December 19, 2016

IDBI capital

INITIATING COVERAGE

Rain Industries

Restructuring initiatives to drive earnings growth

BUY

Nifty: 8,139; Sensex: 26,490

CMP	**Rs54**
Target Price	**Rs82**
Potential Upside/Downside	**+51%**

Key Stock Data

Sector	Midcap
Bloomberg / Reuters	RINDL IN / RAID.BO
Shares o/s (mn)	336
Market cap. (Rsmn)	18,262
Market cap. (US$ mn)	270
3-m daily average vol.	186,828

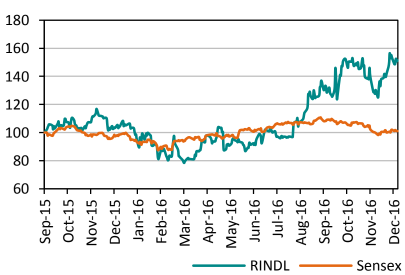
Price Performance

52-week high/low			Rs58/26
	-1m	-3m	-12m
Absolute (%)	17	18	47
Rel to Sensex (%)	16	25	43

Shareholding Pattern (%)

Promoters	41.1
FIIs/NRIs/OCBs/GDR	17.2
MFs/Banks/FIs	11.7
Public & Others	29.9

Relative to Sensex



Source: Capitaline

Summary

Rain Industries Ltd. (Rain) is one of the largest producers of calcined petroleum coke (CPC) and coal tar pitch (CTP) in the world with operations spread across North America, Europe, India and Russia. Apart from large size, Rain has long standing relationships with suppliers to source the key raw materials - green petroleum coke (GPC) and coal tar. During FY13-15, Rain's profitability was affected due to lower demand from its end customers (aluminium industry). Nevertheless, Rain took several initiatives including setting up a greenfield distillation unit in Russia, partially securing supply of raw material (coal tar) for its European CTP plants, setting up CPC blending facility in India, etc which is likely to push volumes and improve margins. Further, the company has nearly completed its capex cycle and is focused on deleveraging balance sheet and refinancing (to lower interest costs). These measures are likely to boost its net profit (27% CAGR over FY16-19) over the coming three years as per our estimates. We value the stock on sum-of-total-parts (SOTP) basis and initiate coverage with a BUY rating.

Investment rationale and outlook

- **Large size, strategic locations and long-standing relationship**

  Rain is one of world's leading manufacturers of CPC and CTP with estimated market shares of ~8% in each of these products. It has several distinct advantages over its competitors including large size and scale, long-standing relationships with suppliers, strategic locations of its facilities, etc.

- **Restructuring initiatives to aid profitability; capex cycle complete**

  Rain has witnessed a weak business cycle due to lower demand from aluminium industry during FY13-15. Its EBITDA margin declined to 13.2% in FY15, compared to an average margin of 20.1% over FY10-12. Nevertheless, Rain has taken several measures to improve its business profitability including setting up blending CPC plant in India, setting up a new flue gas desulfurization plant in the US, constructing a new 300 ktpa coal tar distillation unit in Russia, etc. These measures coupled with improving demand have already resulted in improvement in profitability during Jun and Sep'16 quarters.

- **Deleveraging and refinancing to lift net profit growth over FY16-19**

  With capex cycle nearly complete, Rain is now focused on deleveraging balance sheet. It has repurchased bonds worth $136 mn during past two years; we expect further repurchases over $210 mn of debt during FY17-18. This, alongside company's efforts to negotiate interest rates is expected to lower interest costs over FY17-19, leading to strong growth in bottom-line. We estimate Rain's net profit to grow at a CAGR of 27% over FY16-19E.

- **Initiate coverage with BUY recommendation and a TP of Rs82**

  Rain has been consolidating its business after the Ruetgers acquisition during FY13-15 while focusing on restructuring its operations. We believe Rain looks well-poised to benefit from these initiatives over the coming years. Further, Rain's focus on deleveraging balance sheet and refinancing are likely to boost its net profit over the coming three years. We anticipate remarkable improvement in its credit profile over FY16-19 which can potentially re-rate the stock. We value the stock on sum-of-total-parts (SOTP) basis and initiate coverage with a **BUY** rating.

Table 1: Financial snapshot **(Rs mn)**

Year*	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY14	119,370	12,145	10.2	3,464	10.3	5.3	6.7	11.2	7.3
FY15	102,185	13,492	13.2	3,301	9.8	5.5	6.0	11.2	9.0
FY16E	91,465	12,708	13.9	3,085	9.2	5.9	6.4	10.0	8.3
FY17E	96,531	14,497	15.0	4,355	12.9	4.2	5.3	12.8	9.8
FY18E	102,685	15,158	14.8	5,598	16.6	3.3	4.7	14.5	10.6

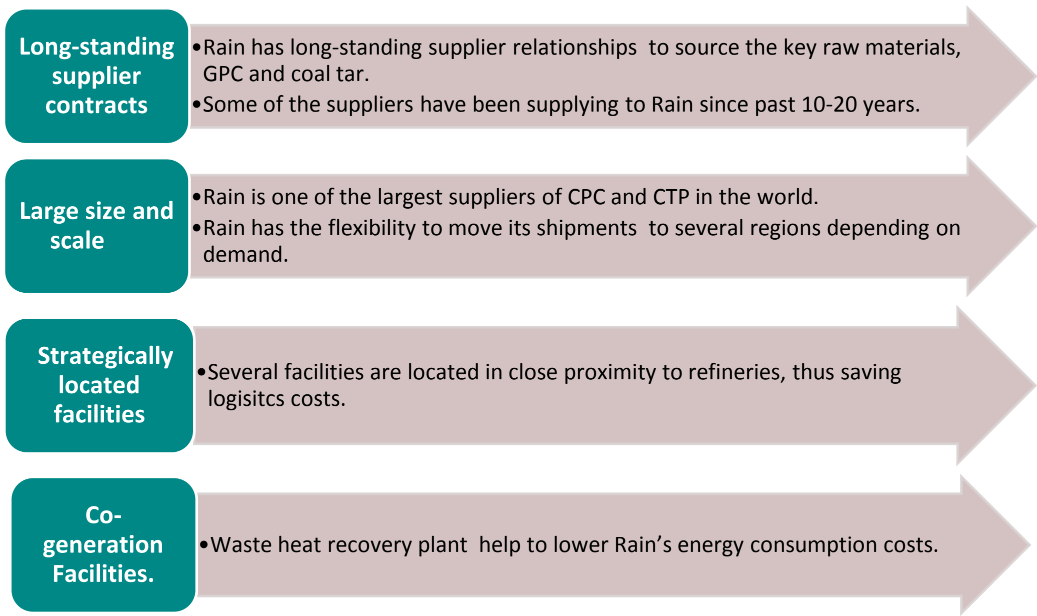
Source: Company; IDBI Capital Research; Note: Fiscal year ends December*

Key Investment Rationale

Large size, strategic locations and long-standing relationships are Rain's strengths

Rain is one of world's leading manufacturers of CPC and CTP with estimated market shares of ~8% in each of these products. It has several distinct advantages over its competitors including large size and scale, long-standing relationships with suppliers, strategic locations of its facilities, etc. The demand for CPC and CTP are linked to global aluminium production levels.

Diagram 1: Rain enjoys several competitive advantages in its CPC and CTP businesses



Source: Company; IDBI Capital Research

Restructuring initiatives to push up volumes and improve margins

Rain acquired CPC business (Rain CII Carbon) in 2007 and CTP business (Ruetgers) in 2012 via leveraged buy-outs (LBO). However, during FY13-15, the company has witnessed a weak business cycle due to lower demand from aluminium industry. Its EBITDA margin declined to 13.2% in FY15, compared to an average margin of 20.1% over FY10-12.

Nevertheless, Rain has been consolidating its operations since its acquisition of Ruetgers and has taken several measures to improve its business profitability including setting up blending CPC plant in India, setting up a new flue gas desulfurization plant in the US, constructing completed the construction its fourth 300k tonnes CTP plant in Russia coal tar distillation plant. These measures are likely to raise production volumes and improve margins. Some of the benefits from these measures are already reflected in company's financial performance during Q2-Q3FY16.

Table 2: Rain's strategic initiatives over the past three years

Company initiative	Comments
Set up 300 kt CTP facility in Russia in partnership with Severstal (51:49)	Rain has started producing high-margin vacuum-distilled CTP; 20% of raw material requirement (coal tar) secured from Severstal JV.
Set up 250 kt CPC blending capacity in India; expanding to 500 kt	Rain blends high grade CPC (imported from the US) in India with low grade, thus lowering product prices. Also, enables to sell to Middle East and Asian smelters when N. American smelters are operating at lower utilization levels.
Commissioned a new flue gas de-sulfurization plant in Chalmette, US	The plant can process high-sulphur GPC enabling Rain to improve utilization levels in the US plants.
Investments in value-added downstream products	Rain has reduced its dependency on aluminum business by selling higher value-added products such as crescote oil.
Diversify revenue mix	Rain has diversified sales mix away from aluminium. In 2015, only 34% of revenues were from aluminium customers from an estimated 50% in FY12.

Source: Company, IDBI Capital Research

- **Plant shut downs by a major competitor to aid CTP profitability**

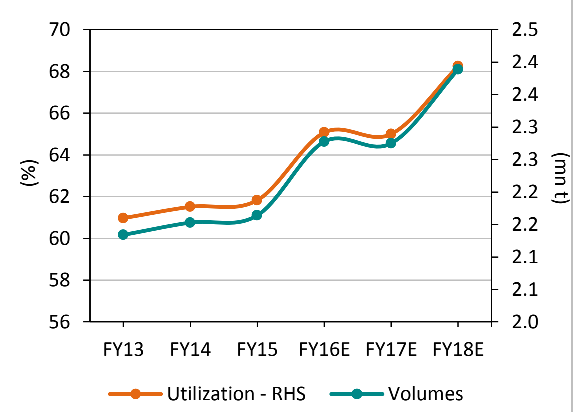
  One of the largest CTP maker, Koppers Holdings (Koppers) announced closure/sale of 7 out of its 11 CTP facilities over 2014-16 on account of oversupply in global CTP market. As a part of this restructuring, Koppers permanently closed three plants located at Scunthorpe (UK), Port Clarence (UK), and Tangshan (China) during 2016. This is likely to balance the demand-supply of CTP thus benefiting other CTP players, including Rain.

  Separately, Rain will continue to ramp up its 300 ktpa greenfield plant in Russia which is set up in joint venture (51:49) with steel-maker Severstal. JV with Severstal also secures ~20% of coal tar required for its CTP business. Availability of coal tar has declined in Europe due to muted pig iron production in the region. European pig iron production declined from 94 mn tonnes in 2010 to 93 mn tonnes in 2015.

- **Indian Cement plant to provide steady cash flows**

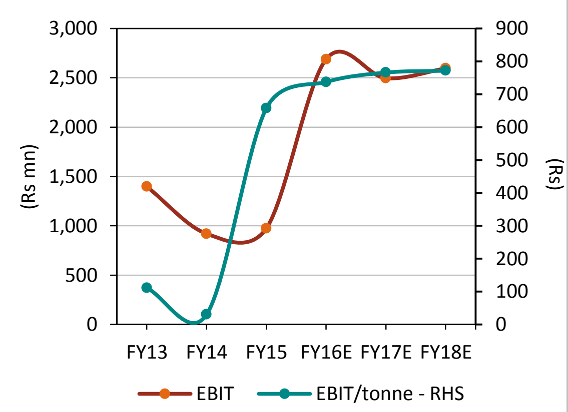
  Rain operates two cement plants in India with a capacity of 3.5 mn tonnes and It sells cement under the brand name Priya Cement in southern region. We expect utilization levels to remain 65-72% with steady EBIT/tonne of Rs700-800 during FY17-18E. Rain utilizes cash flows from its Indian Cement business to pay dividends while it global operations cash flows are used to repay off debt during the past two years. While we do not expect Rain to step up dividend payments; nevertheless, we expect the company to utilize free cash flows towards deleveraging.

Figure 1: Cement utilization levels to rise



Source: Company; IDBI Capital Research

Figure 2: Cement EBIT/tonne to remain steady



Source: Company; IDBI Capital Research

- **Management's capital allocation plans aligned with interests of minority shareholders**

Rain's leverage levels remain high post acquisition of Ruetgers in 2012 as it was acquired LBO. This, alongside adverse business cycle, resulted in Rain's net debt to EBITDA rising to 4.8x in FY15 from 1.4x in FY12.

We estimate Rain to generate cash flows after interest and tax payments of Rs 4,000-6,000 mn over FY16-19E which can be utilized towards share buy backs, higher dividends or debt prepayments. However, given the high leverage ratios (Net debt to EBITDA of 4.8x as of FY15), we believe deleveraging the balance sheet is the best amongst these three options.

- **Debt deleveraging/ refinancing to lift net profit growth**

Since the acquisition of European coal tar distiller Ruetgers (for an enterprise value of €702 mn) in 2012, Rain's profitability remained weak over FY13-15 on account of lower demand from its end customers (aluminium industry). Nevertheless, company's operating cash flows have improved sharply from Q2FY16 due to improvement in demand-supply dynamics of CPC and CPT and company's efforts to improve efficiencies. **With major restructuring behind, Rain is focussed on de-leveraging balance sheet and sustaining profitability.**

Nearly all of Rain's long-term debt resides in its US subsidiary, Rain CII Carbon LLC (RCC), which was used as a vehicle to make leveraged buyouts of its US-based CPC business (2007) and European CTP business (2012). RCC's Senior Secured notes ($931 mn as of September 30, 2016) are listed in the international bond market with coupons in the range of 8.0-8.5%.

Table 3: RCC's Senior Secured Notes ratings by agencies

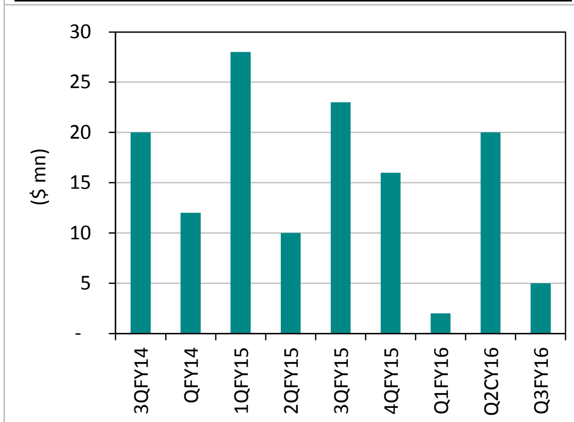
	Outlook	Long- term Rating	Comments
Moody's	Positive	B3	Moody's upgraded the outlook to Positive from Negative in November 2016
S&P	Stable	B	

Source: Company, Bloomberg

Rain has repurchased bonds worth $136 mn during the past two years; we estimate further repurchases/ debt repayments of over $210 mn worth of debt during FY17-18. Further, Rain is currently working to re-negotiate interest rates with the lenders. These measures are estimated to bring its interest costs down from Rs 5,964 mn in FY15 to Rs 3,803 mn in FY18E per our estimates.

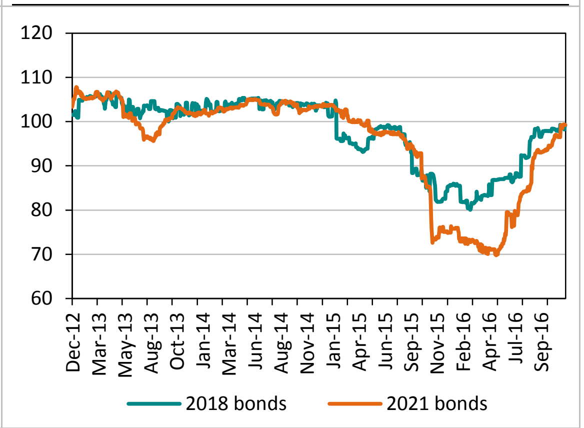
RCC's US-listed bonds (due 2018 and 2021) have risen sharply since April 2016, indicating improvement in credit profile of the company.

Fig. 3: Bond repurchases by Rain ($ mn)



Source: Company; IDBI Capital Research

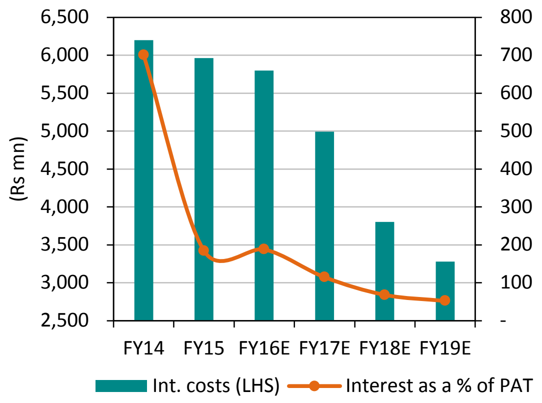
Fig. 4: RCC's bonds depict improved credit profile



Source: Bloomberg; IDBI Capital Research

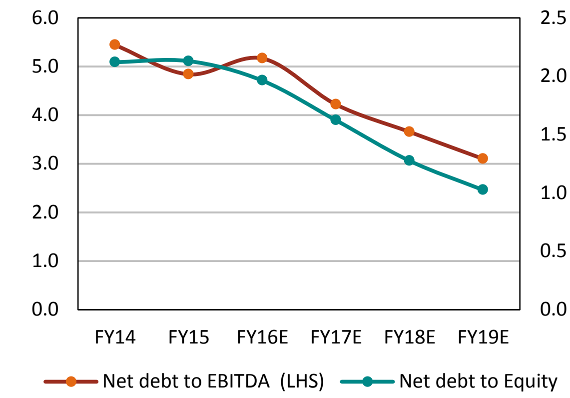
With improvement in leverage ratios, we estimate Rain's interest rate to come off 100 bps in 2HFY17. This, alongside rising operating cash flows and debt repayments are likely to lead to strong improvement in leverage ratios over FY15-19E. **We expect Rain's net debt to EBITDA to improve from 4.8x in FY15 to 3.1x by FY19 and its net debt to equity to improve from 2.1x in FY15 to 1.0x by FY19.**

Figure 5: Interest expenses to fall sharply



Source: Company; IDBI Capital Research

Figure 6: Leverage ratios to improve



Source: Company; IDBI Capital Research

Industry Overview

- **CPC industry overview**

  CPC demand is tied to aluminium industry growth as approximately 84% of the world's CPC production of carbon anodes in the aluminium smelting process. 1 ton of aluminium requires approximately 0.4 tons of CPC. The CPC industry is consolidated, with the top five calciners accounting for 50% of the global capacity (ex-China).

  The raw material for CPC is provided by oil refiners who produce GPC as a by-product during the refining process. Availability of anode-grade GPC has been lately declining as oil refiners' process heavier, more sour crude oils and it acts as a major entry barrier in the CPC industry. Rain has long-term tie-ups with the suppliers although pricing is done on a quarterly/ half-yearly basis.

- **CTP industry overview**

  Even demand for CTP is linked to the fortunes of aluminium industry as approximately 79% of the world's CTP production is used to produce carbon anodes in the aluminium smelting process. 1 ton of aluminium requires 0.1 tons of CTP. Primary distillation of coal tar yields three products: 1) CTP (48% of yield) 2) naphthalene oil (12% of yield) and 3) aromatic oils (40% of yield).

  The raw material for CPC is provided by coal cokers during the process of conversion of coal into metallurgical coke. Metallurgical coke is used as an important reducing agent and energy source in blast furnaces for the production of pig iron and steel. Consequently, the supply of **c**oal **t**ar is correlated to pig iron production, which, in turn, is driven by steel production.

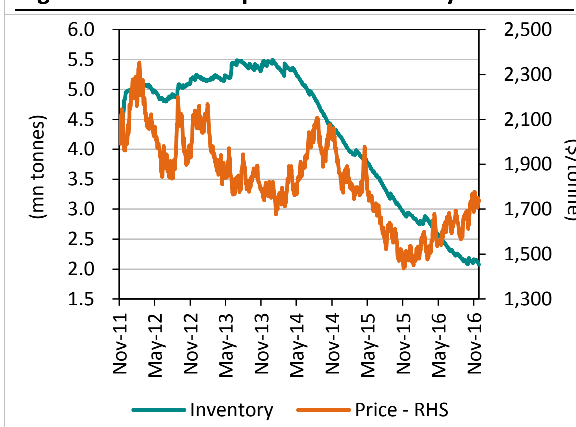
  Recent trends in the Carbon Products industry: Over the past one year, the spread in prices of Carbon Products between western countries and Chinese players have declined, which is likely to lower exports of carbon products out of China. Further, industry players indicate stringent restriction on transportation and environmental norms are constricting Chinese carbon products.

- **End user – Aluminium industry overview**

  Aluminium is the most widely used non-ferrous metal. Global production of aluminium year-to-date (until September) was 42.7 million tonnes (annualized run-rate of 56.9 mn tonnes). Alongside benchmark LME prices, regional premiums also determine the price paid by end consumer. Chinese production (and exports from China) have a major influence on aluminium prices as the country now produces 55% of world production (up from 27% in 2006).

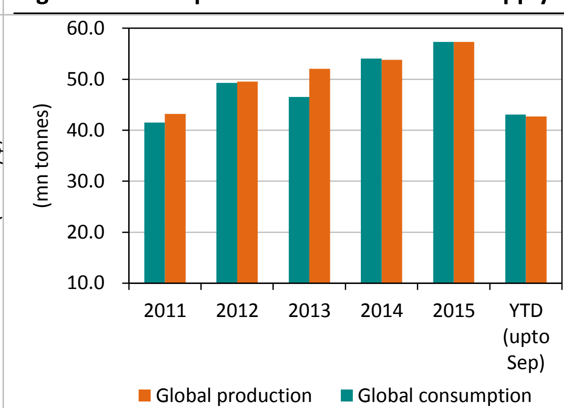
  Aluminium prices have risen over the past one year after falling steeply in 2015 on the back of rising exports from China. Chinese aluminium players agreed to cut capacity by 4.6 mn tonnes to tackle structural oversupply in 2015; however, the closure has been slower than anticipated by the aluminium companies. On the other hand, LME inventories have declined steadily over the past three years from 5.5 mn tonnes in November 2013 to 2.2 mn tonne by November 2016, which bodes well for aluminium prices.

Figure 7: Aluminum prices vs. Inventory



Source: Bloomberg; IDBI Capital Research

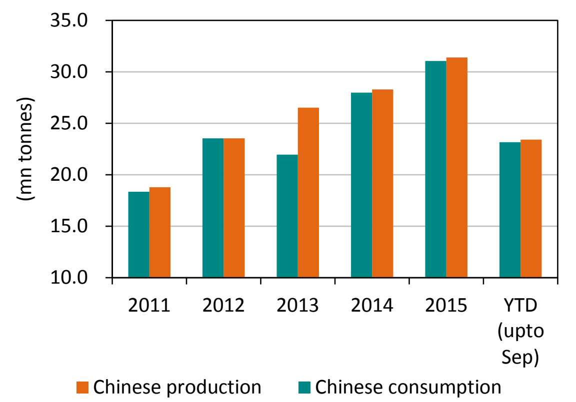
Figure 8: World prim. aluminum demand-supply



Source: Bloomberg; IDBI Capital Research

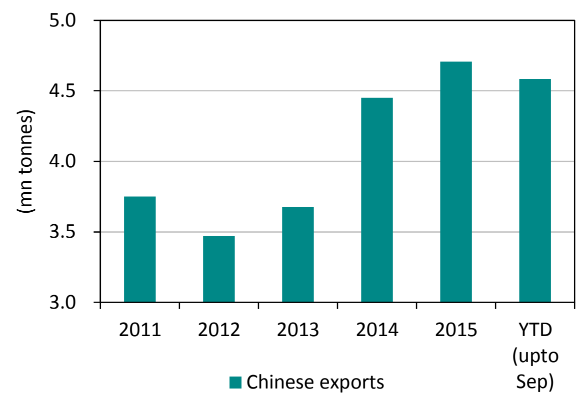
During 2014-16, the aluminium industry (ex-China) faced threats from rising Chinese exports as the aluminium demand in China has come off during 2014-16. Hence, prices came off and several companies in the developed countries announced smelters closures including Alcoa, Century Aluminum, Rio Tinto, etc. Nevertheless, growth in aluminium exports from China has come off in 2016 (upto September 2016) providing relief to ex-China producers. In 9MCY16, China's production grew only 2.5% yoy while its consumption has risen 7.5% YoY.

Figure 9: Chinese aluminium production trend



Source: Bloomberg; IDBI Capital Research, Industry

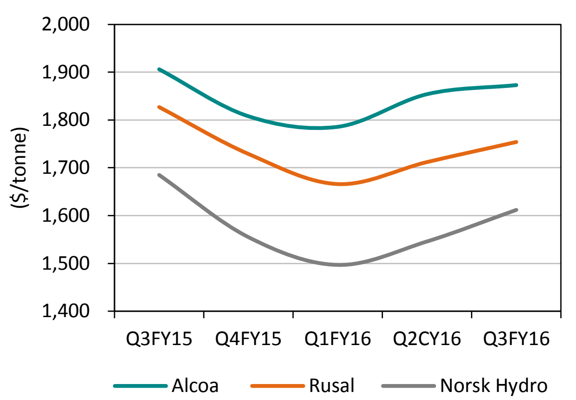
Figure 10: Chinese aluminum exports



Source: Bloomberg; IDBI Capital Research, Industry

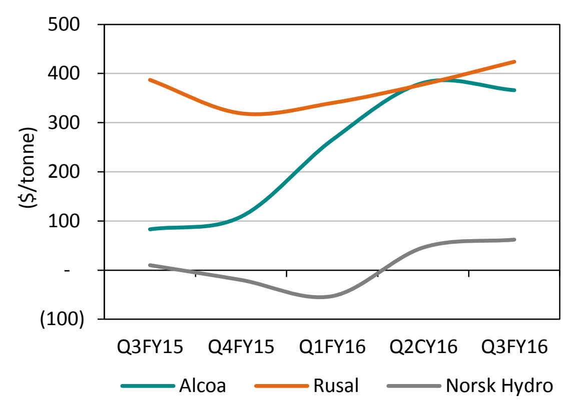
Globally largest aluminium producers have seen costs falling sharply over the past one year which has resulted in improvement in profitability, especially during June and September quarters. This bodes well for demand for Carbon products.

Figure 11: Aluminium realization trend



Source: Companies; IDBI Capital Research

Figure 12: Aluminium segment EBITDA/tonne



Source: Companies; IDBI Capital Research

Competitive analysis

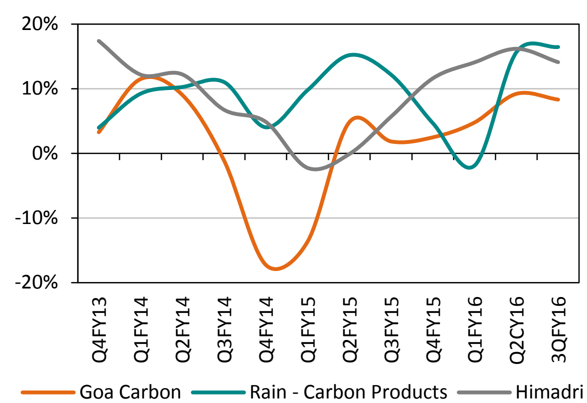
There are several global players who manufacture CPC such as Oxbow, Conoco Phillips, while Koppers and Himadri Specialty Chemicals (Himadri) are coal tar distillers. However, there are very few publicly listed companies who produce CPC and CTP.

In CPC, the key producers are private companies or integrated refiners. In India, Goa Carbon operates CPC plants with capacity of ~225 ktpa.

In CTP business, Himadri operates 0.4 mn tonnes coal tar distillation plants in India with 70% market share in domestic market while Koppers is one of the largest coal tar distillatory globally; however, it in the process of sale/ shut its CTP capacity.

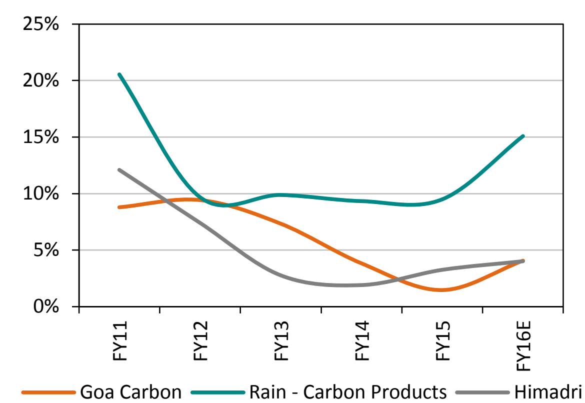
We have compared EBIT margins and ROCE of Rain's Carbon Products business with Goa Carbon and Himadri. **Rain's Carbon Products segment has a relatively stable margin profile compared to its peers and Rain's Carbon Products segment ROCE's have been higher than its peers over FY11-16E.**

Figure 13: EBIT margin trend



Source: Companies; IDBI Capital Research

Figure 14: ROCE trend



Source: Companies; IDBI Capital Research

Financial Matrix

Table 4: Key assumptions

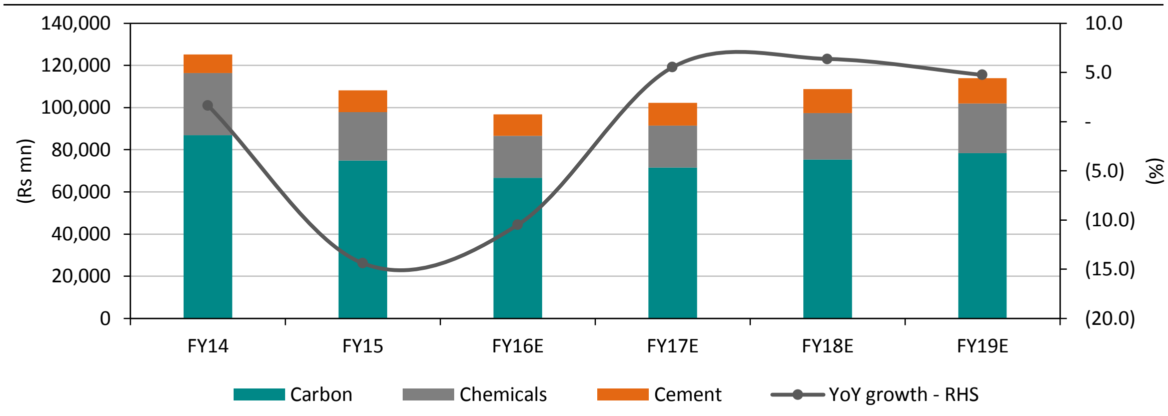
	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E	FY19E
Volumes (mn tonnes)										
Carbon	2.07	2.37	2.51	3.13	3.28	3.21	2.91	3.20	3.34	3.44
Chemicals	-	-	-	0.29	0.32	0.32	0.27	0.27	0.28	0.29
Cement	2.46	2.23	2.29	2.13	2.15	2.16	2.28	2.28	2.39	2.51
Segment revenues (Rs mn)										
Carbon	30,894	48,292	45,152	86,071	86,926	74,917	66,658	71,523	75,327	78,357
Chemicals	-	-	-	29,219	29,473	23,002	19,963	19,963	22,009	23,571
Cement	7,166	8,685	9,095	8,398	8,736	10,293	10,238	10,737	11,404	11,974
Segment EBIT (Rs mn)										
Carbon	6,007	10,664	8,975	8,473	7,669	7,817	12,422	13,855	14,353	14,732
Chemicals	-	-	-	1,397	920	974	2,687	2,496	2,595	2,640
Cement	517	1,644	915	237	66	1,423	1,679	1,742	1,843	1,988
Segment EBIT margins (%)										
Carbon	19.4	22.1	19.9	9.8	8.8	10.4	18.6	19.4	19.1	18.8
Chemicals	-	-	-	4.8	3.1	4.2	13.5	12.5	11.8	11.2
Cement	7.2	18.9	10.1	2.8	0.8	13.8	16.4	16.2	16.2	16.6

Source: Company data, IDBI Capital Research

- **Top-line to see 6% CAGR during FY16-FY19E**

  We expect net sales to grow at a CAGR of 5.6% over FY16-19E mainly due to higher Carbon Products volumes. We expect Carbon Products segment volumes to grow at a CAGR of 5.8% during the same period.

Figure 15: Revenue to grow at a CAGR of 5.6% over FY16-19E

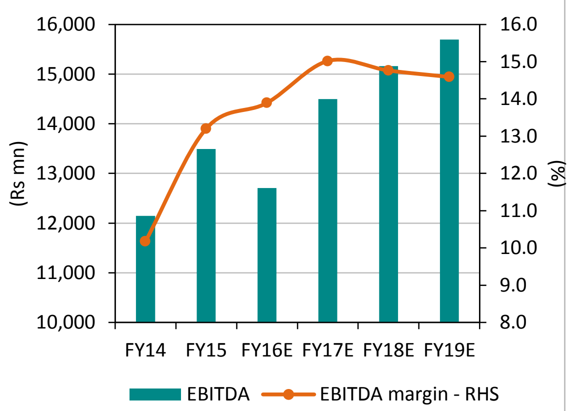


Source: Company; IDBI Capital Research

- **Net profit estimated to grow at a CAGR of 27% over FY16-19E due to fall in interest costs**

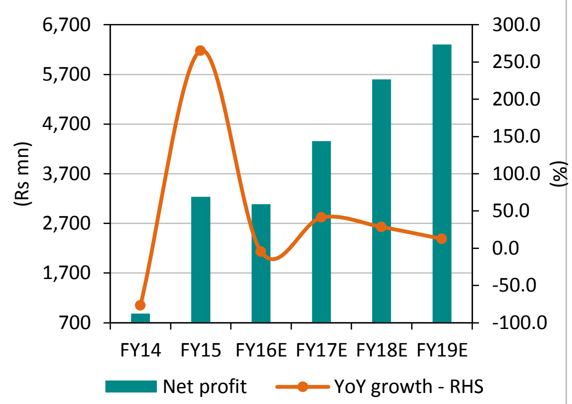
We expect EBITDA to grow at a CAGR of 7.3% over FY16-19E on account of higher CTP volumes. However, we expect strong improvement in net profit due to decline in interest expenses from Rs 5,964 mn in FY15 to Rs 3,278 mn by FY19. Hence, net profit is estimated to grow at a CAGR of 26.9% over FY16-19E

Fig. 16: EBITDA to grow at a CAGR of 7.3% over FY16-19E



Source: Company data; IDBI Capital Research

Fig. 17: Net profit to grow at a CAGR of 26.9% over FY16-19E

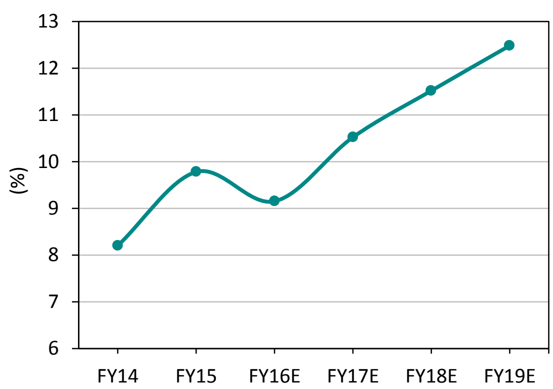


Source: Company data; IDBI Capital Research

- **ROE to improve ~330 bps over FY15-19**

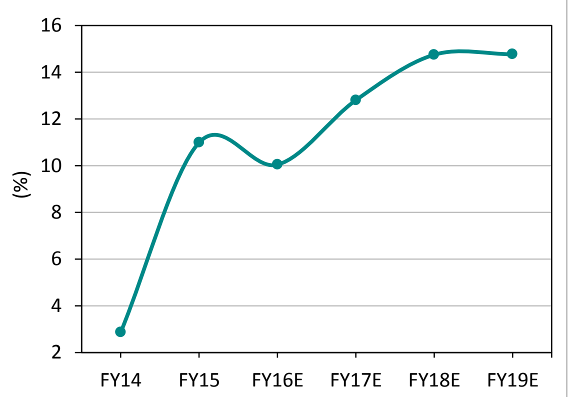
We expect sharp improvement in ROE on the back of higher operating profits coupled with decline in interest costs over FY15-19. Rain's ROE are expected to see nearly ~330 bps improvement over FY15-19.

Figure 18: ROCE to steadily rise



Source: Company data; IDBI Capital Research

Figure 19: ROE to see sharp improvement



Source: Company data; IDBI Capital Research

Valuation and Outlook

- **Initiate coverage with TP of Rs82 provides 51% upside potential; BUY**

  Rain is one of the world's leading producers of CPC and CTP. Apart from large size, it has long standing relationships with suppliers to source the key raw materials, coal tar and GPC. During FY13-15, Rain has been consolidating its business after the Ruetgers acquisition while focusing on restructuring its operations. We believe Rain looks poised to benefit from these efforts over the coming years. Further, Rain's focus on deleveraging balance sheet and refinancing are likely to boost its net profit (27% CAGR over FY16-19) over the coming three years. We value the stock on sum-of-total-parts (SOTP) basis and initiate coverage with a **BUY** rating.

Table 5: SOPT

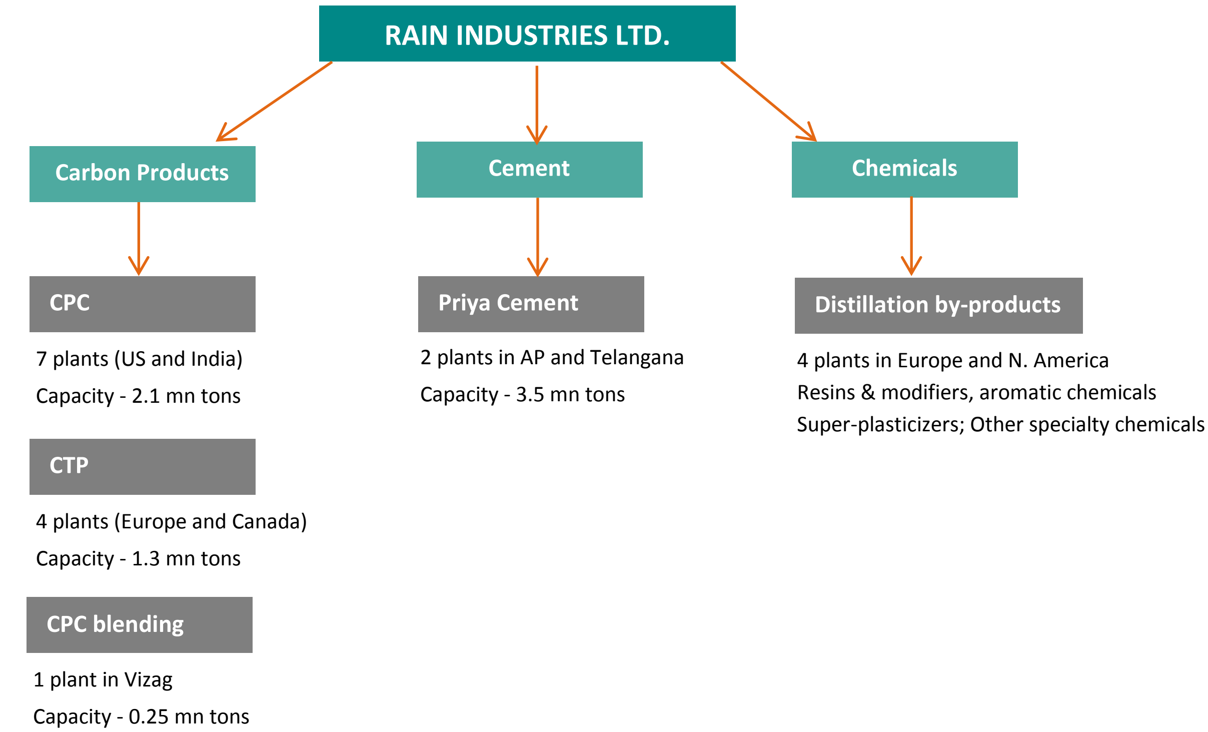
	Method	FY18 EBITDA	Multiple(x)	Value (Rs mn)
Carbon	EV/EBITDA	11,847	4.5	53,311
Chemicals	EV/EBITDA	1,943	4.5	8,743
Cement (@ $90 EV/tonne)				21,105
Total EV				83,159
Net debt (FY18E)				55,548
Equity value				27,611
Value per share (Rs)				**82**
CMP (Rs)				54
Upside potential (%)				51

Source: IDBI Capital Research

About the Company

Rain Industries Ltd. is a manufacturer of carbon products, chemicals and cement. Its carbon and chemicals divisions are located in US, Europe, Russia and India while it operates cement plant in India.

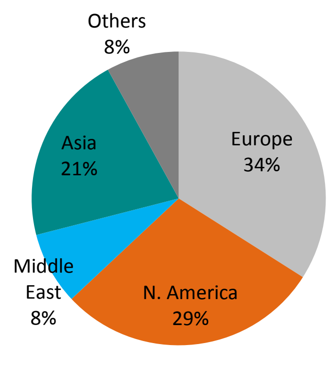
Diagram 2: Rain's key business details



Source: Bloomberg; IDBI Capital Research

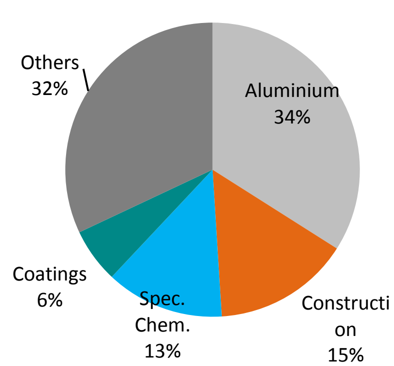
The Carbon Products segment (71% of FY15 sales) consists of sales of CPC, CTP and other derivatives of coal tar distillation. Rain's Chemical products (19% of FY15 sales) are derived from the downstream refining of primary coal tar distillates into chemical products such as aromatic chemicals, super plasticizers, resins and modifiers. Rain also sells cement (10% of FY15 sales) in the states of Andhra Pradesh, Telangana, Tamil Nadu etc.

Figure 20: Sales by geography (FY15)



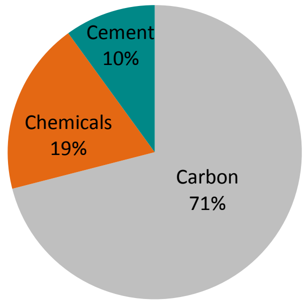
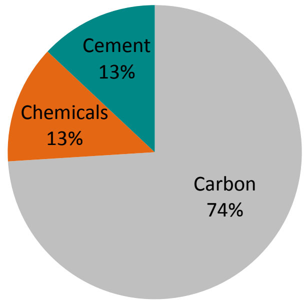
Source: Company data; IDBI Capital Research

Figure 21: Sales by end-industry (FY15)



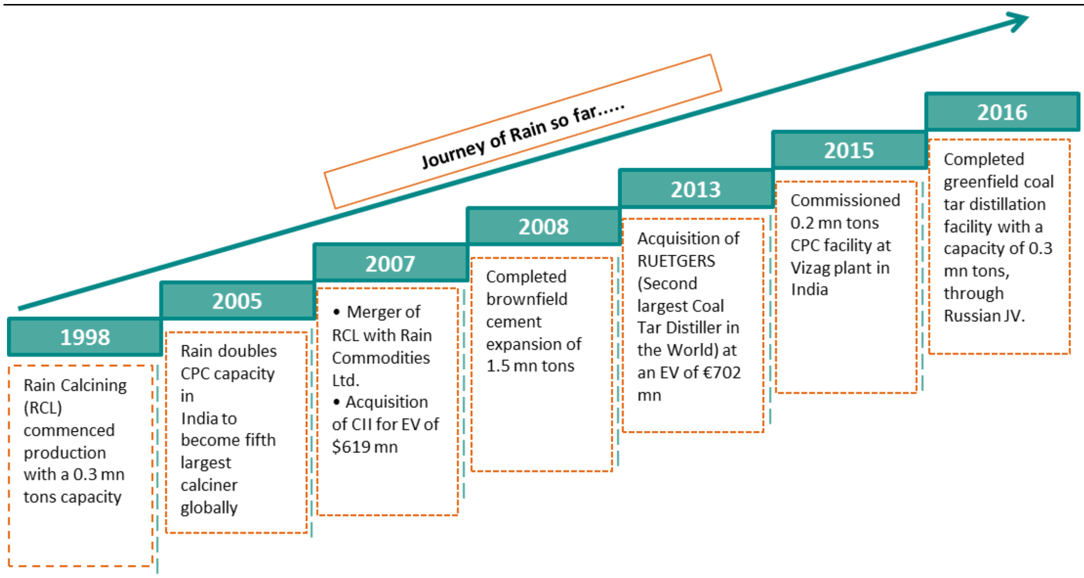
Source: Company data; IDBI Capital Research

The company has diversified its sales mix over the years after the Ruetgers acquisition. In FY15, only 34% of sales were generated from aluminium, compared to an estimated 50% in FY12 (before Ruetgers acquisition).

Figure 22: Sales by segment (FY15)	Figure 23: EBITDA break-up by segment (FY15)
	
Source: Company data; IDBI Capital Research	*Source: Company data; IDBI Capital Research*

Formerly known as Rain Commodities, Rain was incorporated in 1974 under the name of Tadpatri Cements Ltd. by Mr. Radhakrishna Reddy and several partners. In 1986, Rain made its Initial Public Offering. Radhakrishna Reddy's son (Jagan Mohan Reddy) operated a separate company, Rain Calcining Ltd. (maker of 0.5mn tonnes of CPC). In 2007, both these companies merged to acquire one of the global leaders in CPC through an all debt LBO. Again, in 2012, Rain acquired one of world's largest coal tar distillers, Ruetgers through an LBO.

Diagram 3: Rain – Timeline of events



Source: Company; IDBI Capital Research

Overview of Carbon Products business

Rain derives significant proportion of revenues (71% of FY15 sales) from Carbon Products segment. Rain's Carbon Products business consists mainly of selling CPC and CTP.

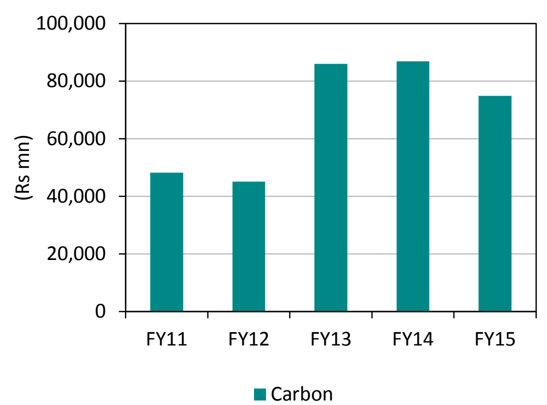
CPC: Rain has a calcining capacity of 2.1 mn tonnes. Its calcination business can be described as a cost pass-through business with little processing and fixed costs. The price of CPC fluctuates with that of GPC and with strategically located facilities and availability of GPC, Rain enjoys steady EBITDA margin. However, at times when aluminum prices and demand falls, there is lag between pass-through which affects Rain's margins (as witnessed in FY15).

CPC facilities are located in North America (six), Europe (three) and one facility each in India, Canada, Russia and Egypt. Rain also has co-generation facilities located in United States of America and India.

CTP: Rain has a coal tar distillation capacity of 1.3 mn tonnes. Rain's CTP business is a similar to CPC where it acts as a converter and earns a stable margin. It sources and refines coal tar, a liquid by-product produced during conversion of coking coal into metallurgical coke. The distillation process also results in some by-products which form a part of Rain's Chemical segment.

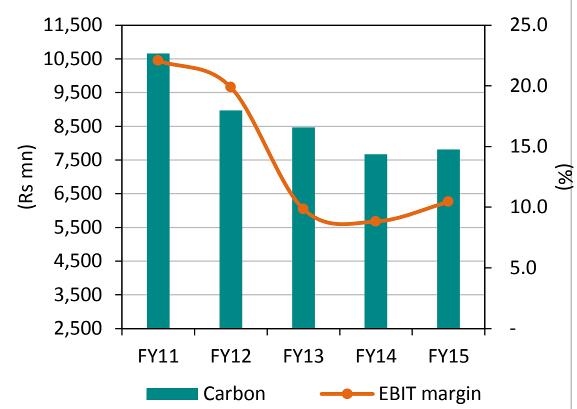
Rain's CTP facilities are located in Germany, Belgium, Netherlands, Poland and Canada. It has recently commissioned 0.3 mn tonne facility in Russia in partnership with Severstal.

Figure 24: Carbon segment revenues



Source: Company data; IDBI Capital Research

Figure 25: Carbon EBIT and margin

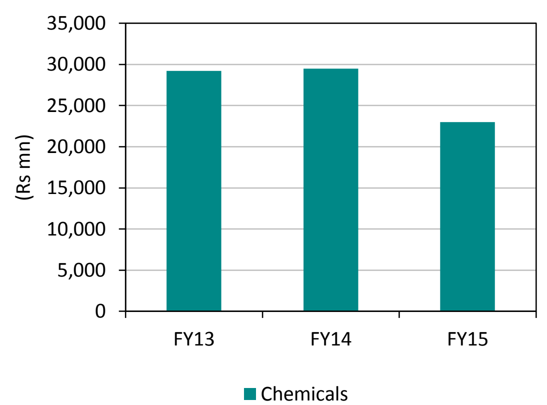


Source: Company data; IDBI Capital Research

Overview of Chemical business

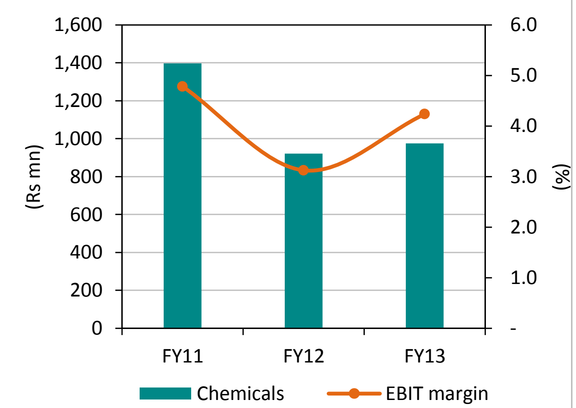
The chemical products are derived from the downstream refining of primary coal tar distillates into products such as naphthalene, aromatic chemicals, super plasticizers, resins and modifiers. These products fine application in paints, coatings, construction, plastics, paper, tyres, rail ties, insulation, foam, etc.

Figure 26: Chemicals segment revenues



Source: Company data; IDBI Capital Research

Figure 27: Chemicals EBIT and margin

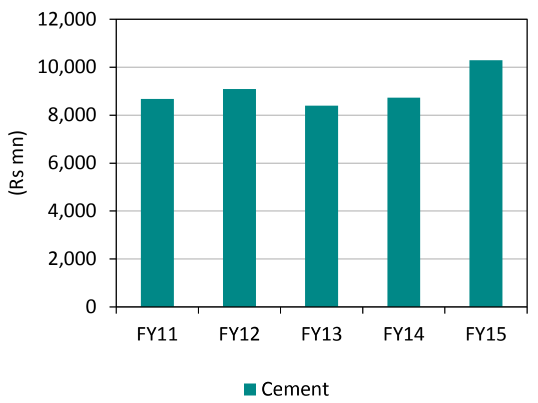


Source: Company data; IDBI Capital Research

- **Overview of Cement business**

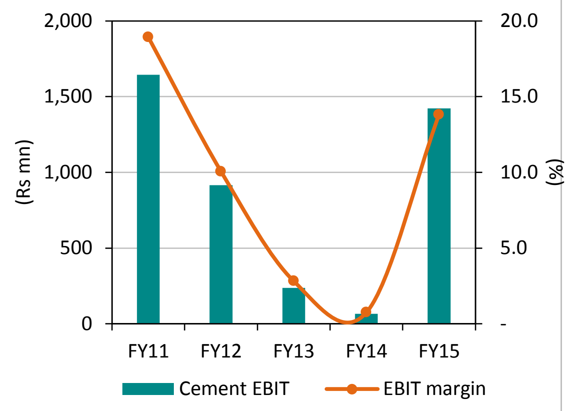
  Rain operates two cement plants in India, one in Andhra Pradesh and the other in Telangana with a total capacity of 3.5 mn tonnes. It sells cement under the brand name, Priya Cement in Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Maharashtra, Odisha and Kerala.

Figure 28: Cement segment revenues



Source: Company data; IDBI Capital Research

Figure 29: Cement EBIT and margin



Source: Company data; IDBI Capital Research

Key risks

- **Decline in prices of CPC and CTP:** Any decline in product prices without corresponding decrease in prices of key raw materials prices (GPC and coal tar) could affect Rain's earnings. Also, during sharp decline in prices of CPC or CTP, Rain's operating margins are likely to contract as Rain may hold high-cost inventories of raw material (as witnessed in Q1FY16).
- **Decline in aluminum price:** Although aluminum prices do not have a direct bearing on CPC and CTP demand, a sharp fall in aluminum prices (and thus production) can result in fall in CPC and CTP prices.
- **Exchange rate fluctuation:** Sharp fluctuations in exchange rates (Euro, US dollar, Russian rouble) could have material impact on Rain's earnings.
- **Inability to repay debt / re-negotiate interest rate:** We expect Rain to prepay off some portion of debt over FY16-18E and also renegotiate interest rate at favorable rates. However, company's inability to lower the interest costs in FY17 could pose a threat to our FY17-18 net profit estimates.

Financial summary

Profit & Loss Account (Rs mn)

Year-end: Dec.	FY14	FY15	FY16E	FY17E	FY18E
Net sales	**119,370**	**102,185**	**91,465**	**96,531**	**102,685**
Growth (%)	*1.6*	*(14.4)*	*(10.5)*	*5.5*	*6.4*
Operating expenses	(107,225)	(88,693)	(78,757)	(82,035)	(87,526)
EBITDA	**12,145**	**13,492**	**12,708**	**14,497**	**15,158**
Growth (%)	*(7.8)*	*11.1*	*(5.8)*	*14.1*	*4.6*
Depreciation	(3,565)	(3,278)	(3,424)	(3,596)	(3,632)
EBIT	**8,580**	**10,214**	**9,284**	**10,901**	**11,526**
Interest paid	(6,199)	(5,964)	(5,799)	(4,992)	(3,803)
Other income	774	796	1,005	652	693
Pre-tax profit	**577**	**4,985**	**4,490**	**6,560**	**8,417**
Tax	121	(1,962)	(1,401)	(2,165)	(2,778)
Effective tax rate (%)	*(20.9)*	*39.4*	*31.2*	*33.0*	*33.0*
Net profit	**698**	**3,023**	**3,089**	**4,395**	**5,639**
Adjusted net profit	**3,464**	**3,301**	**3,085**	**4,355**	**5,598**
Growth (%)	*(10.2)*	*(4.7)*	*(6.5)*	*41.2*	*28.5*
Shares o/s (mn nos)	*336*	*336*	*336*	*336*	*336*

Cash Flow Statement (Rs mn)

Year-end: Dec.	FY14	FY15	FY16E	FY17E	FY18E
Pre-tax profit	577	4,985	4,490	6,560	8,417
Depreciation	(2,149)	3,278	3,424	3,596	3,632
Tax paid	(743)	(3,102)	(1,401)	(2,165)	(2,778)
Chg in working capital	1,649	94	(1,570)	(775)	(941)
Other operating activities	-	-	-	-	-
CF from operations (a)	**(666)**	**5,255**	**4,944**	**7,217**	**8,331**
Capital expenditure	7,685	(2,976)	(4,420)	(2,720)	(2,720)
Chg in investments	7	10	-	-	-
Other investing activities	-	-	-	-	-
CF from investing (b)	**7,561**	**(2,907)**	**(4,420)**	**(2,720)**	**(2,720)**
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(2,830)	(355)	(2,345)	(7,015)	(7,500)
Dividend (incl. tax)	(336)	(405)	(405)	(405)	(405)
Chg in minorities	(11)	25	-	-	-
Other financing activities	-	-	-	-	-
CF from financing (c)	(3,177)	(735)	(2,750)	(7,420)	(7,905)
Net chg in cash (a+b+c)	3,718	1,613	(2,226)	(2,923)	(2,294)

Balance Sheet (Rs mn)

Year-end: Dec.	FY14	FY15	FY16E	FY17E	FY18E
Net fixed assets	89,809	89,506	90,502	89,626	88,713
Investments	68	59	59	59	59
Other non-curr assets	4,624	4,344	4,344	4,344	4,344
Current assets	**41,051**	**39,321**	**34,762**	**33,802**	**33,892**
Inventories	15,337	16,210	15,035	15,868	16,880
Sundry Debtors	13,712	11,968	11,493	12,130	12,903
Cash and Bank	8,995	8,605	5,893	3,347	1,510
Marketable Securities	195	136	136	136	136
Loans and advances	2,413	2,313	2,115	2,232	2,375
Total assets	**135,551**	**133,230**	**129,667**	**127,831**	**127,008**
Shareholders' funds	**29,458**	**29,375**	**32,056**	**36,006**	**41,200**
Share capital	673	673	673	673	673
Reserves & surplus	28,785	28,702	31,383	35,333	40,527
Total Debt	**71,678**	**71,323**	**68,978**	**61,963**	**54,463**
Secured loans	71,678	71,323	68,978	61,963	54,463
Other liabilities	12,650	11,836	11,350	11,727	12,183
Curr Liab & Prov	**21,549**	**20,672**	**17,255**	**18,067**	**19,053**
Current liabilities	20,428	19,146	16,070	16,817	17,723
Provisions	1,121	1,526	1,185	1,250	1,330
Total liabilities	**105,877**	**103,831**	**97,583**	**91,757**	**85,700**
Total equity & liabilities	**135,551**	**133,230**	**129,667**	**127,831**	**127,008**
Book Value (Rs)	**88**	**87**	**95**	**107**	**122**

Note: Fiscal years end in December.

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY14	FY15	FY16E	FY17E	FY18E
Adj EPS (Rs)	10.3	9.8	9.2	12.9	16.6
Adj EPS growth (%)	(10.2)	(4.7)	(6.5)	41.2	28.5
EBITDA margin (%)	10.2	13.2	13.9	15.0	14.8
Pre-tax margin (%)	0.5	4.9	4.9	6.8	8.2
RoE (%)	11.2	11.2	10.0	12.8	14.5
RoCE (%)	7.3	9.0	8.3	9.8	10.6
Turnover & Leverage ratios (x)					
Asset turnover	0.8	0.8	0.7	0.7	0.8
Leverage factor	4.6	4.6	4.3	3.8	3.3
Net margin (%)	2.9	3.2	3.4	4.5	5.5
Net Debt/Equity	2.1	2.1	2.0	1.6	1.3
Working Capital & Liquidity ratios					
Inventory days	47	58	60	60	60
Receivable days	42	43	46	46	46
Payable days	34	42	35	35	35

Valuations

Year-end: Dec.	FY14	FY15	FY16E	FY17E	FY18E
PER (x)	5.3	5.5	5.9	4.2	3.3
Price/Book value (x)	0.6	0.6	0.6	0.5	0.4
PCE (x)	2.6	2.8	2.8	2.3	2.0
EV/Net sales (x)	0.7	0.8	0.9	0.8	0.7
EV/EBITDA (x)	6.7	6.0	6.4	5.3	4.7
Dividend Yield (%)	1.8	2.2	2.2	2.2	2.2

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 ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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