

# RESULTS REVIEW

## Rain Industries

*Carbon segment leads the beat; outlook positive*

**BUY**

### Summary

Nifty: 9,285; Sensex: 29,859

CMP	Rs113
Target Price	Rs139
Potential Upside/Downside	+23%

### Key Stock Data

Sector	Midcap
Bloomberg / Reuters	RINDLIN / RAID.BO
Shares o/s (mn)	336
Market cap. (Rsmn)	37,918
Market cap. (US\$ mn)	590
3-m daily average vol.	154,609

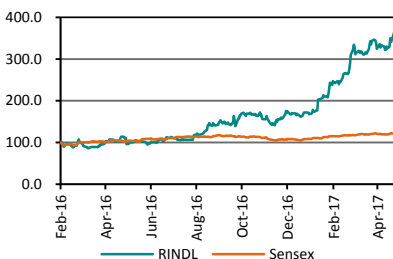
### Price Performance

52-week high/low	Rs123/30		
	-1m	-3m	-12m
Absolute (%)	9	43	267
Rel to Sensex (%)	12	41	253

### Shareholding Pattern (%)

Promoters	41.1
FII's/NRIs/OCBs/GDR	17.2
MFs/Banks/FIs	11.7
Public & Others	29.9

### Relative to Sensex



Source: Bloomberg

- Rain Industries reported slightly better than expected Q1CY17 results with EBITDA growth of 150.0% yoy to Rs 4,619 mn driven by strong performance from Carbon Products segment.
- Carbon Products segment EBITDA grew 80.9% YoY and 19.0% QoQ to Rs 3,746 mn.
- However, Chemicals and Cement division EBITDA were lower than our estimates.
- Adj. net profit stood at Rs 1,317 mn vs. loss of 581 mn in Q1CY16. Adjustments to Q1CY17 mainly includes exceptional item of Rs 670 mn related to debt refinancing.
- The company announced two new projects – setting up a Packing Material plant (capex - Rs320 mn) and setting up a hydrogenated hydrocarbon resins plant in Netherlands (capex - Rs980 mn).
- We raise our CY17-18E estimates and target price; Maintain Buy.

### Result Highlights and Investment Rationale

- **Strong growth in Carbon Products continues:** During Q1CY17, Carbon Products segment EBITDA remained strong with 19.0% QoQ growth despite 18.1% fall in CPC volumes indicating sequential improvement in EBITDA/tonne for the Carbon products segment. CTP volumes remained flat QoQ to 0.14 mn tonnes.
- **EBITDA beat our expectations despite weak Cement profitability:** Despite weak profitability from Cement segment (EBITDA down 47.9% on lower volumes and higher input costs), Rain's EBITDA was 11.3% higher than our estimates. Even Chemicals segment EBITDA increased 27.1% yoy to Rs544mn although it was down 39.5% QoQ and was lower than our forecast.
- **Adj. net profit growth strong:** Adj. net profit stood at Rs1,317 mn vs. loss of Rs581 mn in Q1CY16. Adjustments to Q1CY17 net profit mainly includes exceptional item of Rs670 mn related to debt refinancing.
- **Net debt higher QoQ:** Net debt increased to \$951 mn compared to \$927 mn in Dec 16 which was a negative surprise. During March 2017, the Company's wholly owned step-down subsidiary in USA completed issue of 7.25% Senior Secured Notes for \$550 mn to partly replace high-cost (8.25%) debt.
- **Raise CY17-18 estimates on improved outlook:** CPC and CTP demand has continued to improve in the last three months which is also evident from Carbon Products margin improvement in Q1CY17. Considering rising demand (especially from China), we raise our CY17-18 Carbon Products margin estimates resulting in increased EBITDA by 5.7%/6.8% for CY17/CY18, respectively. However, we also raise our interest and depreciation expenses assumptions to account for changes in accounting reported by the company.
- **Raise target price; Maintain Buy:** Rain's consolidation and restructuring efforts (over CY13-15) and improvement in demand for its Carbon Product segment has resulted in strong operating and financial performance in the last four quarters. We believe rising demand for CPC and CTP are likely to drive strong improvement in profitability and improve the credit profile of Rain. We expect further margin improvement in during 2QCY17 and 3QCY17 (seasonally strong quarters). **We raise our target price from Rs103 to Rs139 and maintain our BUY rating.**

Table: Financial snapshot

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
CY14	119,370	12,145	10.2	3,464	10.3	5.3	6.7	11.2	7.3
CY15	102,185	13,492	13.2	3,301	9.8	5.5	6.0	11.2	9.0
CY16	93,164	13,537	14.5	3,234	9.6	11.7	7.2	10.9	9.0
CY17E	102,092	17,136	16.8	4,177	12.4	9.1	5.4	13.3	10.6
CY18E	110,114	18,021	16.4	5,207	15.5	7.3	4.8	14.7	11.6

Source: Company; IDBI Capital Research

**Table: Quarterly Snapshot (Consolidated results)** (Rs mn)

	Q1FY17	Q4CY17	QoQ (%)	Q1FY16	YoY (%)
<b>Net sales</b>	25,555	24,653	3.7	22,263	14.8
Expenditure	20,936	19,943	5.0	20,416	2.5
<b>EBITDA</b>	<b>4,619</b>	<b>4,710</b>	<b>(1.9)</b>	<b>1,847</b>	<b>150.0</b>
EBITDA margin (%)	18.1	19.1	(100)bps	8.3	980bps
Other income	1,536	1,663	(7.6)	1,551	(1.0)
Interest	1,366	1,370	(0.2)	1,218	12.2
Depreciation	1,047	1,678	(37.6)	(922)	NA
<b>PBT</b>	<b>400</b>	<b>821</b>	<b>(51.3)</b>	<b>(342)</b>	<b>NA</b>
Tax	647	856	(24.5)	(581)	NA
<b>PAT</b>	<b>1,317</b>	<b>898</b>	<b>46.7</b>	<b>(581)</b>	<b>NA</b>
<b>Adj. diluted EPS (Rs)</b>	<b>3.92</b>	<b>2.67</b>	<b>46.7</b>	<b>(1.73)</b>	<b>NA</b>

Source: Company; IDBI Capital Research

**Table: Actual vs. Estimates** (Rs mn)

	Q1CY17E	Q1CY17	Variance
Net sales	27,098	25,555	(5.7)
EBTIDA	4,152	4,619	11.3
margin	15.3%	18.1%	275bps
<b>PAT</b>	<b>1,295</b>	<b>1,317</b>	<b>1.7</b>
Adj. diluted EPS (Rs)	3.85	3.92	1.7

Source: Company; IDBI Capital Research

**Table: Sales volumes** (mn tonnes)

	Q1FY17	Q4CY16	QoQ (%)	Q1FY16	YoY (%)
Carbon Products	0.73	0.82	(10.4)	0.62	18.4
Chemicals	0.06	0.07	(11.8)	0.07	(14.3)
Cement	0.54	0.47	13.3	0.58	(7.8)

Source: Company; IDBI Capital Research

**Table: Segment Revenues** (Rs mn)

	Q1FY17	Q4CY16	QoQ (%)	Q1FY16	YoY (%)
Carbon Products	18,106	17,631	2.7	14,845	22.0
Chemicals	4,574	3,985	14.8	5,072	(9.8)
Cement	2,554	2,454	4.1	2,783	(8.2)
<b>Total Revenues</b>	<b>25,234</b>	<b>24,070</b>	<b>4.8</b>	<b>22,700</b>	<b>11.2</b>
less: intersegment sales	2,096	2,179	(3.8)	1,991	5.2
<b>Net revenues</b>	<b>23,138</b>	<b>21,891</b>	<b>5.7</b>	<b>20,708</b>	<b>11.7</b>

Source: Company; IDBI Capital Research

**Table: Segmental adj. EBITDA****(Rs mn)**

	Q1FY17	Q4CY16	QoQ (%)	Q1FY16	YoY (%)
Carbon Products	3,746	3,149	19.0	2,071	80.9
Chemicals	544	899	(39.5)	428	27.1
Cement	124	299	(58.5)	238	(47.9)
<b>Total EBITDA (reported)</b>	<b>4,619</b>	<b>4,710</b>	<b>(1.9)</b>	<b>1,847</b>	<b>150.0</b>

Source: Company; IDBI Capital Research

**Table: Change in estimates**

	CY17E			CY18E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	100,051	102,092	2.0	105,545	110,114	4.3
EBITDA (Rs mn)	16,211	17,136	5.7	16,879	18,021	6.8
EBITDA margin(%)	16.2	16.8	0.6	16.0	16.4	0.4
Net profit (Rs mn)	5,227	4,177	(20.1)	6,462	5,207	(19.4)
EPS (Rs)	15.5	12.4	(19.9)	19.2	15.5	(19.4)

Source: Company; IDBI Capital Research

**Table: Valuation****(Rs mn)**

	Method	FY18 EBITDA	Multiple (x)	Value
Carbon	EV/EBITDA	14,246	4.5	64,106
Chemicals	EV/EBITDA	2,742	4.5	12,338
Cement (@ \$90 EV/tonne)				21,105
<b>Total EBITDA</b>				<b>97,549</b>
Total EV (Rsmn)				50,675
Net debt (Rsmn)				46,875
<b>Value per share (Rs)</b>				<b>139</b>
CMP (Rs)				113
Upside potential (%)				23

Source: Company; IDBI Capital Research

## Financial summary

### Profit & Loss Account

(Rsmn)

Year-end: Dec.	CY14	CY15	CY16	CY17E	CY18E
<b>Net sales</b>	<b>119,370</b>	<b>102,185</b>	<b>93,164</b>	<b>102,092</b>	<b>110,114</b>
Growth (%)	1.6	(14.4)	(8.8)	9.6	7.9
Operating expenses	(107,225)	(88,693)	(79,627)	(84,957)	(92,093)
<b>EBITDA</b>	<b>12,145</b>	<b>13,492</b>	<b>13,537</b>	<b>17,136</b>	<b>18,021</b>
Growth (%)	(7.8)	11.1	0.3	26.6	5.2
Depreciation	(3,565)	(3,278)	(3,461)	(5,468)	(5,523)
<b>EBIT</b>	<b>8,580</b>	<b>10,214</b>	<b>10,076</b>	<b>11,667</b>	<b>12,498</b>
Interest paid	(6,199)	(5,964)	(5,867)	(5,681)	(4,727)
Other income	774	796	737	-	-
<b>Pre-tax profit</b>	<b>577</b>	<b>4,985</b>	<b>3,576</b>	<b>5,316</b>	<b>7,771</b>
Tax	121	(1,962)	(1,648)	(1,809)	(2,564)
Effective tax rate (%)	(20.9)	39.4	46.1	34.0	33.0
<b>Net profit</b>	<b>698</b>	<b>3,023</b>	<b>1,928</b>	<b>3,507</b>	<b>5,207</b>
<b>Adjusted net profit</b>	<b>3,464</b>	<b>3,301</b>	<b>3,234</b>	<b>4,177</b>	<b>5,207</b>
Growth (%)	(10.2)	(4.7)	(2.0)	29.2	24.6
Shares o/s (mnos)	336	336	336	336	336

### Balance Sheet

(Rsmn)

Year-end: Dec.	CY14	CY15	CY16	CY17E	CY18E
Net fixed assets	89,809	89,506	<b>91,473</b>	<b>88,247</b>	<b>85,974</b>
Investments	68	59	99	99	99
Other non-curr assets	4,624	4,344	2,844	2,844	2,844
<b>Current assets</b>	<b>41,051</b>	<b>39,321</b>	<b>35,863</b>	<b>37,704</b>	<b>41,171</b>
Inventories	15,337	16,210	12,678	15,828	17,072
Sundry Debtors	13,712	11,968	10,637	12,386	13,359
Cash and Bank	8,995	8,605	10,491	7,069	8,133
Marketable Securities	195	136	-	-	-
Loans and advances	2,413	2,313	1,997	2,362	2,547
Other current Assets	398	90	60	60	60
<b>Total assets</b>	<b>135,551</b>	<b>133,230</b>	<b>130,279</b>	<b>128,894</b>	<b>130,088</b>
<b>Shareholders' funds</b>	<b>29,458</b>	<b>29,375</b>	<b>30,144</b>	<b>32,908</b>	<b>37,709</b>
Share capital	673	673	673	673	673
Reserves & surplus	28,785	28,702	29,471	32,235	37,037
<b>Total Debt</b>	<b>71,678</b>	<b>71,323</b>	<b>69,756</b>	<b>61,963</b>	<b>56,213</b>
Other liabilities	12,650	11,836	11,676	11,949	12,616
<b>Curr Liab&amp;Prov</b>	<b>21,549</b>	<b>20,672</b>	<b>17,988</b>	<b>21,359</b>	<b>22,833</b>
Current liabilities	20,428	19,146	16,626	19,777	21,127
Provisions	1,121	1,526	1,362	1,582	1,707
<b>Total liabilities</b>	<b>105,877</b>	<b>103,831</b>	<b>99,420</b>	<b>95,271</b>	<b>91,662</b>
<b>Total equity &amp; liabilities</b>	<b>135,551</b>	<b>133,230</b>	<b>130,279</b>	<b>128,894</b>	<b>130,088</b>
<b>Book Value (Rs)</b>	<b>88</b>	<b>87</b>	<b>90</b>	<b>98</b>	<b>112</b>

Source: Company; IDBI Capital Research

### Cash Flow Statement

(Rsmn)

Year-end: Dec.	CY14	CY15	CY16	CY17E	CY18E
Pre-tax profit	577	4,985	5,288	5,986	7,771
Depreciation	3,470	3,278	3,461	5,468	5,523
Tax paid	(1,722)	(1,567)	(1,648)	(1,809)	(2,564)
Chg in working capital	4,085	(587)	4,208	(2,394)	(261)
Other operating activities	6,504	6,500	5,867	5,681	4,727
<b>CF from operations (a)</b>	<b>12,913</b>	<b>12,610</b>	<b>17,175</b>	<b>12,932</b>	<b>15,196</b>
Capital expenditure	(3,940)	(4,939)	(4,420)	(3,250)	(3,250)
Chg in investments	(130)	60	-	-	-
Other investing activities	(43)	(23)	-	-	-
<b>CF from investing (b)</b>	<b>(4,114)</b>	<b>(4,903)</b>	<b>(4,420)</b>	<b>(3,250)</b>	<b>(3,250)</b>
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(1,193)	(955)	(2,342)	(7,018)	(5,750)
Dividend (incl. tax)	(336)	(405)	(405)	(405)	(405)
Chg in minorities	-	-	-	-	-
Other financing activities	(7,305)	(6,708)	(5,867)	(5,681)	(4,727)
<b>CF from financing (c)</b>	<b>(8,834)</b>	<b>(8,068)</b>	<b>(8,613)</b>	<b>(13,104)</b>	<b>(10,882)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(35)</b>	<b>(361)</b>	<b>4,142</b>	<b>(3,422)</b>	<b>1,064</b>

### Financial Ratios

Year-end: Dec.	CY14	CY15	CY16	CY17E	CY18E
Adj EPS (Rs)	10.3	9.8	9.6	12.4	15.5
Adj EPS growth (%)	(10.2)	(4.7)	(2.0)	29.2	24.6
EBITDA margin (%)	10.2	13.2	14.5	16.8	16.4
Pre-tax margin (%)	0.5	4.9	3.8	5.2	7.1
RoE (%)	11.2	11.2	10.9	13.3	14.7
RoCE (%)	7.3	9.0	9.0	10.6	11.6
<b>Turnover &amp; Leverage ratios (x)</b>					
Asset turnover	0.8	0.8	0.7	0.8	0.9
Leverage factor	4.6	4.6	4.4	4.1	3.7
Net margin (%)	2.9	3.2	3.5	4.1	4.7
Net Debt/Equity	2.1	2.1	2.0	1.7	1.3
<b>Working Capital &amp; Liquidity ratios</b>					
Inventory days	47	58	50	57	57
Receivable days	42	43	42	44	44
Payable days	34	42	36	43	42

### Valuations

Year-end: Dec.	CY14	CY15	CY16	CY17E	CY18E
PER (x)	5.3	5.5	11.7	9.1	7.3
Price/Book value (x)	0.6	0.6	1.3	1.2	1.0
PCE (x)	2.6	2.8	5.7	3.9	3.5
EV/Net sales (x)	0.7	0.8	1.0	0.9	0.8
EV/EBITDA (x)	6.7	6.0	7.2	5.4	4.8
Dividend Yield (%)	1.8	2.2	1.1	1.1	1.1



# Notes

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### Stocks:

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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