

# Voith Paper Fabrics India ₹740

*Fill paper with breathings of heart...!!!* **Buy**



Jun 29, 2018

## Company Background

Voith's operating business is in four Group Divisions: Voith Hydro, Voith Paper, Voith Turbo and Voith Digital Solutions. A large proportion of the world's paper production is manufactured on Voith paper machines. Voith Hydro offers full solutions including balance of plant electrical and mechanical auxiliaries and automation systems. It designed to provide stability in the seamless operation of hydropower plants & ensure high availability. Whether graphic, board, packaging, specialty or tissue papers, all paper grades are being produced on Voith paper machines. Voith's drive components are found in applications all over the world, both in industrial plants and in road and rail vehicles, as well as on the waters. And the applications provided by the Digital Solutions Group Division make Voith one of the pacemakers for digital change in the global industries. It has 2 sales locations at Chennai and Kolkata. And also 3 Production locations at Hyderabad, Noida and Vadodara, Faridabad is another location with both sales and production facilities. It manufactures speciality engineered fabric called felt used in the wet and dryer sections of the paper board, pulp sheeting industries and in the wet section of the cement industries.

## Key Highlights

- ➔ For FY-18 Net sales grew by 15.4% to ₹ 941.1 mn, operating profit rose by 1.1% to ₹ 334.8 mn & net profit rose by 2.5 % to ₹ 181.2 mn on yearly basis.
- ➔ Company is the only Indian manufacturer producing the entire range of paper machine clothing and caters to the domestic as well as overseas customers. Its sales combination is nearly 91% from domestic and rest is from global markets. Maximum proportion of the world's paper production is manufactured by Voith paper machines.
- ➔ Demand for packaging material has skyrocketed in recent years; paper is also used in glass-making, packing food products etc.
- ➔ Now, there is a need for an industrial plantation policy, which will allow more wood to be grown at a lower cost on a large scale in a more scientific manner.
- ➔ Industry body ASSOCHAM has urged the Indian Government to re-impose 10% customs duty on import of paper and paperboards from ASEAN.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	921.9	979.6	1,050.9
Rev. growth (%)	(27.99)	6.26	7.28
EBITDA (INR mn)	287.0	331.3	334.9
Net profit (INR mn)	154.7	176.8	181.2
Shares outstanding (mn)	4.4	4.4	4.4
EPS (INR)	34.4	40.3	41.2
EPS growth (%)	8.01	17.04	2.46
P/E (x)	14.58	15.28	19.40
RONW (%)	10.05	10.46	9.74
ROCE (%)	15.15	15.89	14.68

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## Info Codes

Reuters	: VOIT.BO
Bloomberg	: PS IN
NSE	: PORRITSPEN
BSE	: 522122

## Market Data

52 Wk Range (₹)	: 665/1002
Shares in Issue (mn)	: 4.4
Market. Cap ( bn)	: 3.25
BSE 2 Wk Avg Vol	: 545

## Share Holding Pattern (%)

Promoters Holding	: 74.04
Public & Others	: 24.38
Corporate Holding	: 00.00
Foreign Institution	: 00.00
Institutions	: 01.19
Govt Holding	: 00.39

## Investment Theme

Indian paper industry is expecting an increase in the prices of pulp & paper in future in line with the increase in global prices. Industry is expected to surpass 20 mn tonnes by 2020 from the current 15 mn tonnes. India's demand for paper is expected to rise 53% by 2020, primarily due to increase in the number of school-going children in rural areas. Per capita consumption of India is only 11 kgs, as compared to 26 kgs. in Asia and 56 kgs globally. Hence, it appears that industry in India has a tremendous growth potential. Sector is looking good for future, it will impact Voith's growth as well. Voith is only the big player in India to manufacturing the entire range of paper machine clothing. Company's growth is mainly dependent on the growth of Paper and Fibre-cement Industry.

**24 % of Indian Production is Wood based...!!!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Sales	755.2	815.2	7.9	941.1	15.4
Other Income	79.9	78.8	(1.4)	86.4	9.6
Change in Stocks	(11.1)	6.5	(158.6)	(6.6)	(201.5)
Raw Material Con.	188.2	220.7	17.3	308.2	39.6
Employee Exp.	104.2	108.6	4.2	123.4	13.6
Indirect Taxes	86.1	85.6	(0.6)	23.4	(72.7)
Other Exp.	158.6	154.3	(2.7)	231.1	49.8
Operating Exp.	537.1	569.2	6.0	686.1	20.5
Operating Profit	286.9	331.3	15.5	334.8	1.1
Total Interest	0.0	0.0	0.0	0.0	0.0
Gross Profit	286.9	331.3	15.5	334.8	1.1
Net Dep.	51.4	59.6	16.0	58.5	(1.8)
Total Taxation	80.8	94.9	17.5	95.1	0.2
Net Profit/Loss	154.7	176.8	14.3	181.2	2.5

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17	Mar 18
<b>SOURCES OF FUNDS</b>	<b>1,489.1</b>	<b>1,620.3</b>	<b>1,800.5</b>	<b>1,964.3</b>
Equity Share capital	43.9	43.9	43.9	43.9
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	1,430.9	1,559.6	1,734.7	1,896.8
Secured Loans	0.0	0.0	0.0	0.0
Unsecured Loans	14.3	16.8	21.9	23.6
<b>USES OF FUNDS</b>	<b>1,489.1</b>	<b>1,620.3</b>	<b>1,800.5</b>	<b>1,964.3</b>
Gross Block	744.2	901.5	475.2	489.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	389.7	441.2	59.2	117.6
Net Block	354.5	460.3	416.0	371.4
Capital Work in Progress	75.7	13.9	12.0	99.2
Investments	0.0	0.0	0.0	0.0
Current Assets	1,213.3	1,283.3	1,485.9	1,628.9
Less : Current Liabilities	166.3	158.7	133.8	173.8
Total Net Current Assets	1,047.0	1,124.6	1,352.1	1,455.1
Misc. Expenses not writtenoff	11.9	21.5	20.4	38.6
<b>NOTE</b>				
Book Value of Unquoted Investments	0.0	0.0	0.0	0.0
Market Value of Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	8.7	20.0	17.6	16.4
Dividend (%)	30.0	45.0	40.0	40.0

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Jun 17	Sep 17	Dec 17	Mar 18
Net Sales	220.4	241.0	233.5	232.4
Cost Of Sales	169.3	180.4	168.6	174.5
Operating Profit	51.1	60.6	64.9	57.9
Other Income	25.1	25.5	22.4	27.2
Adjusted PBDIT	76.2	86.1	87.3	85.1
Financial Expenses	0.0	0.0	0.0	0.0
Depreciation	14.7	14.8	14.7	14.2
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	61.4	71.3	72.6	70.9
Tax Charges	20.7	24.6	23.6	26.3
Reported Profit	40.7	46.7	49.0	44.6
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	40.7	46.7	49.0	44.6

**52 Week Index Relative Percentage Appreciation**

**Voith Paper vs SENSEX**
**Risks Associated**

- ➔ Major consumers of the company's products are the Paper and Fibre-cement Industry. Hence the company has to dependent on the growth of the these Industries. The major raw materials are imported, those imports are subject to Government policies.
- ➔ As the company is importing major raw materials (Qualiflex Sleeves, Fabrics, Yarn and Fibre) and exporting very small quantity, hence there will be a chance to get impact on company's revenue if there is any changes in Foreign exchange rates. Approx 72.50% of raw materisl are importing and rest is from India.
- ➔ Higher cost of production caused by inadequate availability and high cost of raw materials, power cost & concentration of mills in one particular area are the major issues of India's pulp and paper industry.

**Scope of Growth**

- ➔ Demand for packaging material has skyrocketed in recent years; paper is also used in glass-making, packing food products etc. Per capita consumption of India is 11 kgs as compared to the global, it is very small if India reaches to the level of global per capita consumption there will be huge demand for paper.
- ➔ If Government of India allows, reduction of import duty on waste paper imports and duty free imports of new & second hand machinery to technology upgradation both the development will positively impact the sector.
- ➔ The government's sustained focus on literacy, increased consumerism and expansion in organised retail are expected to positively affect paper consumption and demand in India.
- ➔ Current demand for paper and paperboards in Indian market in 14.4 MTPA which constitutes about 3.6 % of global demand and is expected to increase to 20 MTPA by 2020 thereby clocking a CAGR of about 7 %.

## Voith Paper

### In a Nutshell

Voith operating business in four Divisions such as Voith Hydro, Voith Paper, Voith Turbo and Voith Digital Solutions. It is in the business of manufacturing and selling of paper machine clothing for pulp, paper and board industry. A large proportion of the world's paper production is manufactured on Voith's machines. It has total 6 facilities in India for sales and production. As per the Industry sources situation has become worse after demonetization, as old paper collection is largely dealt in cash and the waste paper collection is unorganized. Waste paper availability has fallen by about 30 % and rising cost of imported waste paper has started to push the mills to source more quantities from the domestic market. Due to rise in price of wastepaper, forcing kraft mills to either shut or reduce production by 30-35 %. Shutdown or reduction of production is benefit for large scale companies like Voith Paper. Voith is the only Indian manufacturer producing the entire range of paper machine clothing and caters to the domestic as well as overseas customers. Company's products is the Paper Industry and the Fibre-cement Industry. Therefore, the growth of the company is dependend on those industries. There is a need for an industrial plantation policy, it will help bring down the cost of wood. To provide adequate protection to the domestic industry the Indian Government has proposed to increase customs duty on import of silk fabric from the existing 10 to 20%. The GST rate on man-made yarn has been reduced to 12 % from 18%. It has the net sales for FY 2018 was ₹ 941.1 mn as against ₹ 815.2 mn in the previous year, net profit was ₹ 181.2 mn as against ₹ 176.8 mn for FY 2017. It has announced a dividend of ₹ 4 per equity share for the FY 2018.

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### Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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