	-9.9X	13.0X	19.0X	3.5X	-18.8X	-19.1X	0.0X	1.7X	1.5X	1.4X
Net Working Capital days	**64.3X**	**85.6X**	**54.3X**	**96.7X**	**45.5X**	**34.9X**	**41.8X**	**24.3X**	**67.3X**	**38.8X**	**38.6X**	**38.5X**
Fixed Asset Turns	507.9X	749.5X	706.0X	602.5X	502.5X	407.2X	522.5X	369.1X	508.2X	548.9X	488.1X	497.9X

Source: Company, Investec Securities estimates

Financial Models – Cash Flow

Cash Flow	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Profit Before Tax & Exceptional items	1,392	1,499	1,650	252.3	1,261.1	2,026.8	2,301.6	3,788.4	2,954.5	-279.8	2,654.6	4,259.5
Adjustments	1,475	1,292	1,488	3,807.5	2,694.9	2,768.4	2,312.8	1,994.3	3,742.5	4,522.9	4,044.8	3,728.5
Changes in Working Capital	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from Operating Activities	**1,451**	**2,091**	**2,748**	**3,057.7**	**6,324.8**	**5,236.1**	**4,031.9**	**5,782.8**	**6,697.0**	**4,243.1**	**6,699.4**	**7,988.1**
(Purchase)/ Sale of Fixed Assets	-2,991.8	-7,242.3	-2,842.7	-2,883.8	-1,934.9	-2,930.9	-7,501.2	-9,029.0	-988.0	-1,519.4	-1,100.0	-5,000.0
(Purchase) / Sale of Investment	160.1	-102.6	102.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment Income	45.4	39.1	63.1	65.9	55.4	92.2	103.0	76.0	93.6	0.0	0.0	0.0
Other Investment Activities								9.7	11.0	0.0	0.0	0.0
Cash flow from Investment Activities	**-2,786.3**	**-7,305.8**	**-2,677.1**	**-2,817.9**	**-1,879.5**	**-2,838.7**	**-7,398.2**	**-8,943.4**	**-883.4**	**-1,519.4**	**-1,100.0**	**-5,000.0**
Issue/ (Repayment) of Borrowings	1,976	6,048	1,258	1,724.9	-2,484.5	-740.2	5,834.3	5,802.9	1,363.3	-2,270.2	-2,440.4	-146.6
Proceeds/ (Buyback) from Issue of Equity				-	-	-	-	-	-	-	-	-
Interest Paid	-492.9	-452.1	-1,037.5	-1,488.0	-1,437.1	-1,375.2	-1,901.1	-2,598.1	-2,626.0	-2,446.3	-2,339.8	-2,124.0
Dividend Paid	-202.4	-364.4	-363.2	-402.2	-402.2	-404.9	-485.8	-499.8	-624.8	-624.8	-416.5	-416.5
Cash from financing	**1,280.8**	**5,231.8**	**-143.0**	**-165.3**	**-4,323.8**	**-2,520.2**	**3,447.3**	**2,705.0**	**-1,887.5**	**-5,341.3**	**-5,196.7**	**-2,687.1**
Change of cash	-54.5	16.8	-72.2	74.5	121.5	-122.9	80.9	-455.6	3,926.2	-2,617.6	402.7	301.0
FCFF	**-1,540.8**	**-5,151.6**	**-94.8**	**173.9**	**4,315.9**	**2,305.2**	**-3,469.4**	**-2,832.6**	**1,834.1**	**5,364.5**	**5,124.7**	**2,687.1**
FCFE	**-1,540.8**	**-4,862.9**	**-94.8**	**173.9**	**4,315.9**	**2,305.2**	**-3,469.4**	**2,970.4**	**3,197.4**	**3,094.3**	**2,684.3**	**2,540.5**

Source: Company, Investec Securities estimates

Summary Financials

(INRm)

Year end: 31 March

Income Statement	2016	2017	2018	2019E	2020E
Revenue	**24,175.4**	**29,496.8**	**30,942.3**	**35,616.5**	**38,579.9**
EBITDA	**5,668.6**	**7,288.8**	**4,044.0**	**7,028.6**	**8,659.8**
Depreciation and amortisation	4,230.9	5,212.0	1,825.7	4,757.1	6,146.2
Operating profit	**4,230.9**	**5,212.0**	**1,825.7**	**4,757.1**	**6,146.2**
Other income	223.3	369.5	340.8	237.3	237.3
Net interest	1,218.5	2,520.2	2,446.3	2,339.8	2,124.0
Share-based-payments	0.0	0.0	0.0	0.0	0.0
PBT (normalised)	**3,235.7**	**3,061.3**	**(279.8)**	**2,654.6**	**4,259.5**
Impairment of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Non-recurring items/exceptionals	3,235.7	3,061.3	(279.8)	2,654.6	4,259.5
PBT (reported)	**3,235.7**	**3,061.3**	**(279.8)**	**2,654.6**	**4,259.5**
Taxation	637.7	416.4	141.7	566.5	909.0
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Discontinued/assets held for sale	0.0	0.0	0.0	0.0	0.0
Net Income (normalised)	2,959.5	2,575.3	(390.5)	0.0	0.0
Attributable profit	2,598.0	2,644.9	(421.5)	2,088.1	3,350.5
EPS (reported)	37.5	38.2	(6.1)	30.2	48.4
EPS (norm., cont.) – FD (INR)	37.5	38.2	(6.1)	30.2	48.4
EPS (norm., cont., IAS19R adj.) – FD	-	-	-	-	-
DPS (INR)	0.5	1.5	2.5	2.5	2.5
Average number of group shares - FD (m)	69.2	69.2	69.2	69.2	69.2
Average number of group shares (m)	69.2	69.2	69.2	69.2	69.2
Total number of shares in issue (m)	69.2	69.2	69.2	69.2	69.2

Cash Flow	2016	2017	2018	2019E	2020E
Operating profit	4,230.9	5,212.0	1,825.7	4,757.1	6,146.2
Depreciation & amortisation	(4,230.9)	(5,212.0)	(1,825.7)	(4,757.1)	(6,146.2)
Other cash and non-cash movements	5,216.2	5,032.3	1,938.5	4,926.2	6,773.1
Change in working capital	413.7	(3,874.9)	2,640.8	(474.7)	(301.0)
Operating cash flow	**5,629.9**	**1,157.4**	**4,579.3**	**4,451.4**	**6,472.1**
Interest	1,132.9	2,415.6	2,446.3	2,339.8	2,124.0
Tax paid	(566.3)	(750.9)	(141.7)	(566.5)	(909.0)
Dividends from associates and JVs	(0.1)	0.0	0.0	0.0	0.0
Cash flow from operations	**6,196.5**	**2,822.1**	**6,883.9**	**6,224.7**	**7,687.1**
Maintenance capex	(9,029.0)	(988.0)	(1,519.4)	(1,100.0)	(5,000.0)
Free cash flow	**(2,832.6)**	**1,834.1**	**5,364.5**	**5,124.7**	**2,687.1**
Expansionary capex	0.0	0.0	0.0	0.0	0.0
Exceptionals & discontinued operations	0.0	0.0	0.0	0.0	0.0
Other financials	(2,522.2)	(2,532.4)	(2,446.3)	(2,339.8)	(2,124.0)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Net share issues	0.0	0.0	0.0	0.0	0.0
Dividends paid	(499.8)	(624.8)	(624.8)	(416.5)	(416.5)
Change in net cash	**(5,854.6)**	**(1,323.0)**	**2,293.5**	**2,368.4**	**146.6**
Net cash/(debt)	(41.9)	51.3	54.3	(72.0)	0.0
FCFPS - FD (INR)	(40.9)	26.5	77.5	74.0	38.8

Balance Sheet	2016	2017	2018	2019E	2020E
Property plant and equipment	42,589.9	41,660.1	40,961.2	39,789.7	42,276.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investments and other non current assets	942.6	1,080.5	794.1	794.1	794.1
Cash and equivalents	162.1	214.5	272.0	200.0	200.0
Other current assets	1,761.6	2,336.1	2,390.0	2,390.0	2,390.0
Total assets	**54,186.8**	**56,303.2**	**55,246.6**	**55,639.0**	**59,162.5**
Total debt	26,868.9	28,234.2	25,964.0	23,523.6	23,377.1
Preference shares	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	2,337.9	2,061.5	2,219.7	2,219.7	2,219.7
Provisions & other current liabilities	2,663.3	2,007.4	2,007.4	2,007.4	2,007.4
Pension deficit and other adjustments	0.0	0.0	0.0	0.0	0.0
Total liabilities	**39,090.8**	**39,259.9**	**39,215.3**	**37,936.1**	**38,525.7**
Net assets	**93,277.6**	**95,563.1**	**94,461.9**	**93,575.0**	**97,688.2**
Shareholder's equity	15,096.0	17,046.5	16,031.3	17,702.9	20,636.8
Minority interests	0.0	0.0	0.0	0.0	0.0
Total equity	**15,096.0**	**17,046.5**	**16,031.3**	**17,702.9**	**20,636.8**
Net working capital	1,931.3	5,831.3	3,570.8	3,973.5	4,274.5
NAV per share (INR)	218.1	246.3	231.6	255.8	298.2

Source: Company, Investec Securities estimates

West Coast Paper Mills (WCPM.NS)

West Coast Paper Mills (WCPM), one of the top branded paper company in the country, is benefitting from a consolidating industry in India and overseas. WCPM has successfully delevered its balance sheet over the past few years, and we expect it to be practically debt free by FY20. The management team is one of the more experienced teams in the industry, and has built a solid distribution network making it capable of quickly expanding capacity and sales. Valuation of 7.6% FY18 FCF yield, 10x FY18E P/E (Target multiple of 8x FY20E EPS, a slight discount to JK paper) is supportive, even as we expect strong cash flow to continue. However, a track record of unrelated diversification makes us somewhat cautious, and we initiate at HOLD.

- WCPM is one of the top paper companies in the country by size – it operates a 320,000 integrated paper mill, with sufficient pulping capacity, and a 75 MW power plant. An optimal size of the plant, it is amongst the more profitable paper companies in India today – FY18 EBITDA margin of 21.2%, and RoIC of 14.7%. WCPM also enjoys adequate supply of water, a key ingredient in paper making, ensuring a disruption free production schedule.
- We expect the paper cycle to remain buoyant, which should support profitability of top paper companies like WCPM. Over the past 2 years, WCPM has generated over Rs.5,825.6 mn of free cash flow as it has taken advantage of the 2nd widest distribution network as the paper cycle recovered.
- WCPM has successfully delevered over the past 2 years, and is practically debt free today. While a solid balance sheet positions WCPM to be one of the consolidators, a bank default in one of the group companies has created a stumbling block in the NCLT process. This means that expansion by WCPM has to be organic, making its desire of expanding its manufacturing footprint more challenging than its competitors. For instance, it was ruled out of the NCLT process for Sirpur Mills, which eventually has been acquired by JKPL.
- Like the other majors, WCPM has also sought to control its supply chain for wood fibre. However, success has been somewhat mixed, and it still imports ~43% of its requirement of wood fibre. This exposes WCPM to price volatility of fibre, which has been a key risk for the industry in the past.
- WCPM is one of the top paper companies in India, and has established a good brand, and a solid distribution network. It is trading at 9.5x FY18 P/E, with solid FCF generation capability - WCPM generated ~Rs. 1,872.3 mn FCF in FY18, a yield of 7.9% on Enterprise Value. From a valuation perspective, the stock is inarguably attractive. However, we are cautious owing to WCPM's propensity of unrelated diversification, and a relatively patchy track record of past acquisitions (see Table on page 114) Therefore, we initiate on WCPM with a HOLD rating, and Price Target of Rs334. We will become more constructive, if we get comfort on WCPM's capital use policies.

HOLD

Price: INR319 Target Price: INR334
Market Cap: INR21bn
Forecast Total Return: 5.4%

	2016A	2017A	2018A	2019E	2020E
Revenue (INRm)	17,000.4	17,693.4	17,102.0	19,708.9	20,705.7
EBITDA (INRm)	2,495.3	3,380.6	3,628.6	4,697.3	5,125.2
EBITA (INRm)	1,351.7	2,270.8	2,466.3	3,396.7	3,774.7
PBT (normalised) (INRm)	670.3	1,778.8	2,225.6	3,101.1	3,536.0
Net Income (normalised) (INRm)	484.3	1,285.0	2,232.2	2,418.9	2,758.0
EPS (norm. cont.) – FD (INR)	7.3	19.5	33.8	36.6	41.8
FCFPS - FD (INR)	20.0	59.9	28.3	12.9	48.4
DPS (INR)	0.5	1.5	2.5	2.5	2.5
PE (normalised) (x)	43.6	16.4	9.5	8.7	7.7
EV/sales (x)	1.1	1.1	1.1	1.0	0.9
EV/EBITDA (x)	7.6	5.6	5.2	4.0	3.7
FCF yield (%)	6.2	18.7	8.9	4.0	15.2
Dividend yield (%)	0.2	0.5	0.8	0.8	0.8

Target Price Basis

8x FY20 PE

Key Risks

Cyclicality from falling pulp prices and Unrelated diversification

Investment Positives

Key Positives	Details
Integrated pulp mill with adequate water and power	WCPM has a fully integrated paper mill with pulping capacity of 725 tpd. The mill is located in Dandeli at Karnataka on the banks of Kali River. Thus, it has year round availability of water from the river. In addition, the region receives adequate rainfall, ranging between 150 cm and 200 cm. WCPM has captive power generating capacity of 74.8 MW. Surplus power capacity of 20 MW is sold to Tamil Nadu State Electricity Board (TSEB).
Expect the paper cycle to remain beneficial, supporting profitability	We expect the current strong paper realization cycle to sustain in the domestic market, which should help keep margins elevated across the sector. Larger surviving companies in the Indian paper industry have successfully backward integrated to varying extent, and at today's paper prices are reasonably profitable, evidence of cost\capital efficiencies that these players have been able to achieve.
Strong dealer network	WCPM's strong pan-India distribution network with over 70 dealers operating from almost every state ensures effective reach of the products and services to the end users across the country. Of which, around 75% of the company's dealers have been associated with the company for over 15 years. It has 6 zonal offices in main cities of India. WCPM's distribution network is second only to JKPL's in the country.
Multiple product offering with focus on higher margin products	WCPM has multiple product variants catering to commercial, and premium segment in Writing & Printing, Packaging and Value added products. The company consciously exited less remunerative segments and now focusses on higher margin products. This has led to improvement in realisations.
Solid Balance Sheet	WCPM has been generating solid free cash flow, and as a result its Net Debt/Equity is 0.3x. It has generated average annual Free Cash Flow of ~Rs200cr over past 5 years, which provides them the wherewithal to fund future expansion – is keen for geographical expansion, but has not been able to get the right asset.
Promoter has been increasing stake in the Company	The promoter has been increasing shareholding in the company - increased to 56.0% in FY18 from 52.4% in FY12. The promoter brought in capital of Rs.472.5 mn in the form of Equity when the Company needed funds to expand in FY11, and later infused Rs.179 mn to reduce debt in FY13.

Integrated pulp mill with adequate power and water availability

100% integrated pulp mill

- WCPM has fully integrated paper mill with in-house pulping capacity.
- It replaced its old 300 tpd pulp mill with ECF (Elemental Chlorine Free) 725 tpd pulp line in FY11.
- The pulping machine replacement led to improvements in yield, reduced water consumption and effluent discharge.
- We estimate that the company is entirely self-sufficient in meeting its pulping requirement.

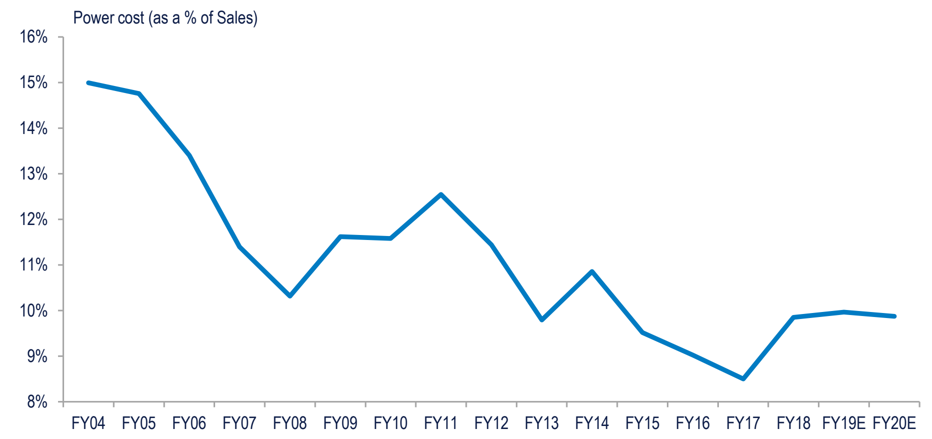
Source: Company, Investec Securities estimates

Adequate supply of water

- Access to water is very critical in paper making.
- The company has perennial availability of water from River Kali. In addition, there is adequate rainfall ranging between 150 cm and 200 cm per annum at their mill's location.
- In the past, WCPM has not faced any production disruption on account of water shortage.

Source: Company, Investec Securities estimates

Power cost as % of net sales has been reducing, aiding margin



Source: Company, Investec Securities estimates

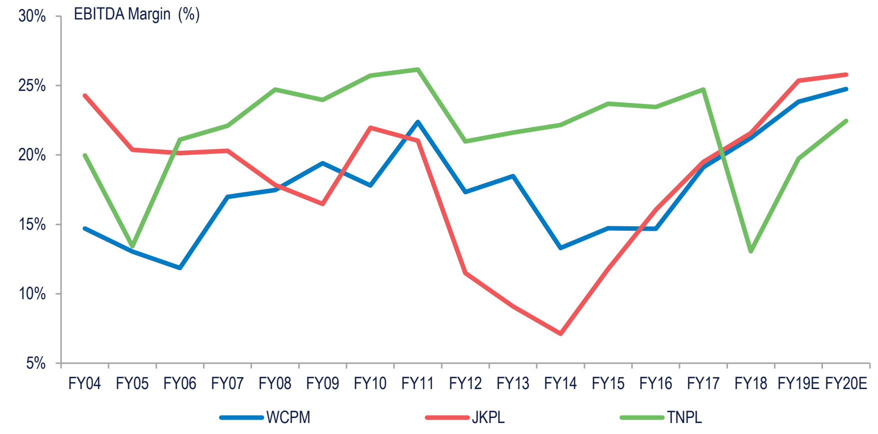
Self-sufficiency in power has lowered cost for WCPM

- Complete self-sufficiency has been achieved in power. Captive power generating capacity is 74.8 MW. Surplus power capacity of 20 MW is sold to TSEB.
- The company achieved 90% power self-sufficiency in FY01 itself. This provides it a greater ability to plan production schedules, and avoids unplanned downtime.
- Partly aided by lower energy costs (coal prices), and partly owing to its successful backward integration, WCPM has lowered its power cost – power cost reduced from 11.4% of net sales in FY12 to 9.9% in FY18.

Source: Company, Investec Securities estimates

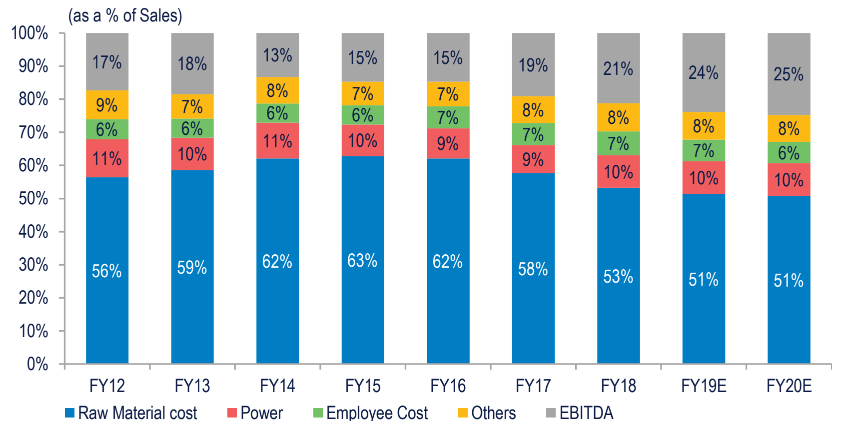
Expect the paper cycle to remain beneficial, supporting margin

EBITDA margins to expand



Source: Company, Investec Securities estimates

EBITDA margin should improve modestly, driven by additional cost leverage



(The numbers prior to FY12 are not comparable)

Source: Company, Investec Securities estimates

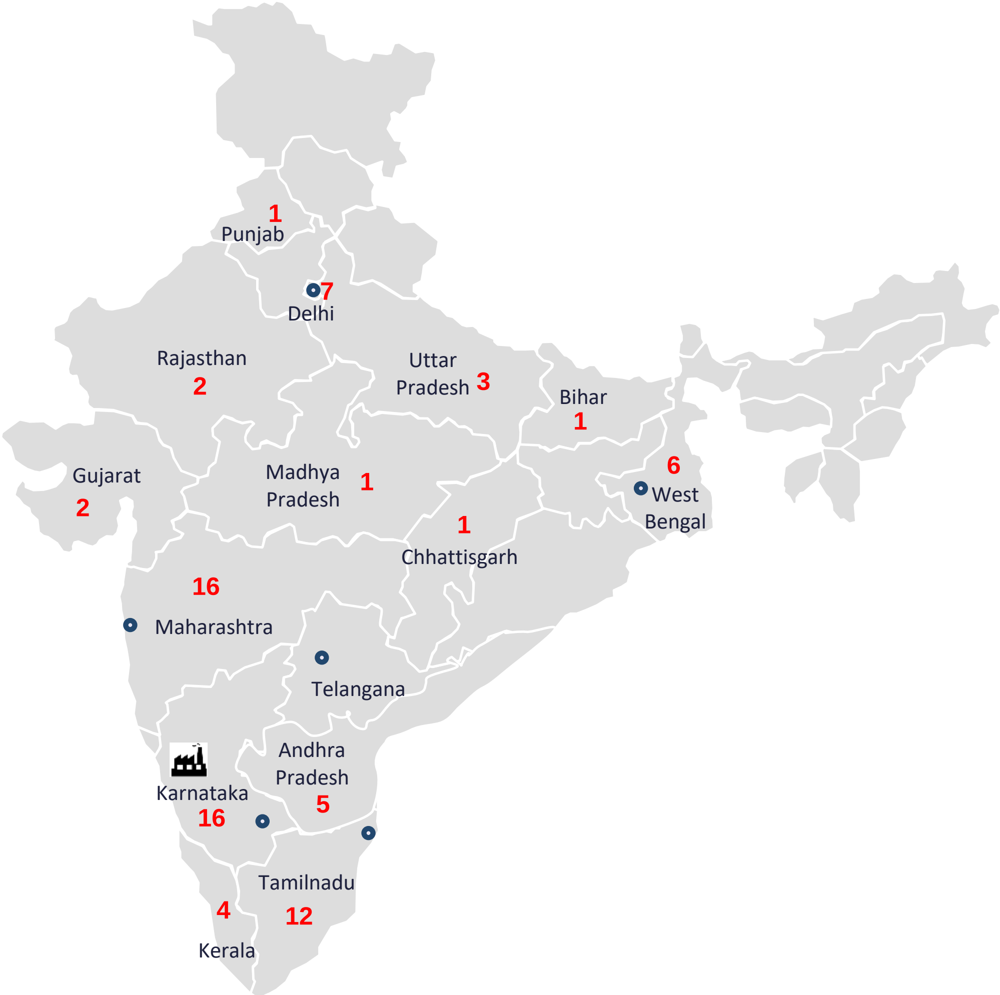
EBITDA margin will improve on back of increased in-sourcing from raw material

- The company is increasing its dependence on pulp imports by increasing its sourcing of fibre from farm forestry and domestic government auctions. While the extent of backward integration for wood is not as high as JKPL, and TNPL, it has been improving over the past few years.
- Global pulp prices are tightening and thus, reliance on domestic supply is beneficial – domestic fibre prices are less elastic, and will help the company in reduce costs.

Source: Company, Investec Securities estimates

Brand supported by strong dealer network – 2nd only to JKPL

77 total distributors, representing reasonably strong presence across the Country



- The Company has built a network of 77 dealers and 6 zonal offices in India.
- Of 77 dealers, around 75% of the Company's dealers have been associated with the Company for over 15 years.
- Apart from domestic sales, WCPM exports its products to 35 countries.
- Our channel checks reveals strong dealer confidence in WCPM's products. The lead time for product supply in most cases is 1 day.
- The recent price hikes by company have been easily absorbed in the market, reflecting a strong demand for company's products.

The numbers in Red reflect number of dealers presence in respective State

represents Zonal Offices in respective States

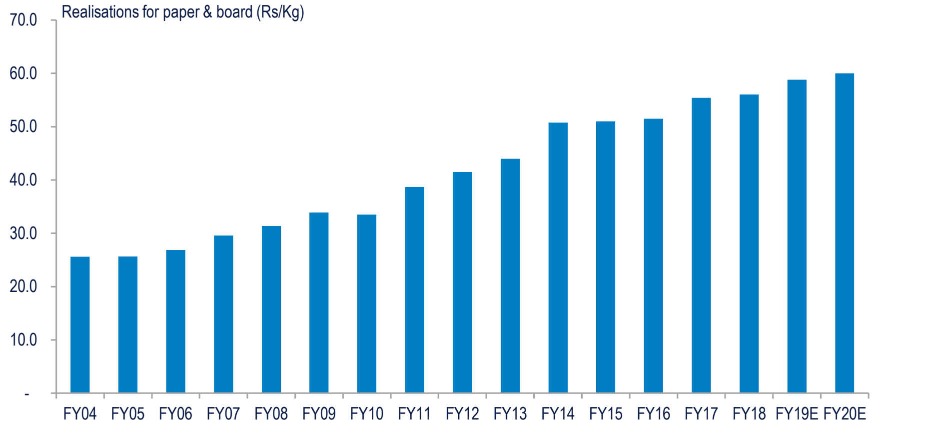
represents mill location

Source: Company, Investec Securities estimates

Multiple product offering with focus on higher margin products

Realizations have improved as they focus on value added products

- WCPM consciously exited low margin segments like kraft paper and low quality paper.
- WCPM has developed and introduced some new products and varieties like Wesco Bond, Wesco Supershine, Wesco Duraprint, B2B 64 gsm copier etc. to capture new markets, and improve product mix.
- Further, the company has shifted its focus from manufacturing duplex board to different variants of cup stock paper having double digit growth prospects & higher margins. Further, WCPM is known for its MICR cheque papers.



Source: Company, Investec Securities estimates

Multiple product offerings catering to both premium and economy needs

Printing and Stationary		Cupstock		Others	
Brand	**GSM**	**Brand**	**GSM**	**Brand**	**GSM**
Documate	65	WESCO Prime	160-230	Nova Print	54-90
B2B	70	WESCO Base	165-230	Wesco Duraprint	80-140
Azure Laid	70-110	WESCO Liner	165-230	Cartridge Paper	90-140
Copy Gold	75	WESCO Eco Liner	165-230	MICR Cheque Paper	95
Copy Plus	80			WESCO Parchment Paper	105-120
WESCO Bond	85 & 100			WESCO HB Greeting	170-250
WESCO Super Shine	90-140			WESCO Folding box board	190-250
				Duplex Board Coated Super Grey Back	230-400
				Coated Duplex Board Grey Back	230-570
				Duplex Board Kraft Back	400-600

Source: Company, Investec Securities estimates

Solid balance sheet

Investment grade credit rating provides access to capital at lower cost

Credit Rating	Outlook	Long Term Rating	Short Term Rating
India Ratings	Stable	A+	A1+
CARE	Stable	A	A1

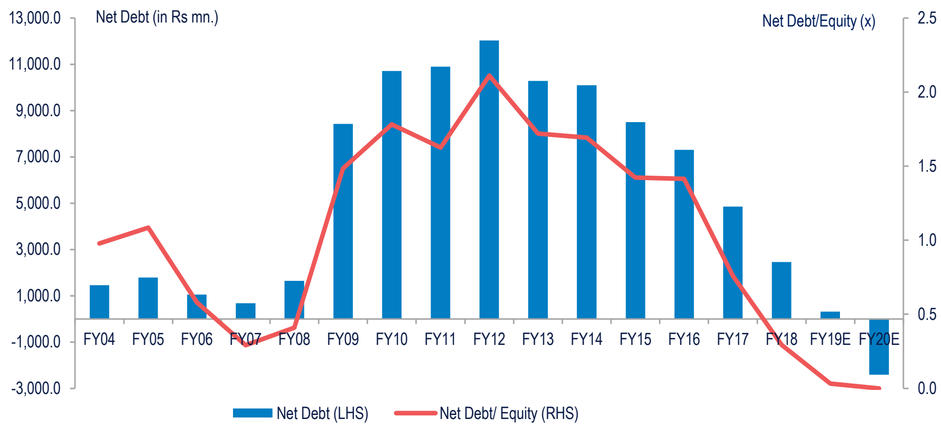
Source: Company, Investec Securities estimates

WCPM has been able to raise capital easily in the past

Source	Year	Amt (Rs. Mn)
Global Depository Receipts (GDRs)	FY08	354.7
Qualified Institutional Placement	FY08	499.9
8.5% Preference Shares	FY09	650.0
12.5% Non-Convertible Debentures	FY09	650.0
Term loans including Foreign currency loans	FY09	7,250.0
Promoter infusion	FY08-FY13	651.7

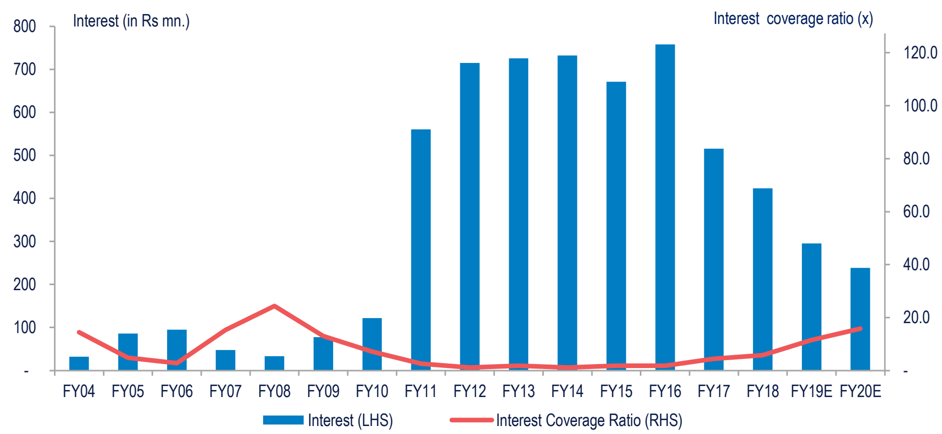
Source: Company, Investec Securities estimates

Company is on path to become debt free by FY20E



Source: Company, Investec Securities estimates

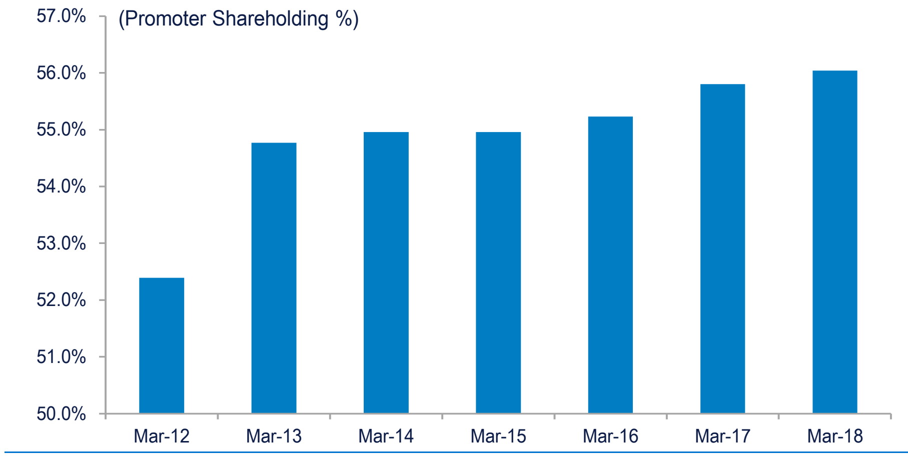
Interest coverage is very comfortable



Source: Company, Investec Securities estimates

Promoter has been increasing stake in the company

Promoter shareholding is at 56% as on Mar'18, a sign of confidence



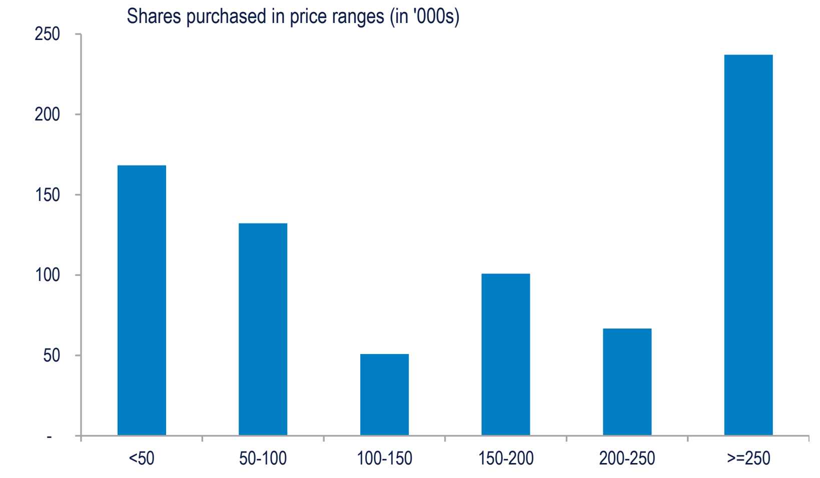
Source: Company, Investec Securities estimates

Promoter has brought capital in the company when required

Year	No. of shares issued	Issue Price	Amount contributed (in Rs. mn)	Required for
FY09	2,617,650	85.0	222.5	Expansion
FY10	3,000,000	45.0	135.0	Expansion
FY10	2,373,578	48.5	115.0	Expansion
FY13	3,300,000	54.3	179.2	Debt Repayment
	Total		**651.7**	

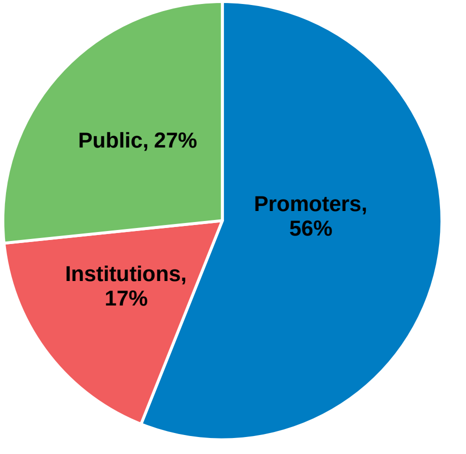
Source: Company, Investec Securities estimates

Promoter has bought shares at almost every price over the past 4-5 yrs



Source: Bloomberg, Investec Securities estimates

Shareholding pattern as on 30th June, 2018



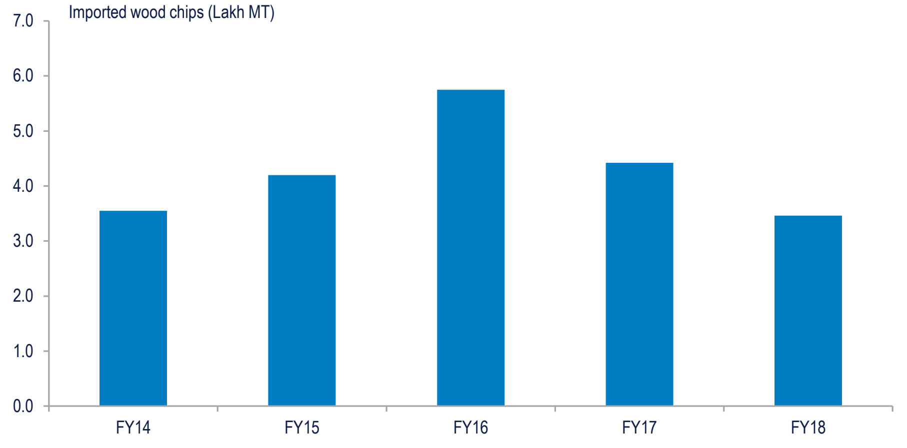
Source: Company, Investec Securities estimates

Investment Negatives

Key Negatives	Details
Not self-sufficient in wood	WCPM's efforts in farm forestry have fallen short, and it has to depend on imported wood chips and state auctions. However, its import dependency is reducing - WCPM's imported 43% of its fibre requirement in FY18, down ~40% over the past 3 years. (see chart of wood imports on page 112)
WCPM's capacity expansion plans could take time to fructify	WCPM has been operating at close to 98% capacity for the past 4 years, leading to low single digit growth rates in sales volume, even as profitability has been improving. However, profit growth is limited by WCPM to expand capacity – partly by expanding its geographical footprint. We believe that sites with backward integration of wood, and good water availability, can be profitable. While WCPM has been trying to get access to such a site, efforts have so far not been successful. The company's bid for Sirpur mill's acquisition was rejected on technical grounds of eligibility under Section 29A of the Insolvency and Bankruptcy Code (IBC), as a group company had been classified as NPA in the past. This could prevent WCPM from bargain picking from the reasonably large number of companies in distress.
Past acquisition track record is concerning	The company has made some poor investment decisions in the past, impacting its ROAIC. Please see table of page 114 detailing failed investments by WCPM – some of which are unrelated to its primary paper making business.

Not self-sufficient in wood

Dependence on imported wood chips and domestic government auctions

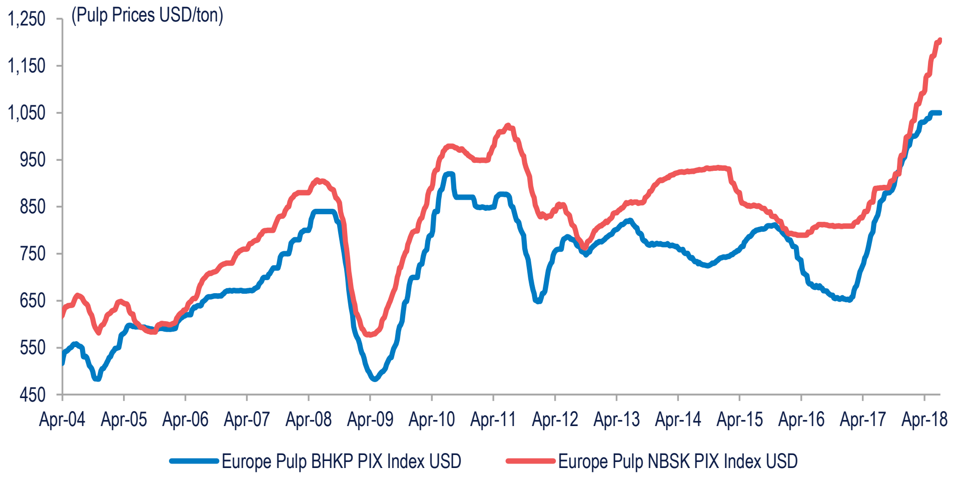


Source: Company, Investec Securities estimates

- In FY13, when domestic wood prices had increased by 34% in FY14, the company started importing wood chips.
- However, owing to recent sharp increase in global pulp prices, the company has shifted its focus back to domestic procurement.
- In FY18, 43% of company's pulp requirements were sourced from imports, and WCPM is targeting to reduce imports to 25% in FY19.
- Additionally, eucalyptus cultivation ban by Karnataka State government since Feb 2017 poses a new problem for the company to source wood. WCPM has filed writ petition against the ban.

Source: Company, Investec Securities estimates

WCPM may benefit lower than others from Increasing global pulp prices



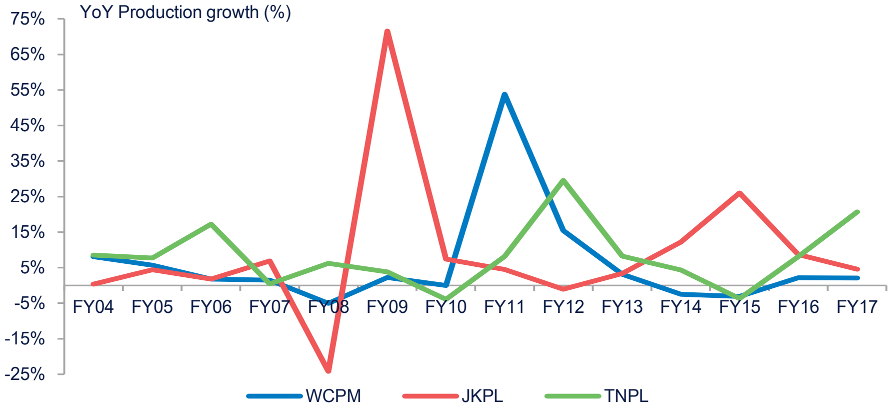
Source: Company, Investec Securities estimates

Depreciating rupee makes it costlier to import

Source: Company, Investec Securities estimates

WCPM's capacity expansion plans could take time to fructify

Production growth post FY13 has been anaemic owing to capacity constraints

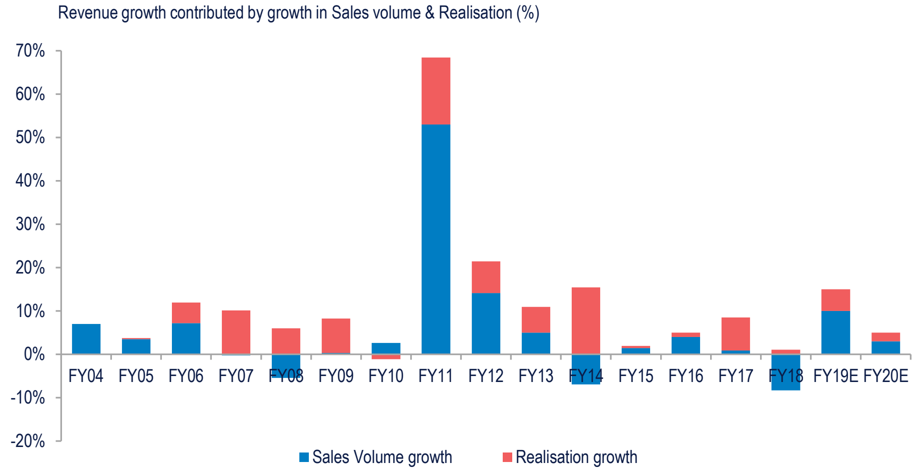


Note - FY18 production numbers not available as all annual reports are not out

Source: Company, Investec Securities estimates

- In FY 11, WCPM undertook major capacity expansion, which led to sharp increase in volume growth of 54%. This new capacity was 99% utilized by FY13, and volume growth has slowed since.
- As per our channel checks, there is demand for the company's products and, in our opinion, capacity expansion by WCPM (organic/inorganic) should be profitable.
- However, capacity expansion in the paper industry, especially greenfield, is challenging since sites with access to water, and fibre are difficult to find.

WCPM's growth has been hampered by lack of capacity



Source: Company, Investec Securities estimates

WCPM cannot bid for NCLT's assets

- WCPM's bid for Sirpur mill's acquisition was rejected on technical grounds of eligibility under Section 29A of the Insolvency and Bankruptcy Code (IBC), as a group company had been classified as NPA.
- Therefore, it may be difficult for WCPM to take advantage of opportunities arising from distress in the industry.

Source: Company, Investec Securities estimates

Past investment decisions are a cause for concern

The Company has made some poor investments in the past, where it incurred substantial losses

Investment in	Equity Investment (Rs. mn)	Loans & Advances (Rs. mn)	Year of Investment	Year of sale/ write off	Remarks
Shree Rama Newsprints	454.1	591.1	FY04	Stake sale in FY16	Out of total Rs.1,045.2 mn invested, only Rs 7.1 mn was recovered on sale.
Speciality Coatings & Lamination	20.5	73.6	FY97	Partial stake sale & balance written off in FY06	WCPM sold partial investments in FY06 and wrote off balance. However, it continued to provide deposits to the company till FY16. In FY16, company wrote down the deposits entirely.
Fort Gloster Industries	40.3	70.8	Increased investment from 0.2 mn to 40 mn in FY01	Written off in FY04	The company had written down investments in 2004. However, it booked losses on advances given in FY08
Jayashree chemicals	9.5	0.0	Prior to 1998	Partial write off in FY16	Company wrote down investment by 4.8 mn in FY16.
Wescomm International FZE	4.0	0.0	FY02	Written off in FY03	Wescomm suffered losses and became unviable.
Bharat Sugar Mills	0.5	4.0	FY03	Stake sale in FY06	WCPM could not get the environmental clearance from state government for setting up a sugar mill project. Thus, it disposed off the project.

Note: The Company Auditors have given qualified opinion in the past in relation to non-provision of these losses, and WCPM booked losses in later years.

Valuation

- The paper sector in India has come through challenging times, with a reasonable proportion of the sector entering bankruptcy. Factors contributing to the stress include 1) overleverage 2) lack of raw material security and 3) competition from imports as tariffs were lowered over the years as part of free trade treaty with ASEAN countries. However, the remaining companies have regained health, market share and are operating at high profitability.

- WCPM is one of the top paper companies in India, and has established a good brand, and a solid distribution network. It is trading at 9.5x FY18 P/E, with solid FCF generation capability - WCPM generated ~Rs. 1,872 mn FCF in FY18, a yield of 7.9% on Enterprise Value.

- From a valuation perspective, the stock is inarguably attractive. However, we are cautious owing to WCPM's propensity of unrelated diversification, and a relatively patchy track record of past acquisitions. Given less comfort around WCPM's unrelated past diversification, we value WCPM at a modest discount to our valuation for JKPL, and TNPL – we value West Coast at 8X FY20E EPS of Rs 41.8.

Indian Companies (In INR)	Price 04/08/2018	YTD	Market Cap (Rs. mn)	EV (Rs. mn)	EV/ EBITDA	Net Debt/ EBITDA	EPS			P/E			FCF
							2018	2019E	2020E	2018	2019E	2020E	Yield
JK Paper	151.3	9.0%	26,959.3	37,193.7	6.1	1.7	15.3	20.8	22.2	9.9	7.3	6.8	12.6%
West Coast Paper Mills	320.6	1.8%	21,172.0	23,634.7	6.5	0.7	33.8	36.6	41.8	9.5	8.8	7.7	7.9%
Tamil Nadu Newsprint & Papers	296.8	-33.9%	20,538.2	46,219.9	11.4	6.4	-6.1	30.2	48.4	0.0	9.8	6.1	11.6%
IP APPM	393.6	24.2%	15,651.5	17,146.4	7.7	0.7	23.1	25.5	28.3	17.0	15.4	13.9	10.7%
Average					**7.9**	**2.3**				**9.1**	**10.3**	**8.6**	

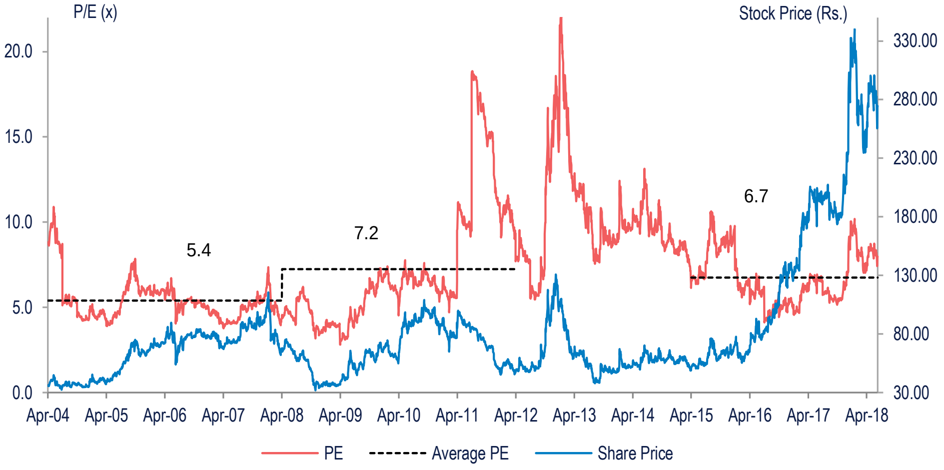
Global Players (In USD)	Price 04/08/2018	YTD	Market Cap (USD mn)	EV (USD mn)	EV/ EBITDA	Net Debt/ EBITDA	EPS			P/E			FCF
							2018	2019E	2020E	2018	2019E	2020E	Yield
International Paper	52.6	-12.1%	21,486.5	31,235.5	8.3	2.6	3.5	5.1	5.7	15.2	10.4	9.2	1.3%
Nine Dragons	1.3	-22.7%	5,919.4	8,781.7	7.7	2.5	0.1	0.2	0.2	10.4	6.5	6.7	0.1%
Mondi PLC	2,906.9	15.7%	14,079.9	15,588.4	9.5	0.9	168.9	194.3	204.8	17.2	15.0	14.2	3.2%
Average					**8.5**	**2.0**				**14.3**	**10.6**	**10.0**	

Source: Company, Bloomberg, Investec Securities estimates

Investec

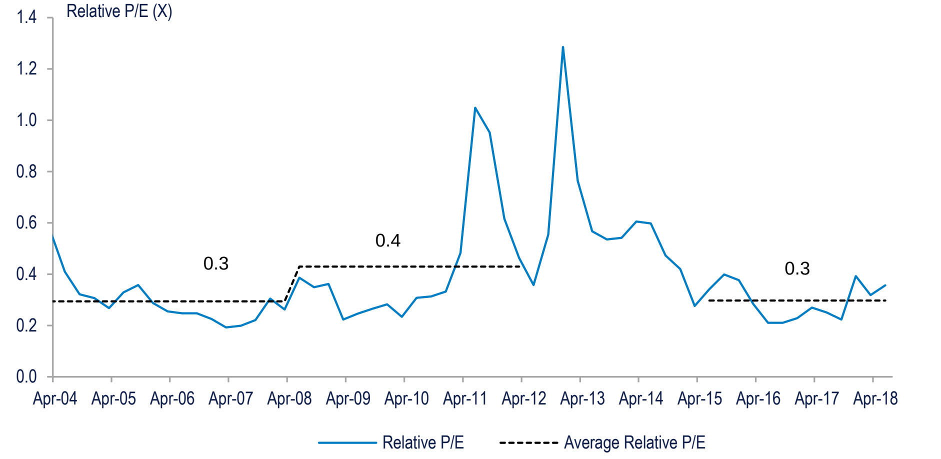
Valuation

Historical P/E Ratio [12 month forward]



Source: Company, BSE, Investec Securities estimates

Relative P/E Ratio [12 month forward]

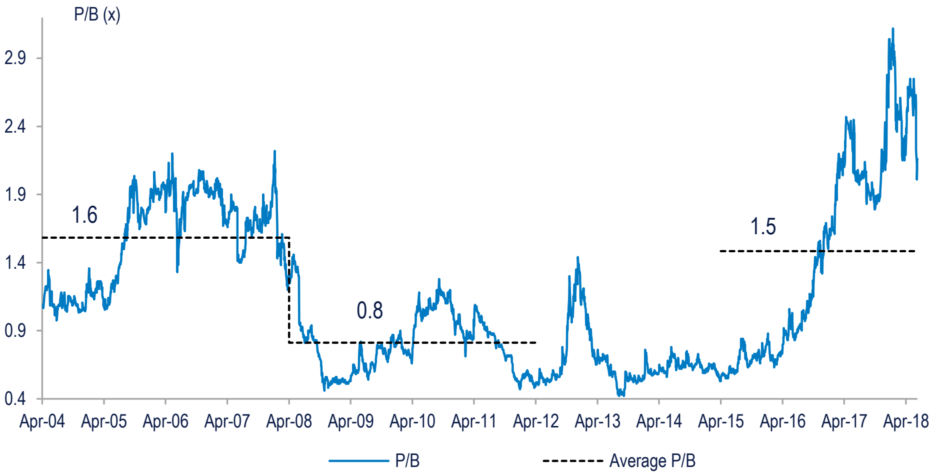


Source: Company, BSE, Bloomberg, Investec Securities estimates

Historical EV/ EBITDA [TTM]

Source: Company, BSE, Investec Securities estimates

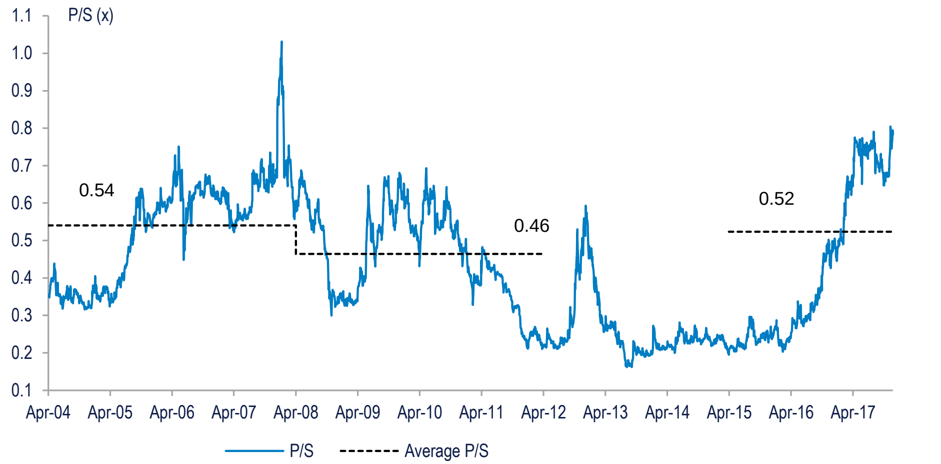
Historical P/B Ratio



Source: Company, BSE, Investec Securities estimates

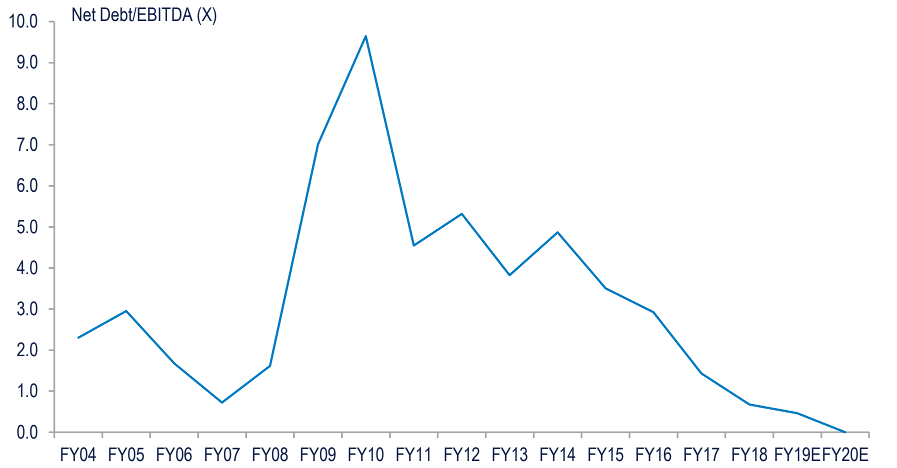
Valuation

Historical Price/Sales



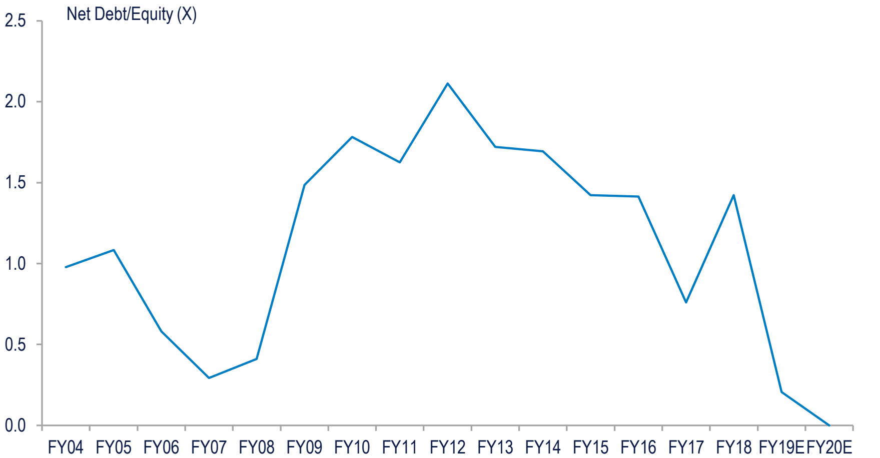
Source: Company, BSE, Investec Securities estimates

Net Debt\EBITDA



Source: Company, Investec Securities estimates

Net Debt\Equity



Source: Company, Investec Securities estimates

Valuation

Du Pont

Du Pont	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
EBIT Margin (%)	11.8%	10.0%	7.9%	14.3%	16.7%	17.5%	15.0%	14.0%	6.7%	9.4%	5.6%	7.5%	8.4%	13.0%	15.5%	17.2%	18.2%
Asset Turnover (x)	1.8X	1.7X	2.1X	2.0X	0.7X	0.4X	0.3X	0.6X	0.9X	1.1X	1.2X	1.5X	1.5X	1.5X	1.4X	1.4X	1.4X
Interest Burden (x)	0.9X	0.8X	0.8X	0.9X	1.0X	0.9X	0.9X	0.6X	0.2X	0.5X	0.2X	0.5X	0.5X	0.8X	0.8X	0.9X	0.9X
Tax Burden (x)	0.7X	0.8X	1.0X	0.9X	0.9X	0.9X	0.7X	1.0X	1.8X	0.9X	0.5X	0.9X	0.8X	0.7X	1.0X	0.8X	0.8X
Equity Multiplier (x)	1.6X	1.6X	1.4X	1.2X	2.0X	3.1X	3.1X	2.9X	2.4X	2.2X	2.2X	1.8X	2.2X	1.8X	1.4X	1.3X	1.1X
ROAE	21.7%	18.6%	17.7%	28.6%	20.4%	15.9%	9.1%	13.5%	5.1%	9.7%	1.1%	8.8%	10.2%	20.1%	26.6%	22.9%	21.2%

Source: Company, Investec Securities estimates

Company Overview

West Coast Paper Mills is one of the largest and oldest paper and board manufacturing company located in Karnataka.

WCPM has 320,000 tons of paper and board manufacturing capacity with fully integrated pulping capacity of 725 tonnes per day and captive power of 74.8 MW capacity and adequate water from River Kali. It started in 1955 with capacity of 18,000 TPA backed by fibre security from government. However, government stopped supplying bamboo and thus, the company was forced to start farm forestry initiatives and depend on government auctions. It has managed to source its 63% fibre requirement in FY18 from farm forestry and domestic auctions. WCPM started importing wood chips in FY13 when imported prices were favorable vs domestic wood prices. As the scenario reverses, the continuous efforts are being made to reduce dependence from imported wood chips.

The mill has successfully achieved one of the highest EBITDA margins in paper industry in FY18 due to its focus on improving cost efficiencies and higher realizations from its strong distribution network. WCPM also has presence in cable business.

WCPM has acquired multiple businesses in the past, however, it has not achieved much success in its acquisition ventures.

Currently, it is facing capacity constraint as it runs on full capacity. It is on the lookout for growth opportunities both organically and inorganically. The company is capable of expanding on back of a solid balance sheet, and rich free cash flows. However, there are some concerns about future sourcing of wood as eucalyptus plantations in Karnataka have been banned.

As per our channel checks, its products are of good quality and the company also has room for price increases vs other players.

Investec

Timeline

1955 : West Coast paper Mills was established and government agreed to provide bamboo for 30 years at concessional rate.

1959 : Set up 18,000 TPA paper capacity

1961 : Initiated Captive plantations.

1974 : Further increased capacity to 62,000 TPA.

1989 : Government stopped supplying bamboo at concessional rate.

1995 : Installed 1050 KW wind power mill.

2001 : Installed Jelly filled telephone cables (JFTC) of 15,42,000 Ckm and expanded optical fibre cables capacity to 83,500 Kms.

2001 : Attained 90% sufficiency in power.

2002 : Installed 100 TPD duplex board.

2003 : Capacity reached to 163,750 MTPA via rebuilding and adding duplex board capacity.

2004 : Acquired 36.32% Shree Rama Newsprints ltd [SRNL] for 45.41 Crs.

2005 : Commissioned 15.5 MW Turbine, replacing 11.84 MW furnace oil based generators

2010 : Expansion program to increase capacity from 1,80,000 TPA to 320,000 TPA at Rs 1450 crs.

2010 : Installed 725 TPD fiber line replacing old Pulp line.

2010 : Thermal Capacity enhanced.

2011 : Redeemed both Preference shares & Debentures [Prepaid].

2015 : Received Qualified opinion for non provision of diminution in investment value in SRNL & Jayshree chemicals, corporate deposits to SCLL.

1955 1996 2001 2007 2010 2016

1996 : Started Optical fiber cable business.

1996 : Installed 75 TPD duplex board machine

1997 : Added 57,750 MTPA capacity of duplex board capacity.

1997 : Acquired Specialty Coating & Lamination Ltd [SCLL]; adding specialty products.

1998 : Commissioned 250 TPD bleach plant.

1998/ 1999/2000 : Added power capacity.

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2006 : Sale and write off of SCLL investments.

2007 : Production capacity increased to 1,80,000 TPA.

2008 : Discontinued JFTC business due to low demand and unfavourable prices.

2008 : Raised 85 crores via GDRs & QIPs.

2009 : Raised 855 crores via Preference shares, non convertible debentures and term loans.

2016 : Sold SRNL and booked Rs. 1038 mn loss

2016 : Partial write off of Jayshree Chemicals Investment and deposits to SCLL

2018 : Invested in "West Coast Opticable Ltd".

2018 : Announced Rs. 3300 mn investment towards debottlenecking.

Source: Company, Investec Securities estimates

Insider Ownership

Beneficial owner	# of shares as on 30th June 2018 (in '000s)	Mkt value (In Rs. Mn)	% of total shares outstanding
Bangur Family	8,664.2	2,767.8	13.1%
Veer Enterprises Ltd	10,574	3,377.9	16.0%
Shree Satyanarayan Investments Company Ltd	10,313	3,294.5	15.6%
Orbit Udyog Pvt Ltd	2,385	761.8	3.6%
Saumya Trade And Fiscal Services Pvt Ltd	2,071	661.7	3.1%
The Diamond Company Ltd	1,953	623.9	3.0%
Gold Mohore Investment Co Ltd	648	206.9	1.0%
Kilkotagiri and Thirumbadi Plantations Ltd	474	151.5	0.7%
Mothola Company Ltd.	78	24.8	0.1%
Others	41.7	13.3	0.1%
Total	**37,202**	**11,884.1**	**56.3%**

Source: Company, Investec Securities estimates

Investec

Institutional Ownership

Beneficial owner	# of shares as on 30th June 2018 (in '000s)	Mkt value (In Rs. Mn)	% of total shares outstanding
Reliance Capital Trustee Co. Ltd	4,052	1,294.4	6.1%
L&T Mutual fund Trustee Ltd	1,069	341.5	1.6%
General Insurance Corp. of India	925	295.5	1.4%
Sundaram Mutual Fund	841	268.7	1.3%
Dimensional Fund Advisors LP	378	120.8	0.6%
APG Asset Management NV	168	53.7	0.3%
Acadian Asset Management LLC	152	48.6	0.2%
Cornerstone Advisors, Inc. (Washington)	74	23.6	0.1%
FIAM LLC	64	20.4	0.1%
TT International	32	10.2	0.0%
Others	3,694	1,180.0	5.6%
Total	**11,449**	**3,657.3**	**17.3%**

Source: Company, Investec Securities estimates

Management Team

Director	Joining Yr	Affiliation	Brief profile
Shree Kumar Bangur	2003	Chairman and Managing Director	He serves in Executive positions at Mothola Co. Ltd., Jayshree Chemicals Ltd., Fort Gloster Industries Ltd. He was also President at Indian Paper Manufacturers Association Qualification: Graduate from Calcutta University
Rajendra Jain	2015	Whole time Director	Extensive history of positions in West Coast Paper Mills and has been the Chief Financial Officer of West Coast Paper Mills Limited since December 1, 2015 'Chairman Award of exceptional Contributor' from KM Birla Qualification: B.Com, CA, CS
B H Rathi	1979	President Technical	Has held various positions working his way up to his current leadership position Qualification: Laxminarayan Institute of Technology B.Tech (Chemical Engineering)
B K Bhuyan	2008	SVP Planning Development and Projects	Mr. B. K. Bhuyan has been Senior Vice President of Planning Development & Projects at West Coast Paper Mills Limited since December 13, 2016. Prior to that, Mr. Bhuyan served as an Senior Vice President of Operations at West Coast Paper Mills Ltd.
Vimal Arora	2014	VP Finance and Accounts	Has previously been VP at Sirpur Paper Mills Ltd., and VP Corporate Finance RSWM Ltd. Has also held position as VP Operations at Emami, and GM Finance & Accounts, Bhiwani Textile Mills, Grasim Industries Ltd. Qualification : IIM, Calcutta, BLP, ICAI (CA)
Raghu Nair	2015	VP Works	Has previously been worked with GEI Industrial Systems Ltd., and was SVP (Works) Birla Ericsson Optical Ltd. Qualification: MSc (Industrial Production), IGNOU Diploma in Management, B.E (Mechanical)
Anil Tanwani	2017	CEO Telecom Cable Division	Acting in capacity of CEO for the Telecom Cable division of West Coast Paper Mills Ltd (West Coast Optilinks) since Jan 2017 He has held leadership and executive positions in various Optical Fibre Companies like Sterlite Technologies Ltd. and Sudarshan Telecom (now West Coast Optilinks) Qualification: B.E

Source: Company, Investec Securities estimates

Board of Directors

Director	Joining Yr	Affiliation	Brief profile
Shree Kumar Bangur	2003	Chairman and Managing Director	See profile in prior section
Saurabh Bangur	2004	Director, Vice Chairman	Acting in executive positions in many public companies including Amrit-Villa Investments Ltd., Shree Satyanarayan Investments Company Ltd., and Gloster Cables Ltd.. He is also the President of the Indian Paper Manufacturer's Association (IPMA) Member of Stakeholder relationship committee , member of CSR committee, chairman of Finance & Corporate affairs committee Qualification: (*not accessible)*
Shashi Bangur	1994	Director	Mrs. Shashi Devi Bangur has served as Chairman and Managing Director of The West Coast Paper Mills Ltd. until Sep 2015. She serves as a Non-Executive Director of West Coast Paper Mills Ltd and Kil Kotagiri Tea & Coffee Estates. Chairman of Stakeholder relationship committee Qualification: (*not accessible)*
Premal N Kapadia	1992	Director	He is a well known industrialist, and a Director for various companies including Harshadray Pvt. Ltd., TUV India Ltd., Kaira Can Company Ltd., Alkyl Amines Chemicals Ltd., Providian Global Solutions Pvt. Ltd., Silicon Interfaces Pvt. Ltd., Sujata Resources Pvt Ltd., Puma Properties Limited and Thyssenkrupp Industries India Pvt. Ltd. Chairman of Audit Committee, member of Nomination and Remuneration Committee Qualification: (*not accessible)*
Utpal Bhattacharyya	2009	Director	He is a Retd. LT. Gen and has served as SVP in JP Group and has had positions of interest in Prasar Bharati and International Broadcaster (Doordarshan and AIR) Member of Audit Committee, member of Nomination and Remuneration Committee Qualification: B.Sc (Hons) B.Tech (Hons) M.Sc (Defense Studies), M.Sc (Management Studies)
Mahaveer Prasad Taparia	2010	Director	A well known industrialist who has served in executive capacities of many organizations like Plastics Processors of India, and Supreme Petrochem Limited. He has a wide experience in business management, marketing operations and actively involved in various industry forums. Chairman of Nomination and Remuneration Committee, member of CSR committee Qualification: B.A

Director	Joining Yr	Affiliation	Brief profile
Amitav Kothari	2016	Director	Mr. Amitav Kothari serves in various executive capacities in Kothari & Company, Kanoria Chemicals & Industries Ltd., Maharaja Shree Umaid Mills Ltd., National Insurance Company Ltd., South Eastern Coal Fields Ltd., LICI, Allahabad Bank, Rajasthan Spinning & Weaving Mills Ltd. Member of Audit Committee Qualification: M.Com, LLB., FICA, FCA and Life Member of the Indian Council of Arbitration, Fellow of British Institute of Management (U.K), and ICAI Panel
Rajendra Jain	2015	CFO and Executive Director	Extensive experience in West Coast Paper Mills and has been the Chief Financial Officer of West Coast Paper Mills Limited since December 1, 2015 Multiple key skill sets in Strategic Management and Corporate Affairs 'Chairman Award of exceptional Contributor' from KM Birla Member of Audit Committee, Member of Stakeholder relationship committee, member of Finance & Corporate affairs committee Qualification: B.Com, CA, CS
Sudarshan Somani	2017	Additional Director	Expertise and wide experience in international commodity trading & terminal markets such as London Metal Exchange. Acts as a Director of Sudarshan Investment & Export Co. Private Ltd., Satyanarayan Traders & Investors Private Ltd., Amigo Mercantile Private Ltd and Rama Newsprint & Papers Ltd. and others Member of the Audit Committee and Remuneration Committee Qualification: (*not accessible)*
Krishna Kumar Karwa	2009	Director	Mr. Krishna Kumar Karwa serves as the Chief Executive Officer and Managing Director at Emkay Global Ltd. which he co-founded in 1995. He has 17 years experience in the stock market across research, dealing and execution with special focus on the 'cash' segment of the capital markets. He has been a Non-Executive Independent Director at West Coast Paper Mills Ltd. since October 2009. Qualification: CA

Source: Company, Investec Securities estimates

Financial Models – Quarterly Income Statement

Quarterly Income Statement	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenues	**3,930.4**	**4,115.0**	**4,394.2**	**4,560.8**	**4,092.2**	**4,456.9**	**4,394.5**	**4,749.7**	**3,865.2**	**4,215.3**	**4,085.8**	**4,935.7**
% YoY	-0.2%	-4.9%	4.1%	14.0%	4.1%	8.3%	0.0%	4.1%	-5.5%	-5.4%	-7.0%	3.9%
EBITDA	**641.4**	**559.5**	**646.6**	**661.5**	**727.1**	**797.1**	**887.4**	**966.9**	**826.8**	**833.5**	**730.5**	**1,244.5**
% of sales	16.3%	13.6%	14.7%	14.5%	17.8%	17.9%	20.2%	20.4%	21.4%	19.8%	17.9%	25.2%
Depreciation	273.9	286.3	281.3	275.5	270.9	274.0	274.5	288.3	262.0	280.1	286.8	333.3
Operating Profit	**367.4**	**273.2**	**365.4**	**386.0**	**456.2**	**523.1**	**612.9**	**678.6**	**564.8**	**553.4**	**443.6**	**911.2**
% of sales	9.3%	6.6%	8.3%	8.5%	11.1%	11.7%	13.9%	14.3%	14.6%	13.1%	10.9%	18.5%
Interest expenses	169.9	181.1	168.7	137.2	190.3	130.4	133.0	62.0	79.8	116.1	53.2	178.7
Other income	4.0	5.3	0.7	-1.8	5.2	1.0	0.4	17.2	30.9	7.5	87.7	54.1
Exceptions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	**201.5**	**97.5**	**197.4**	**247.0**	**271.1**	**393.7**	**480.3**	**633.8**	**515.9**	**444.8**	**478.2**	**786.7**
% to net sales	5.1%	2.4%	4.5%	5.4%	6.6%	8.8%	10.9%	13.3%	13.3%	10.6%	11.7%	15.9%
Tax	-94.9	68.0	46.9	155.0	121.8	139.3	106.2	126.5	-21.2	-33.0	48.7	-1.1
Eff tax rate (%)	28.4%	69.7%	23.4%	62.8%	44.9%	35.4%	22.1%	20.0%	-4.1%	-7.4%	10.2%	-0.1%
PAT	**-239.1**	**29.6**	**153.2**	**91.7**	**149.3**	**254.4**	**374.1**	**507.3**	**537.1**	**477.9**	**429.5**	**787.8**
% to net sales	-6.1%	0.7%	3.5%	2.0%	3.6%	5.7%	8.5%	10.7%	13.9%	11.3%	10.5%	16.0%

Source: Company, Investec Securities estimates

Financial Models – Annual Income Statement

Income Statement	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenues	**6,197.5**	**6,239.1**	**10,709.2**	**13,051.8**	**14,546.4**	**15,623.2**	**16,483.7**	**17,000.4**	**17,693.4**	**17,102.0**	**19,708.9**	**20,705.7**
% YoY	6.1%	0.7%	71.6%	21.9%	11.5%	7.4%	5.5%	3.1%	4.1%	-3.3%	15.2%	5.1%
EBITDA	**1,202.2**	**1,110.8**	**2,396.6**	**2,262.2**	**2,686.1**	**2,076.7**	**2,425.5**	**2,495.3**	**3,380.6**	**3,628.6**	**4,697.3**	**5,125.2**
% of sales	19%	18%	22%	17%	18%	13%	15%	14.7%	19.1%	21.2%	23.8%	24.8%
Depreciation	199.0	237.7	961.1	1,431.5	1,363.5	1,271.9	1,222.0	1,143.6	1,109.8	1,162.3	1,300.6	1,350.5
Operating Profit	**1,003.2**	**873.1**	**1,435.5**	**830.7**	**1,322.6**	**804.8**	**1,203.5**	**1,351.7**	**2,270.8**	**2,466.3**	**3,396.7**	**3,774.7**
% of sales	16%	14%	13%	6%	9%	5%	7%	8.0%	12.8%	14.4%	17.2%	18.2%
Interest expense	77.4	121.6	560.6	715.0	725.7	732.3	670.9	758.1	515.7	423.7	295.5	238.7
Other income	78.8	63.2	62.9	41.3	48.1	67.0	30.7	76.7	23.7	182.9	0.0	0.0
Exceptions	0.0	0.0	0.0	-622.0	-399.4	0.0	-516.0	-487.4	0.0	0.0	0.0	0.0
PBT	**1,004.6**	**814.7**	**937.8**	**-465.0**	**245.6**	**139.5**	**47.3**	**183.0**	**1,778.8**	**2,225.6**	**3,101.1**	**3,536.0**
% to net sales	16%	13%	9%	-4%	2%	1%	0%	1.1%	10.1%	13.0%	15.7%	17.1%
Tax	99.2	267.7	30.1	-131.4	64.3	73.2	36.2	142.6	493.8	-6.7	682.3	777.9
Eff tax rate (%)	10%	33%	3%	28%	26%	52%	76%	77.9%	27.8%	-0.3%	22.0%	22.0%
PAT	**905.4**	**547.0**	**907.8**	**-333.6**	**181.2**	**66.3**	**11.2**	**40.3**	**1,285.0**	**2,232.2**	**2,418.9**	**2,758.0**
% to net sales	15%	9%	8%	-3%	1%	0%	0%	0.2%	7.3%	13.1%	12.3%	13.3%
EPS [Fully Diluted]	**15.7**	**8.8**	**13.3**	**4.4**	**8.9**	**1.0**	**0.2**	**-0.1**	**19.5**	**33.8**	**36.6**	**41.8**
% YoY	-4.1%	-44.1%	51.5%	-66.8%	100.9%	-88.7%	-83.0%	-141.2%	NA	73.7%	8.4%	14.0%
DPS	**2.0**	**2.0**	**2.0**	**0.2**	**1.0**	**1.0**	**0.0**	**1.0**	**2.5**	**4.0**	**4.0**	**4.0**
% YoY	-33.3%	0.0%	0.0%	-90.0%	400.0%	0.0%	-100.0%	100.0%	150.0%	60.0%	0.0%	0.0%

Source: Company, Investec Securities estimates

Investec

Financial Models – Balance Sheet

Balance Sheet	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net worth	5,677.8	6,013.2	6,704.6	5,695.1	5,977.6	5,966.6	5,977.7	5,165.7	6,391.5	8,390.1	10,544.8	13,038.7
Equity capital	770.8	775.3	775.3	125.3	132.1	132.1	132.1	132.1	132.1	132.1	132.1	132.1
Reserves	4,907.0	5,237.8	5,929.3	5,569.8	5,845.5	5,834.5	5,845.6	5,033.6	6,259.4	8,258.0	10,412.7	12,906.6
Debt	11,736.5	12,347.1	12,124.6	12,636.6	10,806.5	10,660.8	9,104.3	7,438.9	4,998.6	2,544.8	2,250.4	241.9
Deferred tax liab	400.2	664.9	685.9	554.5	615.2	687.1	723.3	856.8	1,350.5	141.5	141.5	141.5
Others	0.0	0.0	0.0	301.5	346.0	335.8	333.5	900.8	987.3	1,432.9	1,432.9	1,432.9
Total	**17,814.5**	**19,025.2**	**19,515.1**	**19,187.7**	**17,745.2**	**17,650.3**	**16,138.9**	**14,362.2**	**13,727.9**	**12,509.4**	**14,369.7**	**14,855.1**
Capitalised assets	2,068.2	8,056.3	15,283.2	14,567.9	13,176.7	12,427.4	11,466.9	11,240.9	10,242.5	10,516.4	11,982.5	11,628.6
Capital WIP	11,200.5	7,469.0	0.9	45.7	26.4	49.2	23.0	33.5	60.1	32.2	32.2	32.2
Investments	460.5	467.1	467.1	467.1	467.1	467.1	467.1	8.3	8.3	10.2	10.2	10.2
Cash	2,844.3	1,165.9	757.9	141.3	57.8	91.3	131.3	126.2	138.7	71.8	70.0	757.7
Non Current Assets	1,081.1	1,610.1	2,545.0	3,445.4	3,496.2	3,504.0	3,406.4	2,319.4	2,424.0	1,592.7	1,988.8	2,140.2
Others	159.9	257.0	461.2	520.5	520.6	1,111.2	644.0	633.9	854.3	286.0	286.0	286.0
Total	**17,814.5**	**19,025.4**	**19,515.3**	**19,187.8**	**17,744.9**	**17,650.3**	**16,138.9**	**14,362.2**	**13,727.9**	**12,509.4**	**14,369.7**	**14,855.1**

Balance Sheet Key Ratios	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Debt	8,431.7	10,714.1	10,899.6	12,028.2	10,281.6	10,102.4	8,505.8	7,304.4	4,851.6	2,462.7	2,170.2	-526.0
Net Debt/Equity	1.5X	1.8X	1.6X	2.1X	1.7X	1.7X	1.4X	1.4X	0.8X	0.3X	0.2X	0.0X
Interest Coverage Ratio	13.0X	7.2X	2.6X	1.2X	1.8X	1.1X	1.8X	1.8X	4.4X	5.8X	11.5X	15.8X
Working Capital Ratios												
Inventory Turns	84.6X	104.8X	68.5X	87.6X	75.5X	114.0X	107.0X	80.5X	58.3X	73.2X	73.2X	73.2X
Receivable Turns	25.6X	20.0X	24.9X	20.4X	20.7X	23.6X	27.7X	25.3X	26.5X	25.4X	25.4X	25.4X
Payable Turns	107.2X	105.3X	58.3X	27.9X	26.6X	60.3X	55.2X	42.8X	30.5X	43.1X	43.1X	43.1X
Other Turns	60.7X	74.7X	51.7X	16.3X	18.2X	4.6X	-4.0X	-13.3X	-4.2X	-21.5X	-18.6X	-17.7X
Net Working Capital days	**63.7X**	**94.2X**	**86.7X**	**96.4X**	**87.7X**	**81.9X**	**75.4X**	**49.8X**	**50.0X**	**34.0X**	**36.8X**	**37.7X**
Fixed Asset Turns	781.5X	908.3X	520.9X	408.7X	331.3X	291.5X	254.4X	241.3X	211.3X	496.3X	481.9X	476.3X

Source: Company, Investec Securities estimates

Financial Models – Cash Flow

Cash Flow	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Profit Before Tax & Exceptional items	1,004.6	814.7	930.7	-467.0	245.5	139.5	47.3	138.0	1,778.8	2,225.6	3,101.1	3,536.0
Adjustments	40.4	129.5	695.6	1,995.1	2,450.3	1,925.7	1,876.5	2,304.2	1,403.3	997.5	913.9	811.3
Changes in Working Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from Operating Activities	**646.0**	**349.0**	**695.4**	**1,115.6**	**2,626.8**	**1,495.0**	**2,567.7**	**2,442.2**	**3,182.1**	**3,223.1**	**4,015.1**	**4,347.3**
(Purchase)/ Sale of Fixed Assets	-8,166.8	-2,497.3	-670.3	-1,396.4	-355.5	-611.8	-229.1	-270.5	-302.1	-1,458.3	-2,766.7	-996.7
Purchase / Sale of Investment	90.0	-6.7				49.1	0.0	538.2	0.0	0.0	0.0	0.0
Investment Income	40.5	10.6	0.5	21.0	37.2	56.3	6.1	68.4	8.2	4.7	0.0	0.0
Other Investment Activities		2.5					0.0	0.0	-94.6	64.0	0.0	0.0
Cash flow from Investment Activities	**-8,036.3**	**-2,490.9**	**-669.7**	**-1,375.4**	**-318.2**	**-506.4**	**-223.0**	**336.1**	**-388.5**	**-1,389.7**	**-2,766.7**	**-996.7**
Issue/ (Repayment) of Borrowings	7,672.8	610.6	-222.5	1,685.1	-1,830.3	-145.5	-1,556.5	-564.8	-3,345.6	-1,332.1	-294.4	-2,008.5
Proceeds/(Buyback) from Issue of Eq Shares	900.0	0.0		-1,823.1	179.2			0.0	0.0	0.0	0.0	0.0
Interest Paid					-725.7	-732.3	-670.9	-758.1	-515.7	-408.5	-295.5	-238.7
Dividend Paid	-201.4	-147.2	-211.5	-218.7	-15.4	-77.3	-77.3	0.0	-79.5	-198.7	-264.2	-264.2
Cash from financing	**8,371.5**	**463.5**	**-434.0**	**-356.8**	**-2,392.2**	**-955.0**	**-2,304.7**	**-1,322.9**	**-3,940.8**	**-1,939.2**	**-854.1**	**-2,511.4**
Change of cash	981.1	-1,678.4	-408.0	-616.6	-83.5	33.6	40.0	1,455.4	-1,147.2	-105.9	394.3	839.2
FCFF	**-7,390.3**	**-2,141.9**	**25.9**	**-259.9**	**2,308.7**	**988.6**	**2,344.7**	**1,317.8**	**3,953.3**	**1,872.3**	**852.3**	**3,199.1**
FCFE	**295.7**	**-1,531.2**	**-247.7**	**231.1**	**441.1**	**786.8**	**782.1**	**146.3**	**727.5**	**540.3**	**557.9**	**1,190.6**

Source: Company, Investec Securities estimates

Summary Financials

(INRm)

Year end: 31 March

Income Statement	2016	2017	2018	2019E	2020E
Revenue	**17,000.4**	**17,693.4**	**17,102.0**	**19,708.9**	**20,705.7**
EBITDA	**2,495.3**	**3,380.6**	**3,628.6**	**4,697.3**	**5,125.2**
Depreciation and amortisation	1,351.7	2,270.8	2,466.3	3,396.7	3,774.7
Operating profit	**1,351.7**	**2,270.8**	**2,466.3**	**3,396.7**	**3,774.7**
Other income	76.7	23.7	182.9	0.0	0.0
Net interest	758.1	515.7	423.7	295.5	238.7
Share-based-payments	0.0	0.0	0.0	0.0	0.0
PBT (normalised)	**670.3**	**1,778.8**	**2,225.6**	**3,101.1**	**3,536.0**
Impairment of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Non-recurring items/exceptionals	670.3	1,778.8	2,225.6	3,101.1	3,536.0
PBT (reported)	**670.3**	**1,778.8**	**2,225.6**	**3,101.1**	**3,536.0**
Taxation	142.6	493.8	(6.7)	682.3	777.9
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Discontinued/assets held for sale	0.0	0.0	0.0	0.0	0.0
Net Income (normalised)	484.3	1,285.0	2,232.2	2,418.9	2,758.0
Attributable profit	40.3	1,285.0	2,232.2	2,418.9	2,758.0
EPS (reported)	(0.1)	19.5	33.8	36.6	41.8
EPS (norm., cont.) – FD (INR)	7.3	19.5	33.8	36.6	41.8
EPS (norm., cont., IAS19R adj.) – FD	-	-	-	-	-
DPS (INR)	0.5	1.5	2.5	2.5	2.5
Average number of group shares - FD (m)	66.0	66.0	66.0	66.0	66.0
Average number of group shares (m)	66.0	66.0	66.0	66.0	66.0
Total number of shares in issue (m)	66.0	66.0	66.0	66.0	66.0

Cash Flow	2016	2017	2018	2019E	2020E
Operating profit	1,351.7	2,270.8	2,466.3	3,396.7	3,774.7
Depreciation & amortisation	(1,351.7)	(2,270.8)	(2,466.3)	(3,396.7)	(3,774.7)
Other cash and non-cash movements	1,898.1	2,867.4	3,337.7	4,401.8	4,886.5
Change in working capital	(1,460.5)	1,159.7	38.8	(396.1)	(151.5)
Operating cash flow	**437.6**	**4,027.1**	**3,376.3**	**4,005.7**	**4,735.0**
Interest	674.5	543.3	408.5	295.5	238.7
Tax paid	(62.0)	(220.4)	(518.2)	(682.3)	(777.9)
Dividends from associates and JVs	(68.4)	(8.2)	(4.7)	0.0	0.0
Cash flow from operations	**981.7**	**4,341.8**	**3,261.8**	**3,618.9**	**4,195.8**
Maintenance capex	(270.5)	(302.1)	(1,458.3)	(2,766.7)	(996.7)
Free cash flow	**711.1**	**4,039.7**	**1,803.5**	**852.3**	**3,199.1**
Expansionary capex	0.0	0.0	0.0	0.0	0.0
Exceptionals & discontinued operations	0.0	0.0	0.0	0.0	0.0
Other financials	(151.4)	(507.6)	(403.7)	(295.5)	(238.7)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Net share issues	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	(79.5)	(198.7)	(264.2)	(264.2)
Change in net cash	**559.7**	**3,452.7**	**1,201.0**	**292.5**	**2,696.2**
Net cash/(debt)	7,304.4	4,851.6	2,462.7	2,170.2	(526.0)
FCFPS - FD (INR)	20.0	59.9	28.3	12.9	48.4

Balance Sheet	2016	2017	2018	2019E	2020E
Property plant and equipment	11,274.4	10,302.7	10,548.7	12,014.7	11,660.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investments and other non current assets	642.2	862.5	296.3	296.3	296.3
Cash and equivalents	126.2	138.7	71.8	70.0	757.7
Other current assets	333.2	680.3	367.4	367.4	367.4
Total assets	**17,306.8**	**16,094.0**	**15,902.4**	**18,070.6**	**18,673.6**
Total debt	7,438.9	4,998.6	2,544.8	2,250.4	241.9
Preference shares	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1,716.7	2,279.4	1,537.4	1,537.4	1,537.4
Provisions & other current liabilities	827.8	808.5	1,269.2	1,269.2	1,269.2
Pension deficit and other adjustments	0.0	0.0	0.0	0.0	0.0
Total liabilities	**12,141.1**	**9,702.5**	**7,512.2**	**7,525.7**	**5,634.9**
Net assets	**29,447.9**	**25,796.5**	**23,414.6**	**25,596.3**	**24,308.6**
Shareholder's equity	5,165.7	6,391.5	8,390.1	10,544.8	13,038.7
Minority interests	0.0	0.0	0.0	0.0	0.0
Total equity	**5,165.7**	**6,391.5**	**8,390.1**	**10,544.8**	**13,038.7**
Net working capital	2,470.8	2,585.1	1,592.7	1,988.8	2,140.2
NAV per share (INR)	78.2	96.8	127.0	159.7	197.4

Source: Company, Investec Securities estimates

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Buy	greater than 10%	215	62%	85	40%
Hold	0% to 10%	107	31%	8	7%
Sell	less than 0%	27	8%	0	0%

Source: Investec Securities estimates

Stock ratings for Indian stocks — Stock ratings for research produced by Investec Bank plc

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Buy	greater than 15%	78	64%	0	0%
Hold	5% to 15%	28	23%	0	0%
Sell	less than 5%	16	13%	0	0%

Source: Investec Securities estimates

Stock ratings for African* stocks — Stock ratings for research produced by Investec Securities Limited

	Expected total return 12m performance	Count	All stocks % of total	Count	Corporate stocks % of total
Buy	greater than 15%	39	57%	6	15%
Hold	5% to 15%	20	29%	2	10%
Sell	less than 5%	10	14%	1	10%

Source: Investec Securities estimates

*For African countries excluding South Africa, ratings are based on the 12m implied US dollar expected total return (ETR). This is derived from the expected local currency (LCY) ETR by making assumptions on the 12month forward exchange rates for the respective currencies. For South African stocks, ratings are based on the ETR in rand terms.

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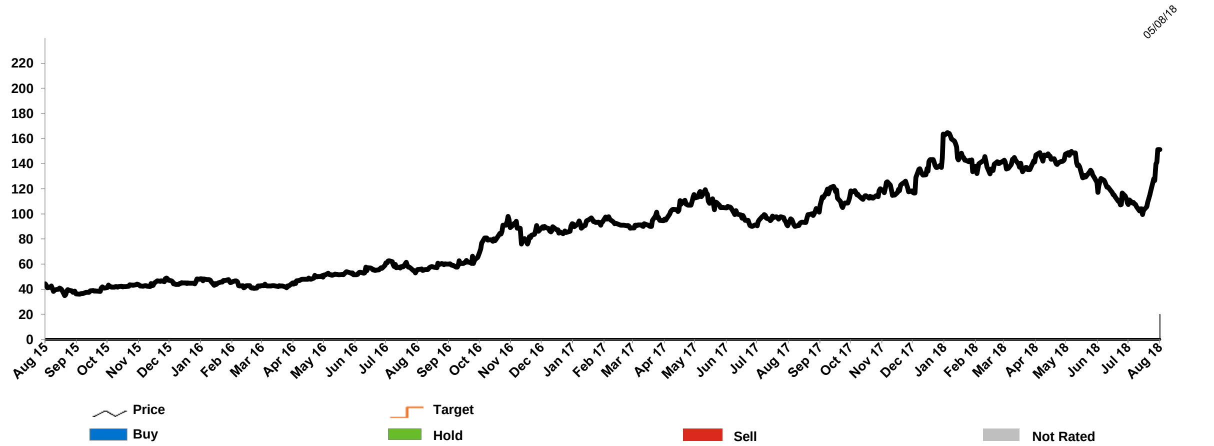

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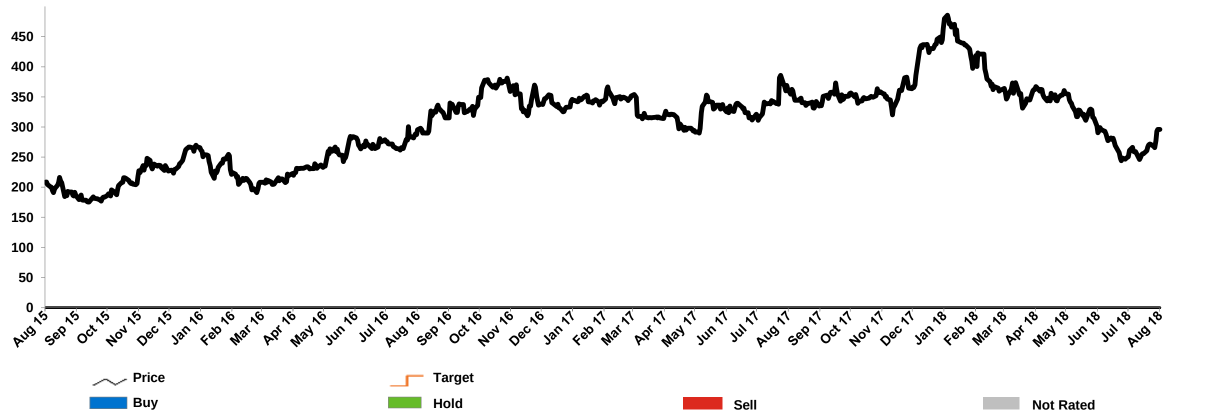

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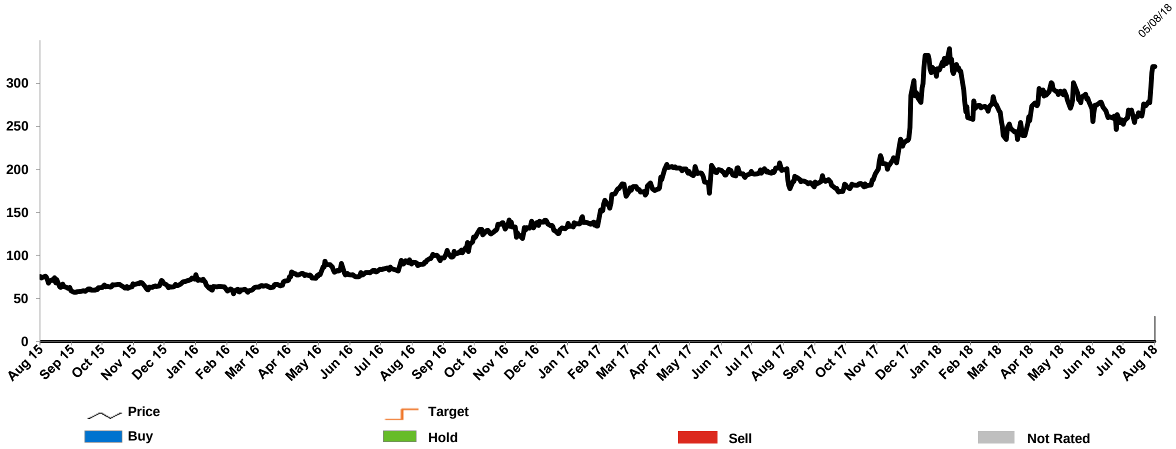

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