

Rain Industries

BSE SENSEX	S&P CNX
35,457	10,682
Bloomberg	RINDL IN
Equity Shares (m)	336
M.Cap.(INRb)/(USDb)	50.9 / 0.7
52-Week Range (INR)	476 / 149
1, 6, 12 Rel. Per (%)	-23/-39/-64
12M Avg Val (INR M)	977
Free float (%)	58.9

Financials & Valuations (INR b)

Y/E Dec	2017	2018E	2019E
Sales	113.0	142.2	152.7
EBITDA	22.7	23.9	21.9
NP	8.0	9.3	8.2
Adj. EPS (INR)	23.7	27.6	24.4
EPS Gr(%)	238.1	16.2	-11.3
BV/Sh. (INR)	117.3	124.0	137.9
RoE (%)	22.9	22.8	18.7
RoCE (%)	19.7	20.2	18.6
P/E (x)	16.0	5.5	6.2
P/BV	3.2	1.2	1.1

Estimate change



TP change



Rating change



CMP: INR151

TP: INR200 (+32%)

Buy

Carbon segment under pressure, ACM is improving

Earnings and SOTP reduced; Maintain Buy

3QCY18 EBITDA declined 26% QoQ to INR5.1b (22% miss), led by a sharp fall in the Carbon segment performance. Other segments, however, performed well. Finance cost was flat QoQ, but down 23% YoY due to refinancing of debt in January 2018. PAT (after MI) declined 41% QoQ (-29% YoY) to INR1.75b.

- **Carbon – lower volumes, prices and margins:** CPC volumes declined 21% QoQ to 375kt, impacted by the pet coke import ban. EBITDA/t was down 17% QoQ to USD92 due to pricing pressure. EBITDA declined 26% QoQ to INR4.1b.
- **ACM – EBITDA improved further:** EBITDA increased 15% QoQ to INR1.4b and EBITDA per ton grew by 5% QoQ to USD149/t.
- **Reducing estimates:** The pricing trend in both CPC and CT Pitch has turned negative due to pressure on LME, while the input cost reduction will be gradual, which ends the period of super-normal margins. We have reduced our Carbon EBITDA/t estimate by 24% to USD76/t. Also, our overall volume estimate is cut by 10% to factor in the restriction in importing CPC for blending at Vizag. Thus, we have reduced our Carbon EBITDA estimate by 23% to INR15.6b. On the other hand, ACM continues performing well on new product development. Therefore, group EBITDA is reduced by 16% to INR22b for CY19 and the target price is lowered by 17% to INR200/share based on SOTP.
- **Return ratios remain robust even after reduced earnings; Maintain Buy:** RAIN has a strong position in CPC and CT Pitch business across the world and its long-term average margins and RoCE are superior due to many strategic advantages. RAIN has recently restructured its Chemical business into advance Carbon material (ACM), with strengthening of management team having new skills. ACM has been improving its performance over the last few quarters. Even after the cut in earnings, RoCE would be 18.6% in CY19. At CMP, FCF yield is 15.7% in CY19. We find valuations attractive and maintain **Buy**.

Quarterly Performance (Consolidated) – INR million

Y/E December	CY17				CY18				CY17	CY18E	v/s Est.	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	%
Net Sales	24,680	26,371	30,508	31,448	33,062	38,033	34,922	36,142	13,007	14,215	37,667	-7
Change (YoY %)	14	4	36	32	34	44	14	15	21	26	23	
EBITDA	4,414	4,678	6,738	6,872	6,409	6,924	5,110	5,489	22,702	23,932	6,577	-22
As % of Net Sales	17.9	17.7	22.1	21.9	19.4	18.2	14.6	15.2	20.1	16.8	17.5	
Interest	1,536	1,483	1,463	1,465	1,180	1,118	1,126	1,137	5,947	4,561	1,163	-3
Depreciation	1,366	1,295	1,335	1,260	1,230	1,316	1,314	1,315	5,256	5,175	1,182	11
Other Income	206	475	256	198	61	93	137	212	1,134	503	270	-49
PBT (before EO Inc.)	1,717	2,375	4,196	4,345	4,060	4,583	2,807	3,249	12,633	14,699	4,502	-38
EO Income(exp)	-670	0	0	-302	0	0	0	0	-973	0	0	
PBT (after EO Inc.)	1,047	2,375	4,196	4,043	4,060	4,583	2,807	3,249	11,661	14,699	4,502	-38
Total Tax	400	819	1,662	868	1,403	1,546	910	1,105	3,749	4,963	1,531	-41
% Tax	38.2	34.5	39.6	21.5	34.6	33.7	32.4	34.0	32.1	33.8	34.0	
Reported PAT	647	1,556	2,534	3,175	2,657	3,038	1,897	2,144	7,912	9,736	2,972	-36
Less: Min. Int. & assc.	55	41	78	103	145	90	149	85	285	468	41	261
Adjusted PAT	1,262	1,515	2,457	3,374	2,512	2,948	1,748	2,059	8,599	9,267	2,930	-40

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Exhibit 1: Key performance highlights – INR million

Y/E December	CY17				CY18				CY17	CY18E	CY19E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Sales (kt)											
Carbon	680	686	751	679	662	747	634	670	2,796	2,713	2,786
CPC	411	425	475	430	389	474	375	400	1,741	1,638	1,622
CTPitch	127	126	137	122	133	126	118	130	512	507	590
Others	142	135	139	127	140	147	141	140	543	568	574
ACM	115	128	131	118	110	128	134	120	492	492	550
Cement	535	556	505	509	558	572	536	569	2,105	2,235	2,275
Realization											
Carbon (USD/Ton)	328	365	411	484	534	522	511	516	396	520	503
CPC	259	299	339	414	416	436	376	418	328	412	418
CTPitch	401	458	593	669	872	815	835	800	529	829	712
Others	407	426	412	473	479	494	543	475	428	498	475
ACM (USD/Ton)	1,007	984	990	1,023	1,106	1,087	1,038	1,000	1,000	1,057	1,000
Cement (INR/bag)	238	254	217	209	207	206	204	210	230	207	210
Net Sales	24,680	26,371	30,508	31,448	33,062	38,033	34,922	36,142	1,13,007	1,42,158	1,52,650
Change (YoY %)	14	4	36	32	34	44	14	15	21	26	7
EBITDA	4,414	4,678	6,738	6,872	6,409	6,924	5,110	5,489	22,702	23,932	21,892
As % of Net Sales	17.9	17.7	22.1	21.9	19.4	18.2	14.6	15.2	20.1	16.8	14.3
Carbon EBITDA	2,759	2,924	5,042	5,726	5,524	5,519	4,084	4,129	16,451	19,256	15,565
USD/t	61	66	104	130	130	111	92	85	90	104	76
ACM EBITDA	1,531	1,543	1,427	884	908	1,216	1,404	1,218	5,385	4,746	5,645
USD/t	199	187	169	116	128	142	149	140	168	141	140
Cement EBITDA	124	211	269	262	189	117	127	142	866	575	683
INR/t	232	379	533	515	339	205	237	250	411	257	300

Source: MOSL, Company

Result highlights

- **Carbon – Volumes, prices and margins declined:** EBITDA declined 26% QoQ to INR4.1b due to pricing pressure and lower volumes. CPC volumes declined 21% QoQ to 375kt as production of low grade CPC in the US for blending at Vizag was impacted because RAIN can no longer import CPC in India after recent Supreme Court order. Lifting of GPC import ban on 9th Oct has since eased RM supply to Vizag. CPC prices too declined sharply by 14% QoQ to USD376/t. Some of CT Pitch volumes were impacted in Germany as transportation by barges was halted due to low water levels in Rhine River. Overall segment volumes were down 15% QoQ to 634kt and EBITDA/t was down 17% QoQ to USD92.
- **ACM EBITDA improved further:** EBITDA increased 15% QoQ to INR1.4b and EBITDA per ton increased 5% QoQ to USD149/t.
- **Cement:** EBITDA was up 9% QoQ to INR 127m as EBITDA/t improved 16% INR237/t, while volumes were lower by 6%.
- Impact of one-off items was INR316m on EBITDA and INR230m on PAT towards restructuring of operations and strategic projects in Europe.
- Net debt increased by USD12m to USD1,011m or by INR4.5b (including translation impact) to INR73b.

Call highlights

- **CPC market:** CPC prices are weakening due to demand erosion in China. Chinese aluminum smelters are coming under pressure as SHFE is even lower than LME. There may be some smelter shutdown in China, which may send some CPC surplus to exports, putting pressure on pricing. RAIN has been trying to protect margins, but a hit is inevitable due to high-cost raw material inventories.
- **CT Pitch market:** The prices of CT Pitch too are coming under pressure.
- **India - Petcoke import ban lifted for aluminum industry as well, but blending operations still stalled:** The Supreme Court in India had ordered a ban on import and use of petcoke as fuel on July 26th, 2018. The ban on petcoke import has been lifted on 9th Oct for aluminum industry, but two buckets with caps of 1.4mt for GPC and 500kt for CPC have been created. This has eased the supply of raw material i.e. GPC for its 500kt CPC unit but stifled blending operation at Vizag as it can no longer import CPC. RAIN is now forced to reduce production of low-grade CPC (not fit for direct sale to smelter) in its US plants which was sent to Vizag for blending. About 250kt of low-grade CPC was imported for blending at Vizag. Large part of this was produced in its US plants. RAIN will approach the courts to allow it to import of CPC for re-export.

Project updates

- The petro-tar distillation facility in Belgium is on track for commissioning in 4QCY18.
- RAIN is investing USD66m in a 30ktpa for Dicyclopentadiene (DCPD/C9) resin plant at its integrated coal and petrochemical site in Castrop-Rauxel, Germany. The project is expected to complete in 3QCY19. Major contracts for equipment and contractors are concluded.
- The calcination plant in Vishakhapatnam, AP of 370kt remains on the revised schedule of 3QCY19. All permissions are obtained and detailed engineering, land acquisition, site clearance work and contractor selection is done. Foundation work is underway.

Exhibit 2: Target price calculation

Y/E December	2015	2016	2017	2018E	2019E
Target multiple					
Carbon					6.0
Chemical					6.0
Cement					7.0
EBITDA					
Carbon	9,981	11,742	16,451	19,256	15,565
Chemical	1,710	2,496	5,385	4,746	5,645
Cement	1,801	1,083	866	575	683
EV/t				18	19
Target EV					1,32,036
Net Debt (Rs m)	67,352	64,002	68,940	69,979	64,923
Residual equity value					67,113
Target price					200

Source: MOSL, Company

Exhibit 3: Metals valuation

	Rating	CMP (INR)	MCAP (USD M)	EPS			P/E (x)		EV/EBITDA (x)		P/B(x)	
				FY18E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Steel												
Tata Steel	Neutral	574	7,673	71.9	91.6	73.4	6.3	7.8	5.8	6.9	1.0	0.9
JSW Steel	Buy	335	11,144	23.4	37.1	34.3	9.0	9.8	6.8	7.0	2.4	2.0
JSPL	Buy	175	2,203	-8.5	2.3	4.0	74.7	43.8	6.7	6.0	0.5	0.5
SAIL	Neutral	64	3,638	0.3	8.9	6.6	7.2	9.6	5.9	6.3	0.7	0.6
Non-Ferrous												
Hindalco	Buy	230	6,537	18.9	26.6	27.8	8.7	8.3	5.7	5.6	1.2	1.1
Nalco	Buy	66	2,341	5.1	10.2	7.4	6.5	8.9	3.0	4.3	1.1	1.1
Vedanta	Buy	207	8,446	20.4	18.4	25.4	11.3	8.1	6.0	4.7	1.2	1.1
Rain Ind.	Buy	151	699	23.7	27.6	24.4	5.5	6.2	5.0	5.3	1.2	1.1
Mining												
Coal India	Buy	263	22,861	19.2	27.0	30.8	9.8	8.5	5.1	4.5	7.6	7.0
Hindustan Zinc	Neutral	267	15,526	21.1	21.0	27.0	12.7	9.9	8.0	6.0	3.3	2.7
NMDC	Buy	101	5,511	13.1	13.0	14.3	7.8	7.1	4.2	4.0	1.2	1.1

*Calendar year-end

Source: MOSL, Company

Financials and Valuations

Income Statement (Consolidated)							(INR Million)	
Y/E December	2012	2013	2014	2015	2016	2017	2018E	2019E
Net sales	53,614	117,443	119,370	102,185	92,582	113,007	142,158	152,650
Change (%)	-4.9	119.1	1.6	-14.4	-9.4	22.1	25.8	7.4
Total Expenses	42,524	102,465	107,150	88,694	77,275	90,305	118,227	130,758
EBITDA	11,090	14,978	12,220	13,492	15,307	22,702	23,932	21,892
% of Net Sales	20.7	12.8	10.2	13.2	16.5	20.1	16.8	14.3
Depn. & Amortization	1,200	3,568	3,470	3,278	5,190	5,256	5,175	5,258
EBIT	9,891	11,410	8,750	10,213	10,117	17,446	18,757	16,634
Net Interest	2,076	5,933	6,079	5,763	6,308	5,947	4,561	4,605
Other income	665	566	369	499	704	1,134	503	902
PBT before EO	8,480	6,043	3,041	4,949	4,513	12,634	14,699	12,931
EO income	-1,651	-1,809	-2,464	35	42	-341		
PBT after EO	6,828	4,235	577	4,984	4,556	12,292	14,699	12,931
Tax	2,180	367	-121	1,962	2,096	4,380	4,963	4,396
Rate (%)	31.9	8.7	-20.9	39.4	46.0	35.6	33.8	34.0
Reported PAT	4,648	3,868	698	3,022	2,459	7,912	9,736	8,534
Minority interests	71	10	-189	-217	99	285	468	312
Associate		-12	-1	-7	42	9		
Adjusted PAT	6,229	5,654	3,349	3,198	2,360	7,977	9,267	8,222
Change (%)	-6.2	-9.2	-40.8	-4.5	-26.2	238.1	16.2	-11.3
Balance Sheet							(INR Million)	
Y/E December	2012	2013	2014	2015	2016	2017	2018E	2019E
Share Capital	683	673	673	673	673	673	673	673
Reserves	24,833	31,560	28,785	28,702	29,471	38,768	41,049	45,714
Share holders funds	25,517	32,233	29,458	29,375	30,144	39,441	41,721	46,387
Minority Interest	121	416	216	24	716	1,013	1,013	1,013
Loans	69,268	82,905	76,726	75,957	74,493	78,366	74,546	67,295
LT	67,413	78,804	72,624	71,855	70,391	74,264	70,444	63,193
ST	1,856	4,102	4,102	4,102	4,102	4,102	4,102	4,102
Defferred tax liability (net)	4,118	4,721	4,225	3,844	2,833	1,740	1,740	1,740
Capital Employed	99,024	120,275	110,625	109,200	108,185	120,560	119,020	116,435
Gross Block	44,290	150,718	148,683	150,241	159,153	162,186	163,686	175,779
Less: Accum. Deprn.	7,096	58,095	61,565	64,843	70,033	75,289	80,464	85,722
Net Fixed Assets	37,194	92,623	87,118	85,398	89,121	86,897	83,222	90,057
Capital WIP	5,866	2,721	2,691	4,108	2,352	4,412	10,861	3,798
Investments	16	76	68	59	99	672	672	672
Curr. Assets	64,476	50,845	45,675	43,665	38,707	53,522	50,860	49,808
Inventories	9,850	20,002	15,337	16,210	12,678	19,985	21,421	20,911
Sundry Debtors	5,649	15,371	13,712	11,968	10,637	16,873	17,634	19,286
Cash and Bank	46,657	8,512	8,995	8,605	10,491	9,426	4,566	2,372
Loans and Advances	2,320	6,961	7,630	6,882	4,901	7,238	7,238	7,238
Curr. Liability & Prov.	8,528	25,989	24,926	24,030	22,094	24,943	26,595	27,900
Sundry Creditors	6,021	12,575	10,008	10,228	7,831	11,512	13,163	14,469
Other Liabilities & prov.	2,507	13,414	14,918	13,802	14,263	13,432	13,432	13,432
Application of Funds	99,024	120,275	110,625	109,200	108,185	120,560	119,020	116,435

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E December	2012	2013	2014	2015	2016	2017	2018E	2019E
Basic (INR)								
EPS	18.2	16.8	10.0	9.5	7.0	23.7	27.6	24.4
Cash EPS	21.7	27.4	20.3	19.3	22.4	39.3	42.9	40.1
BV/Share	74.7	95.8	87.6	87.3	89.6	117.3	124.0	137.9
DPS	1.1	1.0	1.0	1.0	1.0	2.0	2.0	2.0
Payout (%)	7.1	13.7	10.0	12.7	21.4	4.2	8.7	9.8
Return Ratios (%)								
P/E	2.2	2.1	4.4	4.0	9.5	16.0	5.5	6.2
Cash P/E	1.8	1.3	2.2	2.0	3.0	9.7	3.5	3.8
P/BV	0.5	0.4	0.5	0.4	0.7	3.2	1.2	1.1
EV/Sales	0.7	0.7	0.7	0.8	0.9	1.7	0.8	0.8
EV/EBITDA	3.3	5.8	6.8	5.9	5.6	8.7	5.0	5.3
Dividend Yield (%)	2.8	2.8	2.3	2.6	1.5	0.5	1.3	1.3
Working Capital Ratios								
Fixed Asset Turnover (x)	1.2	0.8	0.8	0.7	0.6	0.7	0.9	0.9
Asset Turnover (x)	0.5	1.0	1.1	0.9	0.9	0.9	1.2	1.3
Debtor (Days)	38	48	42	43	42	54	45	46
Inventory (Days)	67	62	47	58	50	65	55	50
Creditors (Days)	41	39	31	37	31	37	34	35
Leverage Ratio (x)								
Current Ratio	7.6	2.0	1.8	1.8	1.8	2.1	1.9	1.8
Interest Cover Ratio	4.8	1.9	1.4	1.8	1.6	2.9	4.1	3.6
Debt/Equity	0.9	2.3	2.3	2.3	2.1	1.7	1.7	1.4

Cash Flow Statement

Y/E March	2012	2013	2014	2015	2016	2017	2018E	2019E
EBITDA	11,090	14,978	12,220	13,492	15,307	22,702	23,932	21,892
Non cash exp. (income)	98	-5	-1,925	1,045	479	-103		
(Inc)/Dec in Wkg. Cap.	3,651	-7,954	4,340	-587	2,918	-9,916	-546	164
Tax Paid	-819	-927	-1,722	-1,567	-3,037	-4,002	-4,963	-4,396
Other operating activities								
CF from Op. Activity	14,020	6,091	12,913	12,382	15,667	8,681	18,422	17,660
(Inc)/Dec in FA + CWIP	-5,284	-3,654	-3,903	-4,987	-4,793	-4,398	-7,948	-5,031
(Pur)/Sale of Investments	929	64	202	321				
Acquisition in subsidiaries		-37,510				8		
Int. & Divident Income	409	183	102	184	139	249	503	902
Other investing activities								
CF from Inv. Activity	-3,946	-40,916	-3,599	-4,482	-4,655	-4,142	-7,445	-4,130
Equity raised/(repaid)	-276	-203						
Debt raised/(repaid)	30,993	212	-1,670	-1,782	-2,492	1,522	-10,000	-10,000
Dividend (incl. tax)	-440	-776	-336	-405	-506	-339	-807	-807
Interest & equiv. paid	-2,479	-4,299	-6,911	-5,767	-5,868	-6,388	-4,561	-4,605
CF from Fin. Activity	27,798	-5,066	-8,917	-7,954	-8,866	-5,205	-15,368	-15,412
(Inc)/Dec in Cash	37,872	-39,890	396	-54	2,146	-666	-4,391	-1,882
Add: opening Balance	8,294	46,657	8,512	8,995	8,605	10,491	9,426	4,566
Misc	492	1,745	87	-337	-260	-399	-468	-312
Closing Balance	46,657	8,512	8,995	8,605	10,491	9,426	4,566	2,372

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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