

Rain Industries

BUY

Carbon segment spreads on an uptrend

Summary

- Rain Industries reported better than expected Carbon Product segment profitability during Q4CY17, despite weak volumes on delayed shipments; volumes should recover in Q1CY18 though.
- Carbon Products EBITDA/tonne at Rs8,426 (+125.6% YoY, +11.8% QoQ) was ahead of our forecast. Segment EBTIDA grew to Rs6.4 bn (+104.1% YoY, +1.2% QoQ) despite fall in volumes to 0.7 mn tonne (-9.2% YoY, -10.0% QoQ).
- In light of better than expected Carbon Products profitability and anticipated higher spreads for CPC/ CTP, we raise our CY18 margin estimates. We maintain BUY rating with a revised target price of Rs522 (earlier Rs418).

Key Highlights and Investment Rationale

- **Carbon Products spreads continue to rise:** Despite fall in volumes (-9.2% YoY, -10.0% QoQ), Carbon Products EBITDA/tonne grew to Rs8,426 (+125.6% YoY, +11.8% QoQ). Volumes were impacted by shipment delays which should likely recover in Q1CY18.
- **Net debt increase slightly:** Net debt increased modestly (+2.4% QoQ to \$999 mn) on higher working capital needs (higher product prices) and exchange rate changes.
- **Call highlights:** The company has no plans to list its US subsidiary currently. Rain is witnessing strong demand in CPC and CTP. It aims to maintain Carbon Product spreads achieved in Q4CY17. Savings in interest likely to be \$25-30 mn p.a. due to refinancing. The company's interest rates will not be impacted due to higher rates in the US in CY18 as it has fixed rate bonds.
- **Raise CY18 estimates on improved outlook:** CPC and CTP demand has continued to improve in the last six months which is also evident from Carbon Products margin improvement during 2HCY17. We raise our CY18 Carbon Products EBITDA estimates on rising demand/ constrained supplies. With higher spreads, we expect the company's ROE to be in 31%/28% for CY18/19, respectively. We introduce CY19 estimates in this report. **Maintain BUY.**

TP	Rs522
CMP	Rs381
Potential upside / downside	+37%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	CY18E	CY19E
IDBI Capital	42.2	51.4
Consensus	27.3	40.1
% difference	54.9	28.4

Shareholding Pattern (%)

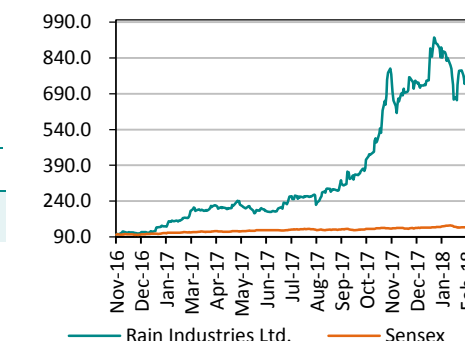
Promoters	41.1
FII	18.4
DII	1.2
Public	39.3

Price Performance (%)

	-1m	-3m	-12m
Absolute	(9.1)	10.9	350.6
Rel to Sensex	(3.8)	9.6	332.1

Key Stock Data	
Bloomberg / Reuters	RINDL IN/RAID.BO
Sector	Midcap
Shares o/s (mn)	336
Market cap. (Rs mn)	128,148
Market cap. (US\$ mn)	1,974
3-m daily average value (Rs mn)	399
52-week high / low	Rs475 / 85
Sensex / Nifty	34,184 / 10,493

Relative to Sensex (%)



Financial snapshot

	(Rs mn)				
Year	CY2015	CY2016	CY2017E	CY2018E	CY2019E
Revenue	102,185	92,582	113,007	137,091	152,376
EBITDA	13,492	15,307	22,702	29,288	33,182
EBITDA (%)	13.2	16.5	20.1	21.4	21.8
Adj. PAT	3,301	3,228	9,715	14,206	17,290
EPS (Rs)	9.8	9.6	28.9	42.2	51.4
EPS Growth (%)	(4.7)	(2.2)	200.9	46.2	21.7
PE (x)	40.7	41.6	13.8	9.5	7.8
Dividend Yield (%)	0.3	0.4	0.6	0.6	0.6
EV/EBITDA (x)	14.6	12.6	7.1	4.9	3.9
RoE (%)	11.2	10.8	27.9	30.8	28.3
RoCE (%)	9.0	9.0	17.2	25.2	26.5

Source: Company; IDBI Capital Research

Table 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q4CY17	Q3CY17	QoQ (%)	Q4CY16	YoY (%)
Net sales	31,646	30,764	2.9	24,097	31.3
Expenditure	24,575	23,770	3.4	19,388	26.8
EBITDA	7,070	6,994	1.1	4,709	50.1
<i>EBITDA margin (%)</i>	22.3	22.7	<i>(39)bps</i>	19.5	<i>280bps</i>
Interest	1,465	1,463	0.1	1,663	(11.9)
Depreciation	1,260	1,336	(5.7)	1,370	(8.0)
PBT	3,212	4,196	(23.4)	1,677	91.6
Tax	37	1,662	(97.8)	821	(95.5)
PAT	3,175	2,534	25.3	855	271.2
Adj. PAT	2,977	2,456	21.2	898	231.5
Adj. diluted EPS (Rs)	8.85	7.30	21.2	2.67	231.5

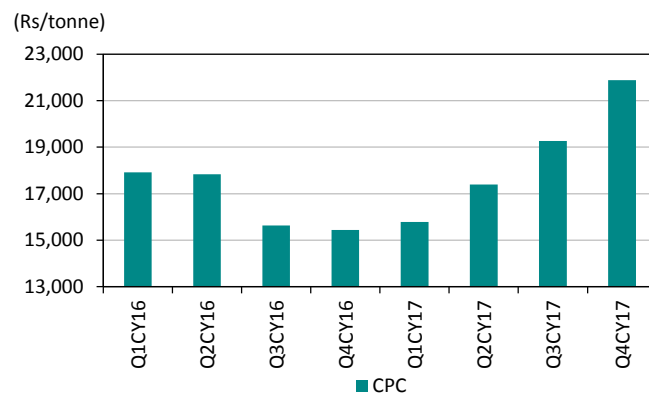
Source: Company; IDBI Capital Research

Table 2: Actual vs. Estimates

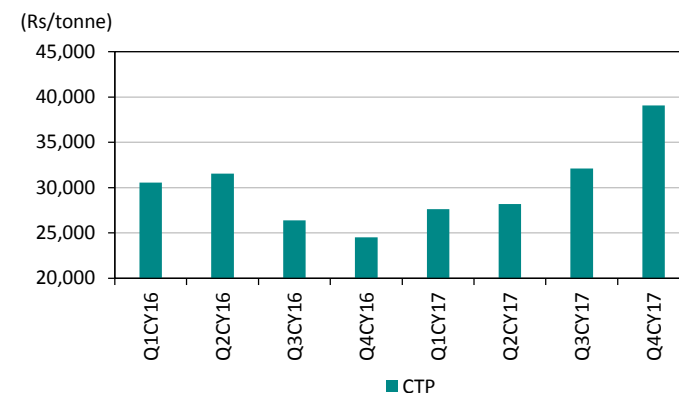
(Rs mn)

	Q4CY17E	Q4CY17	Variance (%)
Net sales	35,366	31,646	(10.5)
EBTIDA	7,014	7,070	0.8
<i>Margin (%)</i>	19.8	22.3	<i>251bps</i>
Adj. PAT	2,681	2,977	11.1
Adj. diluted EPS (Rs)	7.97	8.85	11.1

Source: Company; IDBI Capital Research

Figure 1: CPC realization higher


Source: Company; IDBI Capital Research

Figure 2: Even CTP realization continued to rise


Source: Company; IDBI Capital Research

Table 3: Sales volumes

(mn tonnes)

	Q4CY17	Q3CY17	QoQ (%)	Q4CY16	YoY (%)
Carbon Products	0.74	0.83	(10.0)	0.82	(9.2)
Chemicals	0.05	0.05	(1.9)	0.07	(22.1)
Cement	0.51	0.51	0.8	0.47	7.8

Source: Company; IDBI Capital Research

Table 4: Segment Revenues

(Rs mn)

	Q4CY17	Q3CY17	QoQ (%)	Q4CY16	YoY (%)
Carbon Products	25,174	25,368	(0.8)	17,631	42.8
Chemicals	4,641	5,258	(11.7)	3,985	16.5
Cement	2,137	2,192	(2.5)	2,454	(12.9)
Total Revenues	31,953	32,818	(2.6)	24,070	32.7
less: intersegment sales	505	2,309	(78.1)	2,179	(76.8)
Net revenues	31,448	30,508	3.1	21,891	43.7

Source: Company; IDBI Capital Research

Table 5: Segmental adj. EBITDA

(Rs mn)

	Q4CY17	Q3CY17	QoQ (%)	Q4CY16	YoY (%)
Carbon Products	6,412	6,336	1.2	3,141	104.1
Chemicals	198	133	48.9	899	(78.0)
Cement	262	269	(2.6)	307	(14.7)

Source: Company; IDBI Capital Research

CPC and CTP demand has continued to improve in the last six months which is also evident from Carbon Products margin improvement during H2CY17. We raise our CY18 margin estimates to account for strong improvement in CPC and CTP spreads. We introduce CY19 estimates in this report and base our target price on CY19 estimates.

Table 6: Change in estimates

	Old	CY18E New	(%) Chg	CY19E New
Revenue (Rs mn)	131,261	137,091	4.4	152,376
EBITDA (Rs mn)	27,045	29,288	8.3	33,182
EBITDA margin (%)	20.6	21.4	76bps	21.8
Net profit (Rs mn)	11,711	14,206	21.3	17,290
EPS (Rs)	34.8	42.2	21.3	51.4

Source: Company; IDBI Capital Research

Table 7: Valuation

(Rs mn)

	Method	CY19 EBITDA	Multiple (x)	Value
Carbon	EV/EBITDA	30,036	6.0	180,217
Chemicals	EV/EBITDA	1,532	6.0	9,190
Cement (@ \$90 EV/tonne)				21,105
Total EV (Rs mn)				210,512
Net debt (Rs mn)				35,071
Equity value (Rs mn)				175,440
Value per share (Rs)				522
CMP (Rs)				381
Upside potential (%)				37

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account (Rs mn)

Year-end:	CY16	CY17	CY18E	CY19E
Net sales	92,582	113,007	137,091	152,376
<i>Growth (%)</i>	<i>(9.4)</i>	<i>22.1</i>	<i>21.3</i>	<i>11.1</i>
Operating expenses	(77,275)	(90,305)	(107,803)	(119,194)
EBITDA	15,307	22,702	29,288	33,182
<i>Growth (%)</i>	<i>13.5</i>	<i>48.3</i>	<i>29.0</i>	<i>13.3</i>
Depreciation	(5,190)	(5,256)	(5,306)	(5,359)
EBIT	10,117	17,446	23,982	27,823
Interest paid	(6,308)	(5,947)	(4,156)	(3,547)
Other income	1,212	1,134	1,376	1,529
Pre-tax profit	4,759	10,830	21,203	25,806
Tax	(1,792)	(2,918)	(6,997)	(8,516)
<i>Effective tax rate (%)</i>	<i>37.7</i>	<i>26.9</i>	<i>33.0</i>	<i>33.0</i>
Minority Interest	-	-	-	-
Net profit	2,967	7,912	14,206	17,290
Exceptional items	(262)	(1,803)	-	-
Adjusted net profit	3,228	9,715	14,206	17,290
<i>Growth (%)</i>	<i>(2.2)</i>	<i>200.9</i>	<i>46.2</i>	<i>21.7</i>
<i>Shares o/s (mn nos)</i>	<i>336</i>	<i>336</i>	<i>336</i>	<i>336</i>

Cash Flow Statement (Rs mn)

Year-end:	CY16	CY17E	CY18E	CY19E
Pre-tax profit	4,759	10,830	21,203	25,806
Depreciation	(6)	5,256	5,306	5,359
Tax paid	(2,175)	(4,670)	(6,997)	(8,516)
Chg in working capital	2,495	25,657	3,360	(2,149)
Other operating activities	-	-	-	-
Cash flow from operations (a)	5,072	37,074	22,871	20,500
Capital expenditure	(1,960)	(5,093)	(5,250)	(5,100)
Chg in investments	(40)	(239)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(1,865)	(5,331)	(5,250)	(5,100)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(1,567)	(32,359)	(5,000)	(7,000)
Dividend (incl. tax)	(506)	(810)	(810)	(810)
Chg in minorities	691	298	-	-
Cash flow from financing (c)	(1,381)	(32,871)	(5,810)	(7,810)
Net chg in cash (a+b+c)	1,826	(1,128)	11,812	7,590

Balance Sheet

(Rs mn)

Year-end:	CY16	CY17	CY18E	CY19E
Net fixed assets	91,473	91,309	91,253	90,995
Investments	99	338	338	338
Other non-curr assets	2,844	4,311	4,311	4,311
Current assets	35,863	49,545	63,372	76,379
Inventories	12,678	19,985	19,812	22,021
Sundry Debtors	10,637	16,873	16,686	18,547
Cash and Bank	10,491	9,501	22,496	31,295
Loans and advances	1,997	52	1,243	1,381
Total assets	130,279	145,503	159,275	172,022
Shareholders' funds	30,144	39,441	52,837	69,318
Share capital	673	673	673	673
Reserves & surplus	29,471	38,768	52,165	68,645
Total Debt	69,756	37,397	32,397	25,397
Secured loans	69,756	37,397	32,397	25,397
Other liabilities	11,676	12,408	13,593	14,801
Curr Liab & prov	17,988	55,243	59,434	61,493
Current liabilities	16,626	54,454	58,130	60,043
Provisions	1,362	789	1,305	1,450
Total liabilities	99,420	105,049	105,424	101,691
Total equity & liabilities	130,279	145,503	159,275	172,022
Book Value (Rs)	90	117	157	206

Source: Company; IDBI Capital Research

Financial Ratios

Year-end:	CY16	CY17	CY18E	CY19E
Adj EPS (Rs)	9.6	28.9	42.2	51.4
Adj EPS growth (%)	(2.2)	200.9	46.2	21.7
EBITDA margin (%)	16.5	20.1	21.4	21.8
Pre-tax margin (%)	5.1	9.6	15.5	16.9
ROE (%)	10.8	27.9	30.8	28.3
ROCE (%)	9.0	17.2	25.2	26.5
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.7	0.8	0.9	0.9
Leverage factor (x)	4.4	4.0	3.3	2.7
Net margin (%)	3.5	8.6	10.4	11.3
Net Debt/Equity (x)	2.0	0.7	0.2	-0.1
Working Capital & Liquidity ratio				
Inventory days	50	65	53	53
Receivable days	42	54	44	44
Payable days	37	47	40	40

Valuation

Year-end:	CY16	CY17	CY18E	CY19E
PER (x)	41.6	13.8	9.5	7.8
Price / Book value (x)	4.5	3.4	2.5	1.9
PCE (x)	15.9	9.0	6.9	5.9
EV / Net sales (x)	2.1	1.4	1.1	0.8
EV / EBITDA (x)	12.6	7.1	4.9	3.9
Dividend Yield (%)	0.4	0.6	0.6	0.6

Notes

Dealing	(91-22) 6637 1150	dealing@idbicapital.com
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Key to Ratings Stocks:

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

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Rain Industries

BSE SENSEX
34,184

S&P CNX
10,493

CMP: INR381 TP: INR492 (+29%)

Buy

Financials & Valuations (INR b)

Y/E Dec	2017	2018E	2019E
Net Sales	113.0	133.9	146.1
EBITDA	22.7	28.6	30.8
NP	8.6	13.0	14.4
EPS (INR)	25.6	38.8	42.9
EPS Gr. (%)	165.6	51.6	10.6
BV/Sh. (INR)	112.8	149.2	189.6
RoE (%)	25.3	29.6	25.3
RoCE (%)	20.2	26.1	26.4
Payout (%)	9.4	6.2	5.6
Div. Yield	0.5	0.5	0.5

Temporary volume delay the only blip in an otherwise strong quarter

Maintain Buy

Rain Industries' (RAIN) 4QCY17 EBITDA increased 4% QoQ (+58% YoY) to INR6.9b, as higher realization was offset by lower volumes due to timing issues with some dispatches. Adj. PAT increased 37% QoQ to INR3.3b, led by a lower effective tax rate (~21% v/s ~40% in 3QCY17). We note that the INR0.8b exceptional gain from the deferred tax reversal due to US and Belgium tax rate changes was offset by INR1.1b in charges on prepayment of debt.

- Carbon division volumes were down ~10% QoQ to 744kt. CPC realization increased USD78 QoQ to USD415/t and CTP by USD107 QoQ to USD708/t. Division EBITDA/t increased USD15 QoQ to USD133. Management expects to maintain the current margin levels in 1QCY18.
- Chemical division volumes were largely unchanged QoQ at 53kt. EBITDA/t increased by USD20 QoQ to USD58.
- Cement division volumes were largely unchanged QoQ at 509kt. Realization was down 4% QoQ to INR4,173/t. EBITDA/t decreased 3% QoQ to INR515.
- Net debt was unchanged YoY due to an increase in working capital, but should reduce 1QCY18 onward.
- CPC market outlook remains positive, led by growing aluminum demand and limited supply addition. Debt repayment will result in annual interest cost saving of USD25-30m from CY18.

The stock trades at 8.9x P/E and 5.4x EV/EBITDA CY19E. We value RAIN at 6.5x EV/EBITDA CY19E to derive a TP of INR492/share. Maintain **Buy**.

Quarterly Performance (Consolidated) – INR m

Y/E December	CY16				CY17				CY16	CY17E	4QE	v/s Est. %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	21,617	25,315	22,400	23,831	24,680	26,371	30,508	31,448	93,164	113,007	32,300	-3
Change (YoY %)	-15	-4	-17	1	14	4	36	32	-9	21	36	
EBITDA	1,997	4,441	4,536	4,347	4,414	4,678	6,738	6,872	15,321	22,702	7,302	-6
As % of Net Sales	9.2	17.5	20.2	18.2	17.9	17.7	22.1	21.9	16.4	20.1	22.6	
Carbon EBITDA	1,328	3,358	3,915	3,141	3,746	4,002	6,336	6,412	11,742	20,496	6,568	-2
USD/t	31	63	82	57	76	82	118	133	59	103	120	11
Chemical EBITDA	429	716	452	899	544	465	133	198	2,496	1,340	507	-61
USD/t	91	143	125	238	135	120	38	58	146	90	120	-52
Cement EBITDA	240	367	169	307	124	211	269	262	1,083	866	228	15
INR/t	414	609	351	650	232	379	533	515	507	411	400	29
Interest	1,484	1,513	1,430	1,440	1,536	1,483	1,463	1,465	5,867	5,947	1,483	-1
Depreciation	817	862	855	927	1,366	1,295	1,335	1,260	3,461	5,256	1,175	7
Other Income	171	322	159	53	206	475	256	198	704	1,134	242	-18
PBT (before EO Inc.)	-133	2,388	2,410	2,032	1,718	2,375	4,195	4,345	6,697	12,633	4,887	-11
EO Income(exp)	0	162	-224	-933	-670	0	0	-302	-996	-973	0	
PBT (after EO Inc.)	-133	2,550	2,185	1,099	1,048	2,375	4,195	4,043	5,701	11,661	4,887	-17
Total Tax	-432	987	466	626	400	819	1,662	868	1,648	3,749	1,496	-42
% Tax	324.5	38.7	21.3	57.0	38.2	34.5	39.6	21.5	28.9	32.1	30.6	
Reported PAT	299	1,563	1,719	473	647	1,556	2,534	3,175	4,053	7,912	3,390	-6
Min. Int. & assc.	6	-2	42	64	55	41	78	121	69	285	40	204
Adjusted PAT	293	1,403	1,901	1,342	1,263	1,515	2,456	3,356	4,980	8,599	3,351	0
Change (YoY %)	-23.9	-12.3	45.7	-1,851.6	331.5	8.0	29.2	150.1	55.1	72.7	211.1	