

# Rain Industries

## BUY

Strong Carbon segment margins; Outlook positive

### Summary

- Rain Industries (Rain) reported slightly better than expected Q2CY17 results with EBITDA growth of 16.0% YoY to Rs 4,914 mn driven by Carbon Product segment EBITDA which grew by 19.2% YoY to Rs 4,002 mn.
- Adj. net profit remained flat YoY to Rs 1,556 mn (10.5% above our estimates). Net debt remained flat QoQ to \$952 mn.
- The company announced setting up of vertical shaft kiln in Vishakapatnam (370 ktpa) in Andhra Pradesh with a capex of Rs4,240 mn. The project is likely to commence by March 2019.
- We raise our estimates and target price to Rs144; Maintain BUY.

### Key Highlights and Investment Rationale

- **Strong growth in Carbon Products continues:** During Q2CY17, Carbon Products segment EBITDA stood at Rs4,002 mn (+6.8% QoQ, +19.2% YoY).
- **Chemical and Cement segment profitability falls:** Chemical EBITDA fell by 35.1% YoY to Rs465mn due to unfavourable forex exposure and higher raw material costs; segment margins are likely to improve from Q3CY17. Cement EBITDA also fell 42.5% YoY to Rs211 mn on lower volumes and higher costs.
- **New capex announced; leverage levels likely to remain high:** The company announced setting up of vertical shaft kiln in Vishakapatnam (370 ktpa) in Andhra Pradesh with a capex of Rs4,240 mn. This is likely to keep leverage levels high over CY17-18E.
- **Raise CY17-18 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 H2CY17. We raise our CY17-18 Carbon Products EBITDA estimates by 9.5%/7.3% for CY17/CY18, respectively, on improving demand. Lastly, we also raise our capex and net debt assumptions to factor in the new capex announcement related to vertical shaft kiln in Vishakapatnam. **We raise our target price to Rs144 (previous Rs139) and maintain our BUY rating.**

<b>TP</b>	<b>Rs144</b>
<b>CMP</b>	<b>Rs116</b>
Potential upside / downside	+24%
Previous Rating	BUY

### V/s Consensus

EPS (Rs)	CY17E	FY18E
IDBI Capital	15.7	18.1
Consensus	NA	NA
% difference	nm	nm

### Shareholding Pattern (%)

Promoters	41.1
FII	17.4
DII	4.9
Public	36.6

### Price Performance (%)

	-1m	-3m	-12m
Absolute	(13.8)	5.3	199.1
Rel to Sensex	(14.6)	(0.4)	184.0

### Key Stock Data

Bloomberg / Reuters	RINDL IN/RAID.BO
Sector	Midcap
Shares o/s (mn)	336
Market cap. (Rs mn)	37,671
Market cap. (US\$ mn)	586
3-m daily average value (Rs mn)	129
52-week high / low	Rs140 / 36
Nifty / Sensex	9,711 / 31,214

### Relative to Sensex (%)



### Financial snapshot

Year	CY2014	CY2015	CY2016	CY2017E	CY2018E
Revenue	119,370	102,185	93,164	101,769	111,167
EBITDA	12,145	13,492	13,537	18,769	19,328
EBITDA (%)	10.2	13.2	14.5	18.4	17.4
Adj. PAT	3,464	3,301	3,234	5,276	6,080
EPS (Rs)	10.3	9.8	9.6	15.7	18.1
EPS Growth (%)	(10.2)	(4.7)	(2.0)	63.1	15.2
PE (x)	11.2	11.8	12.0	7.4	6.4
Dividend Yield (%)	0.9	1.0	1.0	2.1	2.1
EV/EBITDA (x)	8.4	7.5	7.3	5.0	4.6
RoE (%)	11.2	11.2	10.9	16.6	16.8
RoCE (%)	7.3	9.0	9.0	12.3	12.9

Source: Company; IDBI Capital Research

**Table 1: Quarterly Snapshot**

(Rs mn)

Financial snapshot	Q2CY17	Q1CY17	QoQ (%)	Q2CY16	YoY (%)
<b>Net sales</b>	<b>27,641</b>	<b>25,555</b>	<b>8.2</b>	<b>25,315</b>	<b>9.2</b>
Expenditure	22,488	20,935	7.4	20,874	7.7
<b>EBITDA</b>	<b>5,153</b>	<b>4,619</b>	<b>11.6</b>	<b>4,441</b>	<b>16.0</b>
<i>EBITDA margin (%)</i>	<i>18.6</i>	<i>18.1</i>	<i>57bps</i>	<i>17.5</i>	<i>110bps</i>
Interest	1,483	1,536	(3.4)	1,513	(1.9)
Depreciation	1,295	1,366	(5.2)	862	50.2
<b>PBT</b>	<b>2,375</b>	<b>1,047</b>	<b>126.8</b>	<b>2,551</b>	<b>(6.9)</b>
Tax	819	400	104.5	987	(17.1)
<b>PAT</b>	<b>1,556</b>	<b>647</b>	<b>140.6</b>	<b>1,563</b>	<b>(0.4)</b>
<b>Adj. PAT</b>	<b>1,556</b>	<b>1,317</b>	<b>18.2</b>	<b>1,565</b>	<b>(0.5)</b>
<b>Adj. diluted EPS (Rs)</b>	<b>4.63</b>	<b>3.92</b>	<b>18.2</b>	<b>4.65</b>	<b>(0.5)</b>

Source: Company; IDBI Capital Research

**Table 2: Actual vs. Estimates**

(Rs mn)

	Q2CY17E	Q2CY17	Variance (%)
Net sales	27,872	27,641	(0.8)
EBTIDA	4,914	5,153	4.9
<i>Margin (%)</i>	<i>17.6</i>	<i>18.6</i>	<i>104bps</i>
<b>PAT</b>	<b>1,409</b>	<b>1,556</b>	<b>10.5</b>
Adj. diluted EPS (Rs)	4.39	4.63	10.5

Source: Company; IDBI Capital Research

## Key highlights from the earnings con-call

- Demand for CPC and CTP continues to improve. From Q4CY16, the tightness has continued in the market.
- Company hopeful of raising margins in Carbon segment; Chemicals segment EBITDA should likely improve from Q3CY17.
- Aluminium demand remains positive with prices rising alongside lower inventories. Some western world smelters likely to restart smelters which will further improve demand for CPC and CTP.
- Tightness in supply of GPC too, but Rain well-poised to get supplies given its long-term relationships with suppliers.
- For Russian JV, Rain aims to source raw materials from their partner, Severstal.

**Table 3: Sales volumes**

(mn tonnes)

	Q2CY17	Q1CY17	QoQ (%)	Q2CY16	YoY (%)
Carbon Products	0.76	0.73	2.9	0.80	(5.0)
Chemicals	0.06	0.06	nm	0.08	(20.0)
Cement	0.56	0.54	3.9	0.60	(7.9)

Source: Company; IDBI Capital Research

**Table 4: Segment Revenues**

(Rs mn)

	Q2FY17	Q1CY17	QoQ (%)	Q2CY16	YoY (%)
Carbon Products	21,039	18,106	16.2	17,743	18.6
Chemicals	5,442	4,574	19.0	5,607	(2.9)
Cement	2,823	2,554	10.6	2,752	2.6
<b>Total Revenues</b>	<b>29,304</b>	<b>25,234</b>	<b>16.1</b>	<b>26,102</b>	<b>12.3</b>
less: intersegment sales	2,138	2,096	2.0	2,137	0.0
<b>Net revenues</b>	<b>27,166</b>	<b>23,138</b>	<b>17.4</b>	<b>23,965</b>	<b>13.4</b>

Source: Company; IDBI Capital Research

**Table 5: Segmental adj. EBITDA**

(Rs mn)

	Q2FY17	Q1CY17	QoQ (%)	Q2CY16	YoY (%)
Carbon Products	4,002	3,746	6.8	3,358	19.2
Chemicals	465	544	(14.5)	716	(35.1)
Cement	211	124	70.2	367	(42.5)
<b>Total EBITDA</b>	<b>5,153</b>	<b>4,619</b>	<b>11.6</b>	<b>4,441</b>	<b>16.0</b>

Source: Company; IDBI Capital Research

We have raised our CY17/18 margin estimates by 164bps/99bps to account for higher than expected demand for CPC and CTP. Hence, our CY17/18 FY18/19 EBITDA and net profit estimates are revised upwards.

**Table 6: Change in estimates**

	CY17E			CY18E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	102,092	101,769	(0.3)	110,114	111,167	1.0
EBITDA (Rs mn)	17,136	18,769	9.5	18,021	19,328	7.3
EBITDA margin (%)	16.8	18.4	164bps	16.4	17.4	99bps
Net profit (Rs mn)	4,177	5,276	26.3	5,207	6,080	16.8
EPS (Rs)	12.4	15.7	26.5	15.5	18.1	16.6

Source: Company; IDBI Capital Research

**Table 7: Valuation**

(Rs mn)

	Method	FY18 EBITDA	Multiple (x)	Value
Carbon	EV/EBITDA	16,566	4.3	71,232
Chemicals	EV/EBITDA	1,771	4.5	7,968
Cement (@ \$90 EV/tonne)				21,105
<b>Total EBITDA</b>				<b>97,763</b>
Total EV (Rs mn)				51,170
Net debt (Rs mn)				46,593
<b>Value per share (Rs)</b>				<b>144</b>
CMP (Rs)				116
Upside potential (%)				27

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: June	CY15	CY16	CY17E	CY18E
<b>Net sales</b>	<b>102,185</b>	<b>93,164</b>	<b>101,769</b>	<b>111,167</b>
<i>Growth (%)</i>	<i>(14.4)</i>	<i>(8.8)</i>	<i>9.2</i>	<i>9.2</i>
Operating expenses	(88,693)	(79,627)	(83,000)	(91,838)
<b>EBITDA</b>	<b>13,492</b>	<b>13,537</b>	<b>18,769</b>	<b>19,328</b>
<i>Growth (%)</i>	<i>11.1</i>	<i>0.3</i>	<i>38.7</i>	<i>3.0</i>
Depreciation	(3,278)	(3,461)	(5,253)	(5,306)
<b>EBIT</b>	<b>10,214</b>	<b>10,076</b>	<b>13,517</b>	<b>14,023</b>
Interest paid	(5,964)	(5,867)	(5,839)	(4,948)
Other income	796	737	-	-
<b>Pre-tax profit</b>	<b>4,985</b>	<b>3,576</b>	<b>7,008</b>	<b>9,075</b>
Tax	(1,962)	(1,648)	(2,402)	(2,995)
<i>Effective tax rate (%)</i>	<i>39.4</i>	<i>46.1</i>	<i>34.3</i>	<i>33.0</i>
<b>Net profit</b>	<b>3,023</b>	<b>1,928</b>	<b>4,605</b>	<b>6,080</b>
<b>Adjusted net profit</b>	<b>3,301</b>	<b>3,234</b>	<b>5,276</b>	<b>6,080</b>
<i>Growth (%)</i>	<i>(4.7)</i>	<i>(2.0)</i>	<i>63.1</i>	<i>15.2</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: June	CY15	CY16	CY17E	CY18E
Pre-tax profit	4,985	5,288	7,678	9,075
Depreciation	3,278	3,461	5,253	5,306
Tax paid	(1,567)	(1,648)	(2,402)	(2,995)
Chg in working capital	(587)	4,208	(2,384)	(306)
Other operating activities	6,500	5,867	5,839	4,948
<b>Cash flow from operations (a)</b>	<b>12,610</b>	<b>17,175</b>	<b>13,983</b>	<b>16,028</b>
Capital expenditure	(4,939)	(4,420)	(3,250)	(5,250)
Chg in investments	60	-	-	-
Other investing activities	(23)	-	-	-
<b>Cash flow from investing (b)</b>	<b>(4,903)</b>	<b>(4,420)</b>	<b>(3,250)</b>	<b>(5,250)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(955)	(2,342)	(7,018)	(5,750)
Dividend (incl. tax)	(405)	(405)	(810)	(810)
Other financing activities	(6,708)	(5,867)	(5,839)	(4,948)
<b>Cash flow from financing (c)</b>	<b>(8,068)</b>	<b>(8,613)</b>	<b>(13,666)</b>	<b>(11,508)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(361)</b>	<b>4,142</b>	<b>(2,933)</b>	<b>(730)</b>

**Balance Sheet**

(Rs mn)

Year-end: June	CY15	CY16	CY17E	CY18E
Net fixed assets	85,398	91,473	88,462	88,406
Investments	59	99	99	99
Other non-curr assets	8,452	2,844	2,844	2,844
<b>Current assets</b>	<b>39,321</b>	<b>35,863</b>	<b>38,096</b>	<b>40,181</b>
Inventories	16,210	12,678	15,778	17,235
Sundry Debtors	11,968	10,637	12,347	13,487
Cash and Bank	8,605	10,491	7,558	6,828
Loans and advances	2,313	1,997	2,354	2,572
Other current Assets	90	60	60	60
<b>Total assets</b>	<b>133,230</b>	<b>130,279</b>	<b>129,502</b>	<b>131,531</b>
<b>Shareholders' funds</b>	<b>29,375</b>	<b>30,144</b>	<b>33,601</b>	<b>38,872</b>
Share capital	673	673	673	673
Reserves & surplus	28,702	29,471	32,929	38,199
Minority Interest	24	716	716	716
<b>Total Debt</b>	<b>71,323</b>	<b>69,756</b>	<b>61,963</b>	<b>56,213</b>
Other liabilities	11,836	11,676	11,922	12,703
<b>Current liabilities</b>	<b>20,672</b>	<b>17,988</b>	<b>21,299</b>	<b>23,027</b>
Curr Liab	19,146	16,626	19,722	21,304
Provisions	1,526	1,362	1,577	1,723
<b>Total liabilities</b>	<b>103,831</b>	<b>99,420</b>	<b>95,185</b>	<b>91,943</b>
<b>Total equity &amp; liabilities</b>	<b>133,230</b>	<b>130,279</b>	<b>129,502</b>	<b>131,531</b>
<b>Book Value (Rs)</b>	<b>87</b>	<b>90</b>	<b>100</b>	<b>116</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: June	CY15	CY16	CY17E	CY18E
Adj EPS (Rs)	9.8	9.6	15.7	18.1
Adj EPS growth (%)	(4.7)	(2.0)	63.1	15.2
EBITDA margin (%)	13.2	14.5	18.4	17.4
Pre-tax margin (%)	4.9	3.8	6.9	8.2
ROE (%)	11.2	10.9	16.6	16.8
ROCE (%)	9.0	9.0	12.3	12.9
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.8	0.7	0.8	0.9
Leverage factor (x)	4.6	4.4	4.1	3.6
Net margin (%)	3.2	3.5	5.2	5.5
Net Debt/Equity (x)	2.1	2.0	1.6	1.3
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	58	50	57	57
Receivable days	43	42	44	44
Payable days	42	36	43	43

**Valuation**

Year-end: March	CY15	CY16	CY17E	CY18E
PER (x)	11.8	12.0	7.4	6.4
Price / Book value (x)	1.3	1.3	1.2	1.0
PCE (x)	5.9	5.8	3.7	3.4
EV / Net sales (x)	1.0	1.1	0.9	0.8
EV / EBITDA (x)	7.5	7.3	5.0	4.6
Dividend Yield (%)	1.0	1.0	2.1	2.1



# Notes

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