

Rain Industries

BSE SENSEX	S&P CNX
34,184	10,493
Bloomberg	RINDL IN
Equity Shares (m)	336
M.Cap.(INRb)/(USDb)	128.1 / 2.0
52-Week Range (INR)	476 / 85
1, 6, 12 Rel. Per (%)	-4/159/329
Avg Val, INRm	850.0
Free float (%)	58.9

Financials & Valuations (INR b)

Y/E Dec	2017	2018E	2019E
Sales	113.0	148.9	163.6
EBITDA	22.7	29.3	31.1
NP	8.6	13.7	15.0
Adj. EPS (INR)	25.6	40.6	44.6
EPS Gr(%)	165.9	58.6	9.8
BV/Sh. (INR)	117.3	155.5	197.6
RoE (%)	24.7	29.8	25.2
RoCE (%)	19.5	26.9	27.9
P/E (x)	14.9	9.4	8.5
P/BV	3.2	2.5	1.9

Estimate change



TP change



Rating change


CMP: INR381 TP: INR480(+26%)
Buy

Carbon prices and margins continue to improve

Interest and tax rate declining; Maintain Buy

Rain Industries' (RAIN) 4QCY17 EBITDA increased 2% QoQ (+58% YoY) to INR6.9b. Prices increased across products, but carbon product dispatches were impacted by shipment delays toward the end of the quarter. Adj. PAT increased 37% QoQ to INR3.3b, led by a lower effective tax rate (~21% v/s ~40% in 3QCY17). Exceptional charges include INR0.8b gain from reversal in deferred tax (due to US and Belgium tax rate changes), offset by INR1.1b toward refinancing and unabsorbed bond amortization charges.

- **Carbon – margins improved but shipments delayed:** Volumes fell ~10% QoQ to 744kt. CPC realization increased by USD78 QoQ to USD415/t and CTP realization by USD107 to USD708/t. EBITDA/t rose USD15 QoQ to USD133.
- **Chemical:** Volumes were largely unchanged QoQ at 53kt. Although EBITDA/t increased USD20 QoQ, it was subdued due to a squeeze in spreads.
- **Cement – pricing pressure continues:** Sales were largely unchanged QoQ at 509kt. Realization declined 4% QoQ to INR4,173/t. EBITDA/t decreased 3% QoQ to INR515.
- **USD25-30m savings on refinancing.** Net debt increased by INR5b YoY to INR69b due to a massive increase in working capital and appreciation of EUR against INR. Refinancing of ~USD489m debt is likely to save USD25-30m every year.
- **Positive outlook:** CPC business remains strong on declining exports from China, while CTP is benefitting from consolidation and capacity reduction in its key markets. Chemical business is likely to turnaround in 2HCY18. Tax rate is likely to be 200-300bp lower on a reduction in rates in the US and Belgium.
- **Maintain Buy:** The stock trades at 8.4x P/E and 5.5x EV/EBITDA on CY19E. We value the stock at INR480/share (Exhibit 2). Maintain **Buy**.

Quarterly Performance (Consolidated) – INR million

Y/E December	CY16				CY17				CY16	CY17	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	
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
Less: Min. Int. & assc.	6	-2	42	-19	55	41	78	103	69	285	40	160
Adjusted PAT	293	1,403	1,901	1,425	1,263	1,515	2,456	3,374	4,980	8,599	3,351	1
Change (YoY %)	-23.9	-12.3	45.7	-1,960.0	331.5	8.0	29.2	136.8	55.1	72.7	211.1	

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Key performance highlights

Y/E December	CY16				CY17				CY16	CY17
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Sales (kt)										
Carbon	633	795	715	819	734	755	827	744	2,962	3,060
CPC	341	441	360	502	411	425	475	430	1,644	1,741
CTPitch	108	142	155	138	142	155	172	137	543	606
Others	157	194	155	154	181	175	180	177	660	713
Chemical	70	75	54	56	60	60	54	53	255	227
Cement	580	603	482	472	535	556	505	509	2,137	2,105
Realization										
Carbon (USD/Ton)	346	333	342	319	368	404	442	514	334	432
CPC	255	234	240	234	260	299	337	415	240	328
CTPitch	382	394	442	409	420	498	601	708	409	555
Others	480	478	511	490	532	530	521	555	489	535
Chemicals (USD/Ton)	888	935	1,114	1,055	1,138	1,183	1,259	1,267	986	1,209
Cement (INR/bag)	217	228	251	260	238	254	217	209	237	230
Net Sales	21,617	25,315	22,400	23,831	24,680	26,371	30,508	31,448	93,164	113,007
Change (YoY %)	-15	-4	-17	1	14	4	36	32	-9	21
EBITDA	1,997	4,441	4,536	4,347	4,414	4,678	6,738	6,872	15,321	22,702
As % of Net Sales	9.2	17.5	20.2	18.2	17.9	17.7	22.1	21.9	16.4	20.1
Carbon EBITDA	1,328	3,358	3,915	3,141	3,746	4,002	6,336	6,412	11,742	20,496
USD/t	31	63	82	57	76	82	118	133	59	103
Chemical EBITDA	429	716	452	899	544	465	133	198	2,496	1,340
USD/t	91	143	125	238	135	120	38	58	146	90
Cement EBITDA	240	367	169	307	124	211	269	262	1,083	866
INR/t	414	609	351	650	232	379	533	515	507	411

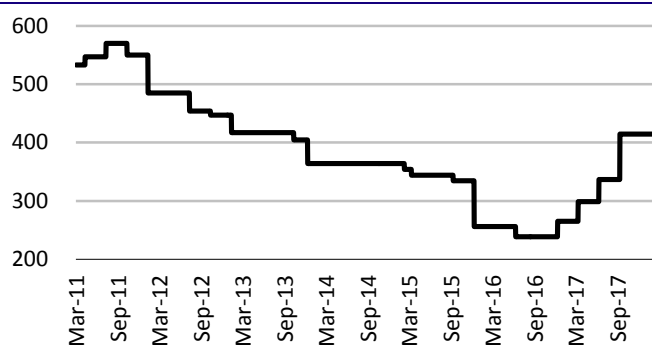
Source: MOSL, Company

Exhibit 2: Target price calculation

Y/E December	2013	2014	2015	2016	2017	2018E	2019E
Target multiple							
Carbon	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Chemical	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Cement	7.0	7.0	8.0	9.0	10.0	10.0	10.0
EBITDA							
Carbon	11,953	9,905	9,981	11,742	20,496	27,040	28,027
Chemical	2,434	1,881	1,710	2,496	1,340	1,183	1,716
Cement	591	434	1,801	1,083	866	1,103	1,313
EV/t	22	14	67	43	37	49	58
Target EV	97,653	79,647	90,400	102,294	150,594	194,473	206,454
Net Debt (Rs m)	74,394	67,731	67,352	64,002	68,940	57,747	45,035
Residual equity value						136,727	161,419
Target price						407	480

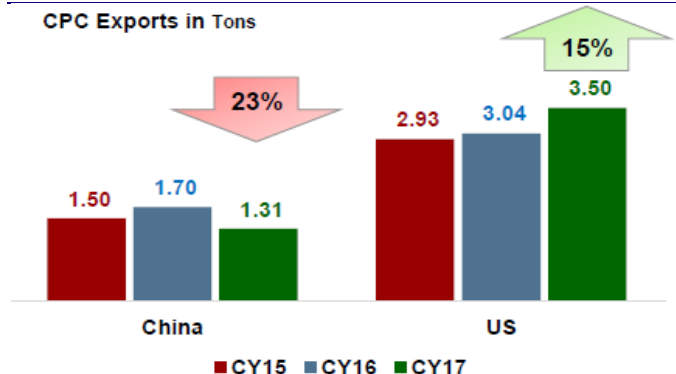
Source: MOSL, Company

Exhibit 3: CPC US prices (USD/t) – February 2018

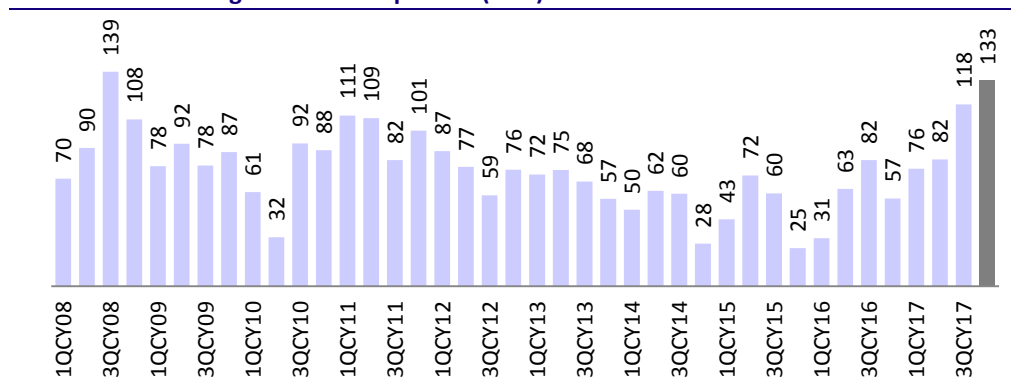


Source: MOSL, Company

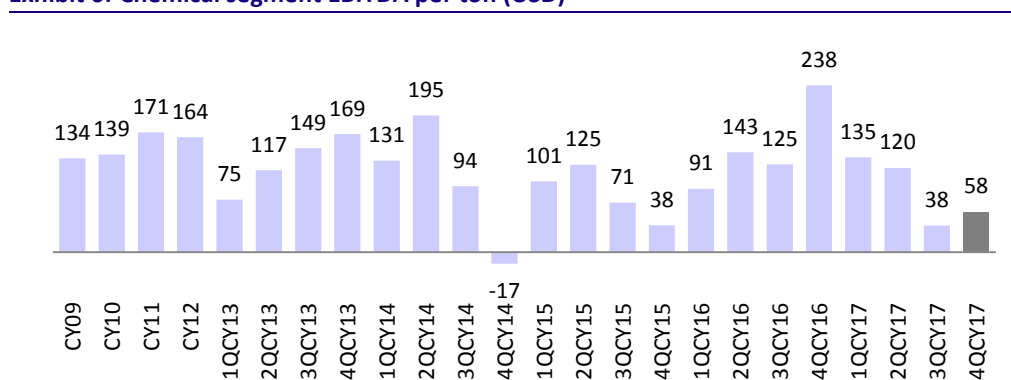
Exhibit 4: CPC exports by China and US



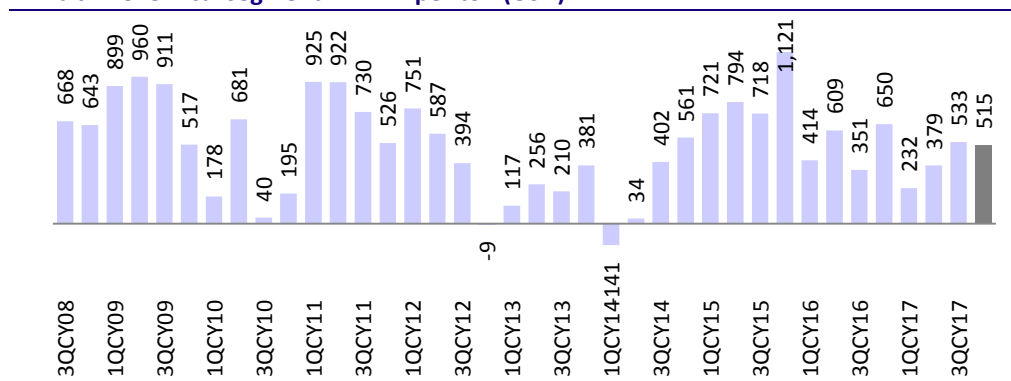
Source: MOSL, Company

Exhibit 5: Carbon segment EBITDA per ton (USD)

Source: MOSL, Company

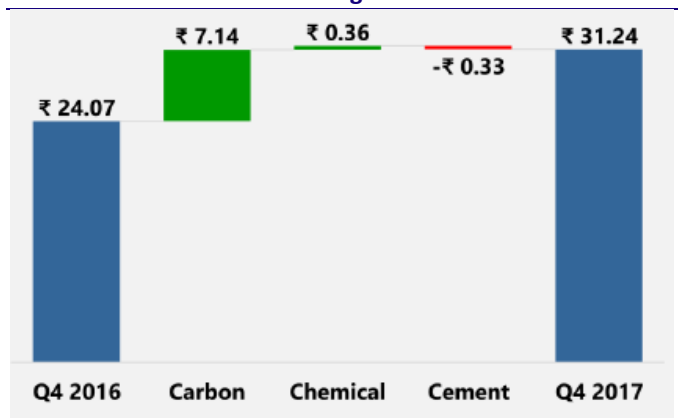
Exhibit 6: Chemical segment EBITDA per ton (USD)

Source: MOSL, Company

Exhibit 7: Chemical segment EBITDA per ton (USD)

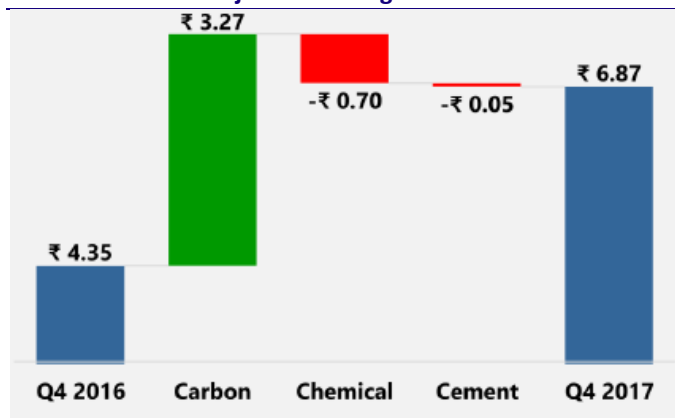
Source: MOSL, Company

Exhibit 8: Consol. revenue bridge – INR m



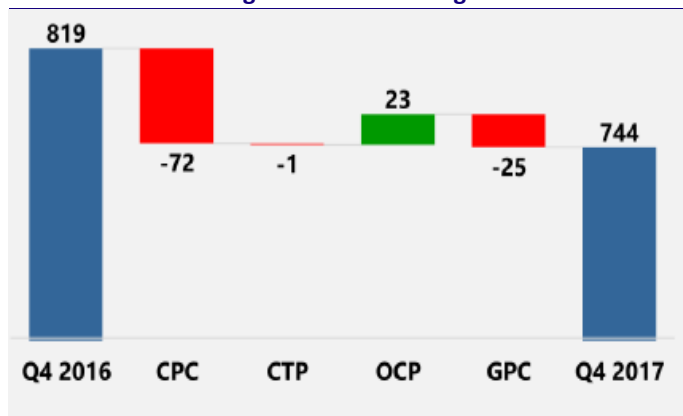
Source: MOSL, Company

Exhibit 9: Consol. adj EBITDA bridge – INR m



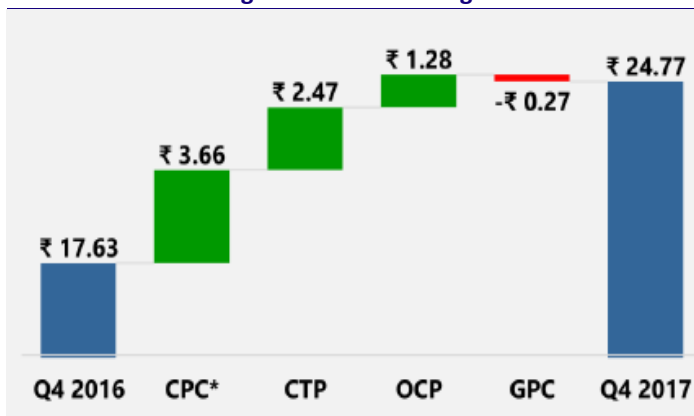
Source: MOSL, Company

Exhibit 10: Carbon segment volume bridge - kt



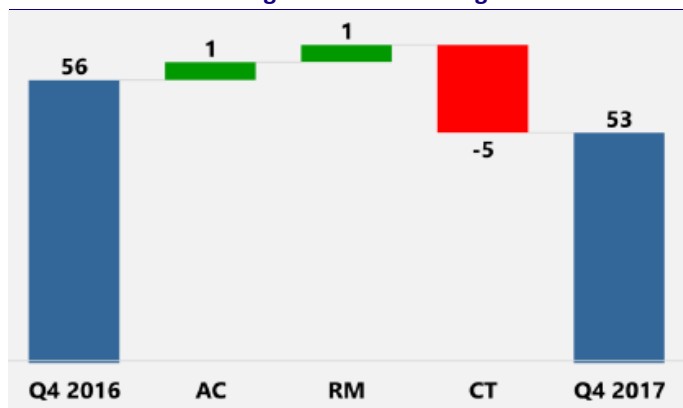
Source: MOSL, Company

Exhibit 11: Carbon segment revenue bridge – INR m



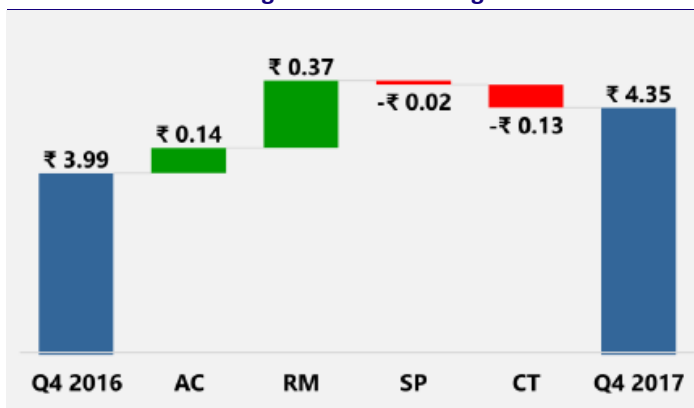
Source: MOSL, Company

Exhibit 12: Chemical segment volume bridge – INR m



Source: MOSL, Company

Exhibit 13: Chemical segment EBITDA bridge – INR m



Source: MOSL, Company

Financials and Valuations

INCOME STATEMENT (Consolidated)

Y/E December	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net sales	117,443	119,370	102,185	93,164	113,007	148,876	163,635	149,056
Change (%)	119.1	1.6	-14.4	-8.8	21.3	31.7	9.9	-8.9
Total Expenses	102,465	107,150	88,694	79,627	90,305	119,550	132,580	118,848
EBITDA	14,978	12,220	13,492	13,537	22,702	29,325	31,055	30,208
% of Net Sales	12.8	10.2	13.2	14.5	20.1	19.7	19.0	20.3
Depn. & Amortization	3,568	3,470	3,278	3,461	5,256	4,843	5,041	5,091
EBIT	11,410	8,750	10,213	10,076	17,446	24,482	26,015	25,117
Net Interest	5,933	6,079	5,763	5,867	5,947	4,652	4,152	3,652
Other income	566	369	499	704	1,134	1,141	1,142	1,199
PBT before EO	6,043	3,041	4,949	4,913	12,634	20,970	23,004	22,663
EO income	-1,809	-2,464	35	-996	-973			
PBT after EO	4,235	577	4,984	3,918	11,661	20,970	23,004	22,663
Tax	367	-121	1,962	1,648	3,749	7,130	7,821	7,705
Rate (%)	8.7	-20.9	39.4	42.1	32.1	34.0	34.0	34.0
Reported PAT	3,868	698	3,022	2,270	7,912	13,840	15,183	14,958
Minority interests	10	(189)	(217)	69	285	186	193	193
Associate	(12)	(1)	(7)	42	9			
Adjusted PAT	5,654	3,349	3,198	3,238	8,608	13,654	14,990	14,765
Change (%)	-9.2	-40.8	-4.5	1.2	165.9	58.6	9.8	-1.5

BALANCE SHEET (Consolidated)

Y/E December	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	673	673	673	673	673	673	673	673
Reserves	31,560	28,785	28,702	29,471	38,768	51,615	65,798	79,352
Share holders funds	32,233	29,458	29,375	30,144	39,441	52,288	66,471	80,024
Minority Interest	416	216	24	716	1,013	1,013	1,013	1,013
Loans	82,905	76,726	75,957	74,493	78,366	68,366	58,366	48,366
Deferred tax liability (net)	4,721	4,225	3,844	2,833	1,740	1,740	1,740	1,740
Capital Employed	120,275	110,625	109,200	108,185	120,560	123,407	127,589	131,143
Gross Block	150,718	148,683	150,241	157,425	160,457	161,957	173,207	175,707
Less: Accum. Depn.	58,095	61,565	64,843	68,304	73,561	78,404	83,445	88,536
Net Fixed Assets	92,623	87,118	85,398	89,121	86,897	83,553	89,763	87,171
Capital WIP	2,721	2,691	4,108	2,352	4,412	7,647	2,447	2,447
Investments	76	68	59	99	672	672	672	672
Curr. Assets	50,845	45,675	43,665	38,707	53,522	58,732	63,623	68,184
Inventories	20,002	15,337	16,210	12,678	19,985	22,433	22,416	20,419
Sundry Debtors	15,371	13,712	11,968	10,637	16,873	18,441	20,637	19,134
Cash and Bank	8,512	8,995	8,605	10,491	9,426	10,619	13,331	21,393
Loans and Advances	6,961	7,630	6,882	4,901	7,238	7,238	7,238	7,238
Curr. Liability & Prov.	25,989	24,926	24,030	22,094	24,943	27,197	28,915	27,331
Sundry Creditors	12,575	10,008	10,228	7,831	11,512	13,765	15,483	13,899
Other Liabilities & prov.	13,414	14,918	13,802	14,263	13,432	13,432	13,432	13,432
Net Current Assets	24,856	20,748	19,635	16,613	28,579	31,535	34,708	40,853
Application of Funds	120,275	110,625	109,200	108,185	120,560	123,407	127,589	131,143

Financials and Valuations

RATIOS

Y/E December	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (Rs)								
EPS	16.8	10.0	9.5	9.6	25.6	40.6	44.6	43.9
Cash EPS	27.4	20.3	19.3	19.9	41.2	55.0	59.6	59.0
BV/Share	95.8	87.6	87.3	89.6	117.3	155.5	197.6	237.9
DPS	1.0	1.0	1.0	1.0	2.0	2.0	2.0	3.0
Payout (%)	13.7	10.0	12.7	15.6	9.4	5.9	5.4	8.2
Valuation (x)								
P/E	2.1	4.4	4.0	39.6	14.9	9.4	8.5	8.7
Cash P/E	1.3	2.2	2.0	19.1	9.2	6.9	6.4	6.5
P/BV	0.4	0.5	0.4	4.3	3.2	2.5	1.9	1.6
EV/Sales	0.7	0.7	0.8	2.1	1.7	1.2	1.1	1.0
EV/EBITDA	5.8	6.8	5.9	14.2	8.7	6.3	5.6	5.1
Dividend Yield (%)	2.8	2.3	2.6	0.3	0.5	0.5	0.5	0.8
Return Ratios (%)								
EBITDA Margins	12.8	10.2	13.2	14.5	20.1	19.7	19.0	20.3
Net Profit Margins	4.8	2.8	3.1	3.5	7.6	9.2	9.2	9.9
RoE	19.7	10.9	10.9	10.9	24.7	29.8	25.2	20.2
RoCE	11.8	9.4	11.2	12.7	19.5	26.9	27.9	26.3
RoIC	15.9	10.1	12.1	13.7	21.1	30.0	31.4	30.1
Working Capital Ratios								
Fixed Asset Turnover (x)	0.8	0.8	0.7	0.6	0.7	0.9	0.9	0.8
Asset Turnover (x)	1.0	1.1	0.9	0.9	0.9	1.2	1.3	1.1
Debtor (Days)	48	42	43	42	54	45	46	47
Inventory (Days)	62	47	58	50	65	55	50	50
Creditors (Days)	39	31	37	31	37	34	35	34
Growth (%)								
Sales	119.1	1.6	-14.4	-8.8	21.3	31.7	9.9	-8.9
EBITDA	35.1	-18.4	10.4	0.3	67.7	29.2	5.9	-2.7
PAT	-9.2	-40.8	-4.5	1.2	165.9	58.6	9.8	-1.5
Leverage Ratio (x)								
Current Ratio	2.0	1.8	1.8	1.8	2.1	2.2	2.2	2.5
Interest Cover Ratio	1.9	1.4	1.8	1.7	2.9	5.3	6.3	6.9
Debt/Equity	2.3	2.3	2.3	2.1	1.7	1.1	0.7	0.3

E: MOST Estimates

Cash Flow Statement (Consolidated)

Y/E March	2013	2014E	2015	2016	2017	2018E	2019E	2020E
EBITDA	14,978	12,220	13,492	13,537	22,702	29,325	31,055	30,208
Non cash exp. (income)	-5	-1,925	1,045	-1,069				1
(Inc)/Dec in Wkg. Cap.	-7,954	4,340	-587	4,454	-13,031	-1,763	-461	1,917
Tax Paid	-927	-1,722	-1,567	-3,037	-3,749	-7,130	-7,821	-7,705
CF from Op. Activity	6,091	12,913	12,382	13,885	5,923	20,433	22,773	24,421
(Inc)/Dec in FA + CWIP	-3,654	-3,903	-4,987	-3,086	-5,092	-4,735	-6,050	-2,500
Int. & Dividend Income	183	102	184	142	1,134	1,141	1,142	1,199
CF from Inv. Activity	-40,916	-3,599	-4,482	-2,908	-3,958	-3,594	-4,908	-1,301
Debt raised/(repaid)	212	-1,670	-1,782	-2,492	3,873	-10,000	-10,000	-10,000
Dividend (incl. tax)	-776	-336	-405	-506	-807	-807	-807	-1,211
Interest & equiv. paid	-4,299	-6,911	-5,767	-5,900	-5,947	-4,652	-4,152	-3,652
CF from Fin. Activity	-5,066	-8,917	-7,954	-8,898	-2,881	-15,460	-14,960	-14,863
(Inc)/Dec in Cash	-39,890	396	-54	2,079	-917	1,379	2,905	8,256
Add: opening Balance	46,657	8,512	8,995	8,605	10,491	9,426	10,619	13,331
Adj (forex etc)	1,745	87	-337	-193	-148	-186	-193	-194
Closing Balance	8,512	8,995	8,605	10,491	9,426	10,619	13,331	21,393

NOTES

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.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

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Regulatory Enquiries against Motilal Oswal Securities Limited by SEBI:

SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations: MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice. The matter is closed and MOSL had to pay Rs. 2 lakhs towards penalty for misplacement of original POA of client.

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