

Rain Industries

BUY
CPC volumes recover but Carbon Products margins fall

Summary

Rain Industries Q2CY18 result was slightly ahead of our forecasts. Sales increased 15.1% QoQ to Rs38,126 mn led by higher CPC volumes. Although Carbon Products EBITDA/tonne fell 15.1% QoQ to \$110; nevertheless, CPC volumes (a concern in Q1CY18) recovered 21.8% QoQ to 474 kt. Overall, EBITDA was better than our forecast at Rs7,017 mn (+8.5% QoQ) on better than expected Advanced Carbon Materials (ACM) profitability. ACM segment EBITDA/tonne increased 10.4% QoQ to \$142.

We cut our CY18 margin estimates to account for weaker than expected Q2CY18 margin performance. We maintain our BUY rating on the stock with a revised TP of Rs295.

Key Highlights and Investment Rationale

- CPC volumes recover:** Although Carbon Products EBITDA/tonne fell 15.1% QoQ to \$110; nevertheless, CPC volumes (a concern in Q1CY18) recovered 21.8% QoQ to 474 kt. ACM EBITDA/tonne improved 10.4% QoQ to \$142. However, cement EBITDA/tonne fell 46.0% YoY to Rs205 due to 18.8% fall in realization.
- Net debt flat; liquidity strong:** Net debt remained flat QoQ to \$1 bn. We believe the company remains well-positioned to fund its capex from its existing cash balance of \$101 mn and internal cash flows.
- New regulations to tighten GPC supplies from 2020:** The enactment of MARPOL regulations from 2020 is likely to affect ~900kt of GPC supplies globally as it will cap the global sulphur limits for marine bunker fuel.
- Cut estimates but maintain Buy:** In light of weaker than expected margin in Carbon Products segment, we lower our EBITDA margin estimates for CY18/19. Nevertheless, we continue to believe demand supply dynamics in the CPC/CTP segment continues to remain favorable for the company. **The stock trades at an inexpensive valuation in our view (CY19E EV/EBITDA of 4.3x).** We cut our target price to Rs295 from Rs386 but maintain our BUY rating on the stock.

TP	Rs295
CMP	Rs208
Potential upside / downside	+42%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	CY18E	CY19E
IDBI Capital	34.3	37.2
Consensus	31.0	39.6
% difference	10.6	(6.1)

Shareholding Pattern (%)

Promoters	41.1
FII	17.0
DII	0.3
Public	41.6

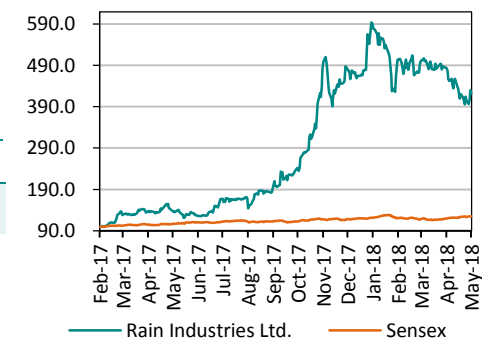
Price Performance (%)

	-1m	-3m	-12m
Absolute	15.8	(24.2)	79.7
Rel to Sensex	12.2	(30.7)	58.5

Key Stock Data

Bloomberg / Reuters	RINDL IN/RAID.BO
Sector	Midcap
Shares o/s (mn)	336
Market cap. (Rs mn)	70,010
Market cap. (US\$ mn)	1,044
3-m daily average value (Rs mn)	317
52-week high / low	Rs476 / 118
Sensex / Nifty	37,852 / 11,435

Relative to Sensex (%)



Financial snapshot

Year	CY2015	CY2016	CY2017	CY2018E	CY2019E
Revenue	102,185	92,582	113,007	141,454	161,189
EBITDA	13,492	15,307	22,702	26,937	29,105
EBITDA (%)	13.2	16.5	20.1	19.0	18.1
Adj. PAT	3,301	3,228	9,715	11,524	12,517
EPS (Rs)	9.8	9.6	28.9	34.3	37.2
EPS Growth (%)	(4.7)	(2.2)	200.9	18.6	8.6
PE (x)	21.2	21.7	7.2	6.1	5.6
Dividend Yield (%)	0.6	0.7	0.5	1.2	1.2
EV/EBITDA (x)	10.3	8.8	6.0	4.9	4.3
RoE (%)	11.2	10.6	27.3	25.7	22.3
RoCE (%)	8.5	8.5	14.0	16.6	17.0

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly Snapshot (Rs mn)

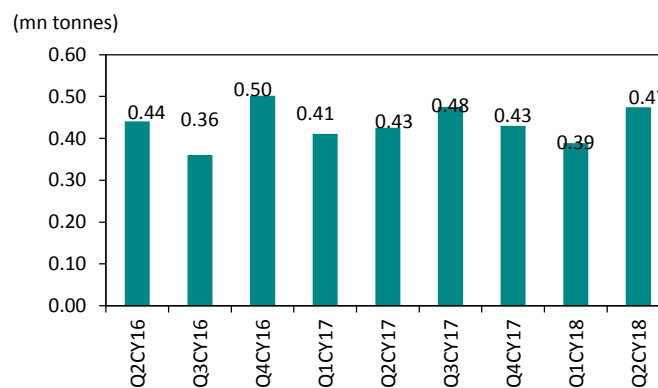
Financial snapshot	Q2CY18	Q1CY18	QoQ (%)	Q2CY17	YoY (%)
Net sales	38,126	33,123	15.1	27,641	37.9
Expenditure	31,109	26,653	16.7	22,488	38.3
EBITDA	7,017	6,470	8.5	5,153	36.2
<i>EBITDA margin (%)</i>	<i>18.4</i>	<i>19.5</i>	<i>(113)bps</i>	<i>18.6</i>	<i>(24)bps</i>
Interest	1,118	1,180	(5.2)	1,483	(24.6)
Depreciation	1,316	1,230	7.0	1,295	1.6
PBT	4,583	4,060	12.9	2,375	93.0
Tax	1,546	1,403	10.2	819	88.8
PAT	3,038	2,657	14.3	1,556	95.2
Adj. PAT	2,948	2,512	17.4	1,515	94.6
Adj. diluted EPS (Rs)	8.76	7.47	17.3	4.51	94.6

Source: Company; IDBI Capital Research

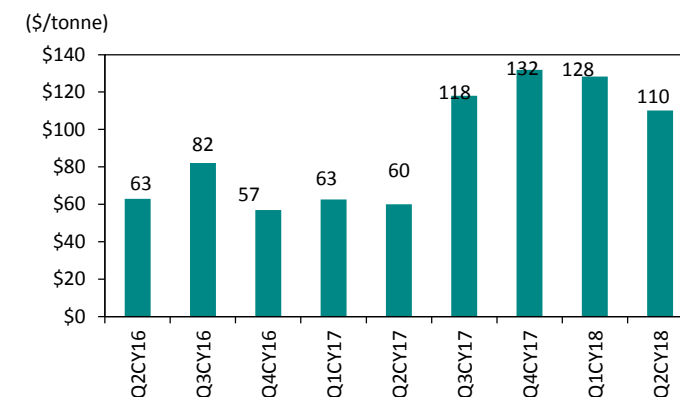
Exhibit 2: Actual vs. Estimates (Rs mn)

	Q2CY18	Q2CY18E	Variance (%)
Net sales	35,411	38,126	7.7
EBTIDA	6,646	7,017	5.6
<i>Margin (%)</i>	<i>18.8</i>	<i>18.4</i>	<i>(36)bps</i>
Adj. PAT	2,653	2,948	11.1
Adj. diluted EPS (Rs)	7.89	8.76	11.1

Source: Company; IDBI Capital Research

Exhibit 3: CPC volumes up 21.8% QoQ but..


Source: Company; IDBI Capital Research

Exhibit 4: ..Carbon Products EBITDA/tonne down QoQ


Source: Company; IDBI Capital Research

Exhibit 5: Sales volumes

(mn tonnes)

	Q2CY18	Q1CY18	QoQ (%)	Q2CY17	YoY (%)
Carbon Products	0.75	0.66	12.8	0.76	(1.1)
Advanced Materials	0.13	0.11	16.4	0.13	-
Cement	0.57	0.56	2.5	0.56	2.9

Source: Company; IDBI Capital Research

Exhibit 6: Segment EBITDA

(Rs mn)

	Q2CY18	Q1CY18	QoQ (%)	Q2CY17	YoY (%)
Carbon Products	5,519	5,524	(0.1)	2,924	88.8
Advanced Materials	1,216	908	33.9	1,543	(21.2)
Cement	117	189	(38.0)	211	(44.5)

Source: Company; IDBI Capital Research

Exhibit 7: Segment EBITDA/tonne

	Q2CY18	Q1CY18	QoQ (%)	Q2CY17	YoY (%)
Carbon Products (\$/ tonne)	110	130	(15.1)	60	83.4
Advanced Materials (\$/tonne)	142	128	10.4	187	(24.2)
Cement (Rs/ tonne)	205	339	(39.5)	379	(46.0)

Source: Company; IDBI Capital Research

Our CY18 sales estimates are higher to account for higher CPC and CTP prices. However, we cut our EBITDA margin estimates for CY18-19 given weaker than expected Q2CY18 Carbon Products margins.

Exhibit 8: Change in estimates

	CY18E			CY19E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	135,782	141,454	4.2	156,334	161,189	3.1
EBITDA (Rs mn)	27,412	26,937	(1.7)	30,162	29,105	(3.5)
EBITDA margin (%)	20.2	19.0	(115)bps	19.3	18.1	(124)bps
Net profit (Rs mn)	11,588	11,524	(0.6)	13,419	12,517	(6.7)
EPS (Rs)	34.5	34.3	(0.6)	39.9	37.2	(6.7)

Source: Company; IDBI Capital Research

Exhibit 9: Valuation (Rs mn)

	Method	CY19 EBITDA	Multiple (x)	Value
Carbon	EV/EBITDA	23,964	5.0	119,821
Advanced Materials	EV/EBITDA	4,346	5.0	21,730
Cement (@ \$80 EV/tonne)				16,905
Total EV (Rs mn)				158,456
Net debt (Rs mn)				59,128
Equity value (Rs mn)				99,328
Value per share (Rs)				295
CMP (Rs)				208
Upside potential (%)				42

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end:	CY16	CY17	CY18E	CY19E
Net sales	92,582	113,007	141,454	161,189
<i>Growth (%)</i>	<i>(9.4)</i>	<i>22.1</i>	<i>25.2</i>	<i>14.0</i>
Operating expenses	(77,275)	(90,305)	(114,518)	(132,084)
EBITDA	15,307	22,702	26,937	29,105
<i>Growth (%)</i>	<i>13.5</i>	<i>48.3</i>	<i>18.7</i>	<i>8.0</i>
Depreciation	(5,190)	(5,256)	(5,032)	(5,535)
EBIT	10,117	17,446	21,905	23,570
Interest paid	(6,308)	(5,947)	(4,547)	(4,798)
Other income	1,212	1,134	707	806
Pre-tax profit	4,759	10,830	18,065	19,578
Tax	(1,792)	(2,918)	(5,961)	(6,461)
<i>Effective tax rate (%)</i>	<i>37.7</i>	<i>26.9</i>	<i>33.0</i>	<i>33.0</i>
Minority Interest	-	-	(580)	(600)
Net profit	2,967	7,912	11,524	12,517
Exceptional items	(262)	(1,803)	-	-
Adjusted net profit	3,228	9,715	11,524	12,517
<i>Growth (%)</i>	<i>(2.2)</i>	<i>200.9</i>	<i>18.6</i>	<i>8.6</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	CY17	CY18E	CY19E
Pre-tax profit	4,759	10,830	18,065	19,578
Depreciation	2,236	4,239	5,032	5,535
Tax paid	(1,561)	(3,732)	(7,514)	(6,461)
Chg in working capital	3,388	(8,653)	(1,262)	(3,757)
Other operating activities	-	-	-	-
Cash flow from operations (a)	8,821	2,684	14,322	14,896
Capital expenditure	(4,216)	(4,062)	(9,105)	(8,250)
Chg in investments	(265)	(14)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(4,345)	(4,086)	(9,105)	(8,250)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(2,198)	632	(5,080)	(5,983)
Dividend (incl. tax)	(506)	(339)	(810)	(810)
Chg in minorities	681	308	-	-
Cash flow from financing (c)	(2,023)	601	(5,890)	(6,793)
Net chg in cash (a+b+c)	2,453	(800)	(673)	(147)

Balance Sheet

(Rs mn)

Year-end:	CY16	CY17	CY18E	CY19E
Net fixed assets	91,487	91,309	95,382	98,097
Investments	324	338	338	338
Other non-curr assets	3,361	4,311	4,311	4,311
Current assets	35,623	49,545	52,445	57,876
Inventories	12,678	19,985	21,703	24,730
Sundry Debtors	10,392	16,873	18,215	20,756
Cash and Bank	10,439	9,416	9,228	9,081
Marketable Securities	-	10	10	10
Loans and advances	70	42	70	80
Total assets	130,794	145,503	152,475	160,622
Shareholders' funds	31,648	39,441	50,155	61,863
Share capital	673	673	673	673
Reserves & surplus	30,975	38,768	49,482	61,190
Total Debt	75,450	76,082	71,001	65,018
Secured loans	75,450	76,082	71,001	65,018
Other liabilities	12,005	12,409	12,409	12,409
Curr Liab & prov	10,987	16,559	17,317	19,139
Current liabilities	10,026	15,770	16,222	17,891
Provisions	961	789	1,095	1,248
Total liabilities	98,441	105,049	100,727	96,566
Total equity & liabilities	130,794	145,503	152,475	160,622
Book Value (Rs)	94	117	149	184

Source: Company; IDBI Capital Research

Financial Ratios

Year-end:	CY16	CY17	CY18E	CY19E
Adj EPS (Rs)	9.6	28.9	34.3	37.2
Adj EPS growth (%)	(2.2)	200.9	18.6	8.6
EBITDA margin (%)	16.5	20.1	19.0	18.1
Pre-tax margin (%)	5.1	9.6	12.8	12.1
ROE (%)	10.6	27.3	25.7	22.3
ROCE (%)	8.5	14.0	16.6	17.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.7	0.8	0.9	1.0
Leverage factor (x)	4.3	3.9	3.3	2.8
Net margin (%)	3.5	8.6	8.1	7.8
Net Debt/Equity (x)	2.1	1.7	1.2	0.9
Working Capital & Liquidity ratio				
Inventory days	50	65	56	56
Receivable days	41	54	47	47
Payable days	36	47	38	38

Valuation

Year-end:	CY16	CY17	CY18E	CY19E
PER (x)	21.7	7.2	6.1	5.6
Price / Book value (x)	2.2	1.8	1.4	1.1
PCE (x)	8.3	4.7	4.2	3.9
EV / Net sales (x)	1.5	1.2	0.9	0.8
EV / EBITDA (x)	8.8	6.0	4.9	4.3
Dividend Yield (%)	0.7	0.5	1.2	1.2



Notes

Dealing	(91-22) 6637 1150	dealing@idbicapital.com
---------	-------------------	-------------------------

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.

IDBI Capital Markets & Securities Ltd. (Formerly known as "IDBI Capital Market Services Ltd.")

Equity Research Desk

3rd Floor, Mafatlal Centre, Nariman Point, Mumbai – 400 021. Phones: (91-22) 4322 1212; Fax: (91-22) 2285 0785; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 4322 1212

Disclaimer

This document has been prepared by IDBI Capital Markets & Securities Ltd (formerly known as "IDBI Capital Market Services Ltd.") ("IDBI Capital") and is meant for the recipient only for use as intended and not for circulation. This document should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The Report and information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behaviour of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital Markets & Securities Ltd (formerly known as "IDBI Capital Market Services Ltd.") cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrive late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

I, Bhavesh Chauhan, hereby certify that the views expressed in this report accurately reflect my personal views about the subject companies and / or securities. I also certify that no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Other Disclosures

IDBI Capital Markets & Securities Ltd (**formerly known as "IDBI Capital Market Services Ltd."**) "IDBI Capital" was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail), Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services.

IDBI Capital registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst.

IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital Markets & Securities Ltd. (**formerly known as "IDBI Capital Market Services Ltd."**) and its associates (IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group are a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com

IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover.

Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital Markets & Securities Ltd (**formerly known as "IDBI Capital Market Services Ltd."**) and its associates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declare that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates/companies or have other potential conflict of interest.

This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk.

IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report.

We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company.

We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital Markets & Securities Ltd (**formerly known as "IDBI Capital Market Services Ltd."**) or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report.

Price history of the daily closing price of the securities covered in this note is available at bseindia.com, nseindia.com and economictimes.indiatimes.com/markets/stocks/stock-quotes.