

# Rain Industries

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
35,536	10,807
Bloomberg	RINDL IN
Equity Shares (m)	336
M.Cap.(INRb)/(USD\$b)	92.4 / 1.4
52-Week Range (INR)	476 / 92
1, 6, 12 Rel. Per (%)	-32/-36/142
Avg Val, INRm/ Vol m	1100.0
Free float (%)	58.9

## Financials & Valuations (INR b)

Y/E Dec	2017	2018E	2019E
Net Sales	113.0	143.3	157.4
EBITDA	22.7	27.1	29.0
PAT	8.0	11.8	13.4
EPS (INR)	23.7	35.2	39.8
Gr. (%)	238.1	48.5	13.2
BV/Sh (INR)	117.3	150.1	187.5
RoE (%)	22.9	26.3	23.6
RoCE (%)	19.7	24.3	26.0
P/E (x)	16.0	7.8	6.9
P/BV (x)	3.2	1.8	1.5

<b>Estimate change</b>	↔
<b>TP change</b>	↔
<b>Rating change</b>	↔

**CMP: INR275 TP: INR426 (+55%)**
**Buy**

## Strong results, but CPC volumes disappoint

### CT Pitch remains strong, while ACM is recovering; Maintain Buy

RAIN's 1QCY18 EBITDA increased 50% YoY (-4% QoQ) to INR6.6b, but missed our estimate of INR7.7b due to a QoQ decline in CPC shipments, as against our expectation of growth. There has been regrouping of segments – some of the value-added products from CT Pitch and other carbon segments have been moved to the chemical segment, which is now called as advanced carbon materials (ACM). Interest cost declined 29% QoQ (-23% YoY) due to refinancing of bonds. Adj. PAT rose 116% YoY to INR2.7b, led by lower tax rates in the US and Belgium.

- **Carbon – CPC volumes disappoint, but CT Pitch getting stronger:** CPC volumes declined 10% QoQ to 389kt (est. of 482kt) due to a delay in shipments to Indian smelters, led by prolonged negotiations over pass-through of import duty hike by 750bp. CT Pitch continues to look up, as volume increased 9% QoQ and 5% YoY to 133kt, while NSR increased 29% QoQ to USD864/t. Carbon segment volumes declined 3% QoQ to 662kt, while EBITDA/t was down 1% QoQ (+116% YoY) to USD128/t. Segment EBITDA doubled YoY to INR5.5b.
- **ACM EBITDA has started improving:** EBITDA rose 3% QoQ to INR908m and EBITDA per ton grew 10% QoQ to USD127/t. RAIN announced USD66m capex to add a 30kt Dicyclopentadiene (DCPD/C9) resin plant in Germany to capitalize on the rapidly growing market for water-white resins for adhesive application.
- **Maintain Buy:** Margins in CPC business (50% of revenue) have peaked, but CT Pitch remains very strong, while ACM is on a recovery path. RAIN is capitalizing on the growing market for niche products in ACM and is investing to leverage its patented technologies in resins. We have toned down CPC volumes and cut margins, leading to a 7% cut in EBITDA and an 11% cut in PAT. We lower TP by 11% to INR426/share (Exhibit 2). Stock trades at 5x EV/EBITDA. Maintain **Buy**.

## Quarterly Performance (Consolidated) – INR million

Y/E December	CY17			CY18			CY17	CY18E	CY19E	v/s Est.	
	1Q	4Q	1Q	2QE	3QE	4QE				1QE	%
<b>Net Sales</b>	<b>24,680</b>	<b>31,448</b>	<b>33,062</b>	<b>36,230</b>	<b>37,657</b>	<b>36,373</b>	<b>113,007</b>	<b>143,321</b>	<b>157,380</b>	<b>36,237</b>	<b>-9</b>
Change (YoY %)	14	32	34	37	23	16	21	27	10	47	
<b>EBITDA</b>	<b>4,414</b>	<b>6,872</b>	<b>6,621</b>	<b>6,932</b>	<b>7,126</b>	<b>6,634</b>	<b>22,702</b>	<b>27,313</b>	<b>28,972</b>	<b>7,742</b>	<b>-14</b>
As % of Net Sales	17.9	21.9	20.0	19.1	18.9	18.2	20.1	19.1	18.4	21.4	
Interest	1,536	1,465	1,180	1,163	1,163	1,163	5,947	4,669	4,152	1,163	1
Depreciation	1,366	1,260	1,230	1,204	1,182	1,219	5,256	4,835	5,035	1,237	-1
Other Income	206	198	61	311	270	212	1,134	854	944	290	-79
<b>PBT (before EO Inc.)</b>	<b>1,718</b>	<b>4,345</b>	<b>4,272</b>	<b>4,876</b>	<b>5,051</b>	<b>4,464</b>	<b>12,633</b>	<b>18,662</b>	<b>20,728</b>	<b>5,632</b>	<b>-24</b>
EO Income(exp)	-670	-302	0	0	0	0	-973	0	0	0	
<b>PBT (after EO Inc.)</b>	<b>1,048</b>	<b>4,043</b>	<b>4,272</b>	<b>4,876</b>	<b>5,051</b>	<b>4,464</b>	<b>11,661</b>	<b>18,662</b>	<b>20,728</b>	<b>5,632</b>	<b>-24</b>
Total Tax	400	868	1,403	1,658	1,717	1,518	3,749	6,296	7,048	1,915	-27
% Tax	38.2	21.5	32.8	34.0	34.0	34.0	32.1	33.7	34.0	34.0	
<b>Reported PAT</b>	<b>647</b>	<b>3,175</b>	<b>2,869</b>	<b>3,218</b>	<b>3,334</b>	<b>2,946</b>	<b>7,912</b>	<b>12,367</b>	<b>13,680</b>	<b>3,717</b>	<b>-23</b>
Less: Min. Int. & assc.	55	103	145	41	41	85	285	312	279	44	230
<b>Adjusted PAT</b>	<b>1,263</b>	<b>3,374</b>	<b>2,724</b>	<b>3,177</b>	<b>3,292</b>	<b>2,861</b>	<b>8,599</b>	<b>12,054</b>	<b>13,402</b>	<b>3,673</b>	<b>-26</b>
Change (YoY %)	331.5	136.8	115.7	109.7	34.0	-15.2	72.7	40.2	11.2	190.9	

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## Exhibit 1: Key performance highlights – INR million

Y/E December	CY17		CY18				CY17	CY18E	CY19E	CY18E CY19E Change of est.	
	1Q	4Q	1Q	2QE	3QE	4QE					
<b>Sales (kt)</b>											
Carbon	680	679	662	731	784	737	2,796	2,914	3,105	-11%	-10%
CPC	411	430	389	446	499	452	1,741	1,786	1,875	-6%	-6%
CTPitch	127	122	133	145	145	145	512	568	640		
Others	142	127	140	140	140	140	543	560	590		
Adv. Material	115	118	110	120	120	120	492	470	550		
Cement	535	509	558	613	613	613	2,105	2,396	2,625	-2%	0%
<b>Realization</b>											
Carbon (USD/Ton)	328	485	529	528	520	527	395	526	530	-4%	-5%
CPC	259	415	412	418	418	418	327	417	418	-14%	-16%
CTPitch	401	669	864	860	860	860	528	861	860		
Others	407	474	474	475	475	475	427	475	475		
Adv. Material (USD/Ton)	1,006	1,024	1,095	1,100	1,100	1,100	997	1,099	1,100		
Cement (INR/bag)	238	209	207	210	210	210	230	209	210		
<b>Net Sales</b>	<b>24,680</b>	<b>31,448</b>	<b>33,062</b>	<b>36,230</b>	<b>37,657</b>	<b>36,373</b>	<b>113,007</b>	<b>143,321</b>	<b>157,380</b>	-4%	-4%
Change (YoY %)	14	32	34	37	23	16	21	27	10		
<b>EBITDA</b>	<b>4,414</b>	<b>6,872</b>	<b>6,621</b>	<b>6,932</b>	<b>7,126</b>	<b>6,634</b>	<b>22,702</b>	<b>27,313</b>	<b>28,972</b>	-7%	-7%
As % of Net Sales	17.9	21.9	20.0	19.1	18.9	18.2	20.1	19.1	18.4		
<b>Carbon EBITDA</b>	<b>2,759</b>	<b>5,726</b>	<b>5,524</b>	<b>5,704</b>	<b>5,859</b>	<b>5,266</b>	<b>16,451</b>	<b>22,352</b>	<b>22,199</b>		
USD/t	61	130	128	120	115	110	90	118	110		
<b>Adv. Material EBITDA</b>	<b>1,531</b>	<b>884</b>	<b>908</b>	<b>1,014</b>	<b>1,053</b>	<b>1,092</b>	<b>5,385</b>	<b>4,067</b>	<b>5,460</b>		
USD/t	199	116	127	130	135	140	168	133	153		
<b>Cement EBITDA</b>	<b>124</b>	<b>262</b>	<b>189</b>	<b>214</b>	<b>214</b>	<b>276</b>	<b>866</b>	<b>893</b>	<b>1,313</b>	-19%	0%
INR/t	232	515	339	350	350	450	411	373	500	-17%	0%

Source: MOSL, Company

## Exhibit 2: Target price calculation

Y/E December	2014	2015	2016	2017	2018E	2019E
<b>Target multiple</b>						
Carbon	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
Cement	7.0	8.0	9.0	10.0	10.0	10.0
<b>EBITDA</b>						
Carbon	9,905	9,981	11,742	16,451	22,352	22,199
Chemical	1,881	1,710	2,496	5,385	4,067	5,460
Cement	434	1,801	1,083	866	893	1,313
EV/t	14	67	43	38	38	56
Target EV	79,647	90,400	102,294	150,594	180,659	192,909
Net Debt (INR m)	67,731	67,352	64,002	68,940	62,028	49,670
Residual equity value					118,631	143,239
<b>Target price</b>					<b>353</b>	<b>426</b>

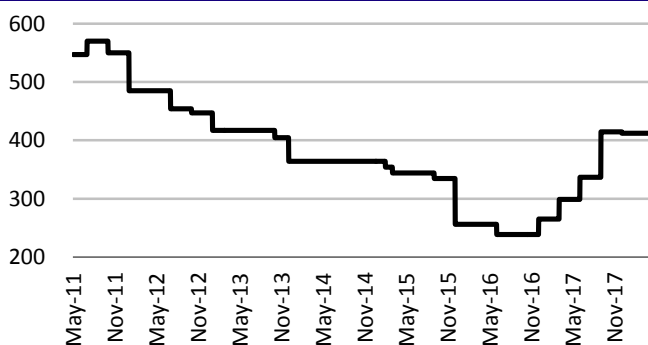
Source: MOSL, Company

## Conference call highlights

- Growth in CTP volumes (9% QoQ / 5% YoY to 133kt) was driven by strong demand and higher plant utilization.
- Performance of advance material division was impacted (YoY) by maintenance shutdown at two plants and EUR appreciation. The shutdown cost impact was EUR2-3m.
- GPC prices are higher since the beginning of the quarter, but have marginally corrected recently. CPC prices are also stable, despite restart of Chinese carbon producers after winter cuts. Management expects to maintain CPC product spreads.

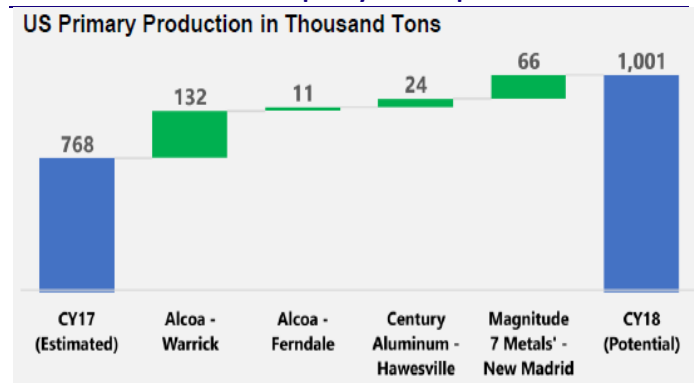
- Cement demand has improved in Telangana and Andhra Pradesh in 2QCY18, which should aid better volumes and margins.
- Working capital increased due to higher input prices and build-up of inventory as negotiations impacted dispatches in the quarter.
- Aluminum production capacities are likely to restart in the US as the government takes measures to promote local production. Management expects US aluminum production capacity to increase to ~1.3mt in CY18, as against actual production of 768kt in CY17, potentially driving strong demand for its CPC plants in the US.
- Debt is likely to remain unchanged YoY, as cash generation is used for capex and working capital.
- RAIN will invest USD66m in a 30ktpa for Dicyclopentadiene (DCPD/C9) resin plant at its integrated coal and petrochemical site in Castrop-Rauxel, Germany. Site work has started and all approvals are in place. The project is expected to begin in CY19.
- The calcination plant in Vishakhapatnam, AP of 370kt is delayed by two quarters to 3QCY19.
- The petro tar distillation facility in Belgium is on track for commissioning in 4QCY18.

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



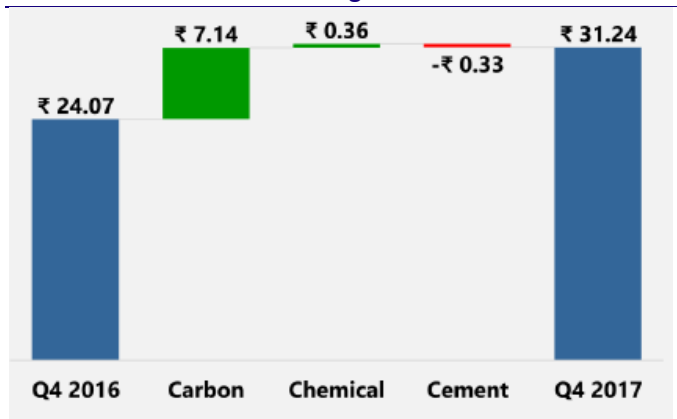
Source: MOSL, Company

Exhibit 4: US aluminum capacity restart potential



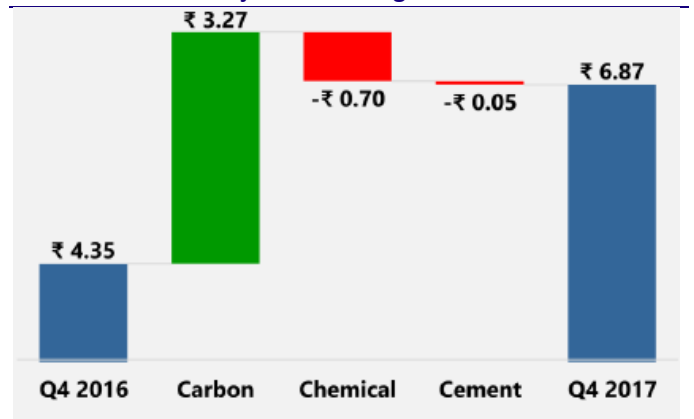
Source: Company

Exhibit 5: Consol. revenue bridge – INR m



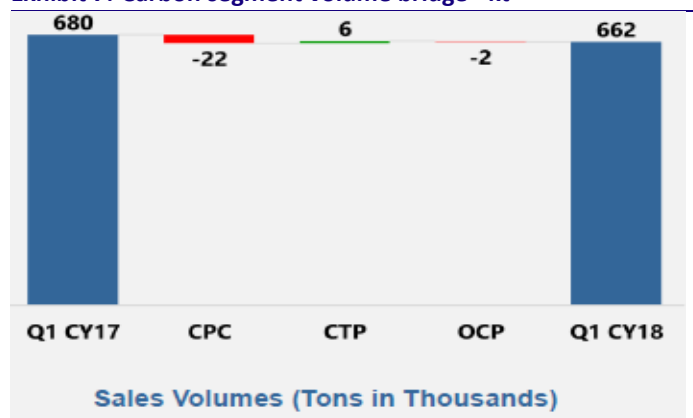
Source: Company

Exhibit 6: Consol. Adj. EBITDA bridge – INR m



Source: Company

Exhibit 7: Carbon segment volume bridge - kt



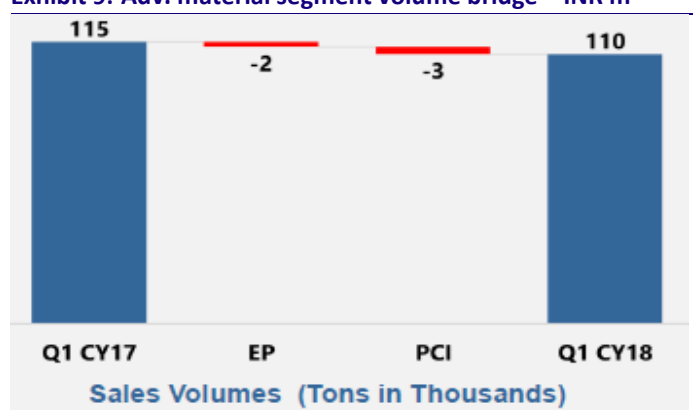
Source: Company

Exhibit 8: Carbon segment revenue bridge – INR m



Source: Company

Exhibit 9: Adv. material segment volume bridge – INR m



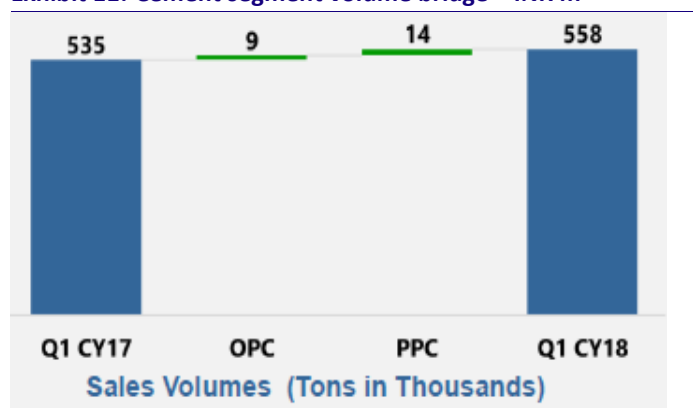
Source: Company

Exhibit 10: Adv. material segment EBITDA bridge – INR m



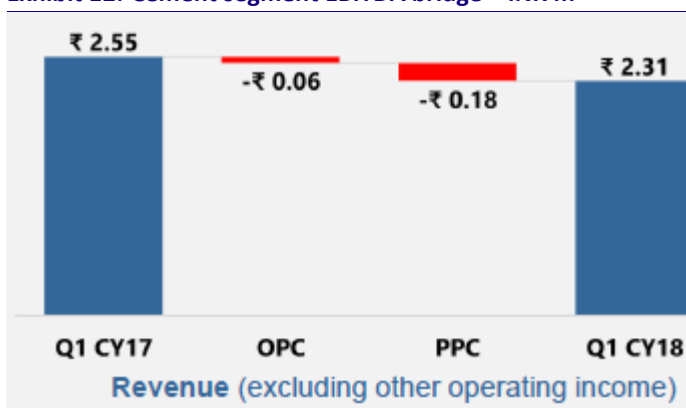
Source: Company

Exhibit 11: Cement segment volume bridge – INR m



Source: MOSL, Company

Exhibit 12: Cement segment EBITDA bridge – INR m



Source: MOSL, Company

**Exhibit 13: Metals valuation**

	Rating	Price (INR)	MCAP (USD M)	EPS			P/E (x)		EV/EBITDA (x)		P/B(x)	
				FY18E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Steel												
Tata Steel	Neutral	607	8,815	57.7	69.4	61.5	8.7	9.9	5.6	6.8	1.3	1.2
JSW Steel	Buy	324	11,699	20.7	24.0	23.7	13.5	13.6	8.1	8.1	2.4	2.1
JSPL	Buy	256	3,497	-8.5	6.4	10.4	40.0	24.6	7.1	6.4	0.8	0.8
SAIL	Sell	73	4,538	-0.9	4.3	6.5	17.0	11.3	9.5	7.1	0.8	0.8
Non-Ferrous												
Hindalco	Buy	242	7,488	18.9	27.3	30.6	8.9	7.9	6.1	5.4	1.4	1.2
Nalco	Buy	78	2,999	4.3	9.9	10.2	7.8	7.6	3.8	3.4	1.3	1.2
Vedanta	Buy	287	12,722	21.3	28.3	35.3	10.1	8.1	5.7	4.7	10.1	8.1
Rain Ind.*	Buy	275	1,382	23.7	35.2	39.8	7.8	6.9	5.7	4.9	1.8	1.5
Mining												
Coal India	Buy	271	25,562	18.5	26.8	31.1	10.1	8.7	5.4	4.7	6.1	5.7
Hindustan Zinc	Neutral	299	18,898	21.1	26.8	30.6	11.2	9.8	6.8	5.5	11.2	9.8
NMDC	Buy	116	6,891	13.6	14.0	14.7	8.3	7.9	5.1	4.8	1.4	1.3

\*Calendar year-end

Source: MOSL, Company

## Financials and Valuations

### Income Statement

(INR Million)

Y/E Dec	2012	2013	2014	2015	2016	2017	2018E	2019E
<b>Net Sales</b>	<b>53,614</b>	<b>117,443</b>	<b>119,370</b>	<b>102,185</b>	<b>92,582</b>	<b>113,007</b>	<b>143,321</b>	<b>157,380</b>
Change (%)	-4.9	119.1	1.6	-14.4	-9.4	22.1	26.8	9.8
<b>EBITDA</b>	<b>11,090</b>	<b>14,978</b>	<b>12,220</b>	<b>13,492</b>	<b>15,307</b>	<b>22,702</b>	<b>27,100</b>	<b>28,972</b>
EBITDA Margin (%)	20.7	12.8	10.2	13.2	16.5	20.1	18.9	18.4
Depreciation	1,200	3,568	3,470	3,278	5,190	5,256	4,835	5,035
<b>EBIT</b>	<b>9,891</b>	<b>11,410</b>	<b>8,750</b>	<b>10,213</b>	<b>10,117</b>	<b>17,446</b>	<b>22,266</b>	<b>23,937</b>
Interest	2,076	5,933	6,079	5,763	6,308	5,947	4,669	4,152
Other Income	665	566	369	499	704	1,134	854	944
Extraordinary items	-1,651	-1,809	-2,464	35	42	-341	0	0
<b>PBT</b>	<b>6,828</b>	<b>4,235</b>	<b>577</b>	<b>4,984</b>	<b>4,556</b>	<b>12,292</b>	<b>18,450</b>	<b>20,728</b>
Tax	2,180	367	-121	1,962	2,096	4,380	6,296	7,048
Tax Rate (%)	31.9	8.7	-20.9	39.4	46.0	35.6	34.1	34.0
Min. Int. & Assoc. Share	71	10	-189	-217	99	285	312	279
<b>Reported PAT</b>	<b>4,577</b>	<b>3,845</b>	<b>885</b>	<b>3,233</b>	<b>2,402</b>	<b>7,636</b>	<b>11,842</b>	<b>13,402</b>
<b>Adjusted PAT</b>	<b>6,229</b>	<b>5,654</b>	<b>3,349</b>	<b>3,198</b>	<b>2,360</b>	<b>7,977</b>	<b>11,842</b>	<b>13,402</b>
Change (%)	-6.2	-9.2	-40.8	-4.5	-26.2	238.1	48.5	13.2

### Balance Sheet

(INR Million)

Y/E Dec	2012	2013	2014	2015	2016	2017	2018E	2019E
Share Capital	683	673	673	673	673	673	673	673
Reserves	24,833	31,560	28,785	28,702	29,471	38,768	49,803	62,398
<b>Net Worth</b>	<b>25,517</b>	<b>32,233</b>	<b>29,458</b>	<b>29,375</b>	<b>30,144</b>	<b>39,441</b>	<b>50,476</b>	<b>63,071</b>
Debt	69,268	82,905	76,726	75,957	74,493	78,366	68,366	58,366
Deferred Tax	4,118	4,721	4,225	3,844	2,833	1,740	1,740	1,740
<b>Total Capital Employed</b>	<b>99,024</b>	<b>120,275</b>	<b>110,625</b>	<b>109,200</b>	<b>108,185</b>	<b>120,560</b>	<b>121,595</b>	<b>124,189</b>
Gross Fixed Assets	44,290	150,718	148,683	150,241	159,153	162,186	163,686	175,236
Less: Acc Depreciation	7,096	58,095	61,565	64,843	70,033	75,289	80,124	85,158
<b>Net Fixed Assets</b>	<b>37,194</b>	<b>92,623</b>	<b>87,118</b>	<b>85,398</b>	<b>89,121</b>	<b>86,897</b>	<b>83,562</b>	<b>90,077</b>
Capital WIP	5,866	2,721	2,691	4,108	2,352	4,412	11,112	4,412
Investments	16	76	68	59	99	672	672	672
<b>Current Assets</b>	<b>64,476</b>	<b>50,845</b>	<b>45,675</b>	<b>43,665</b>	<b>38,707</b>	<b>53,522</b>	<b>52,951</b>	<b>57,377</b>
Inventory	9,850	20,002	15,337	16,210	12,678	19,985	21,596	21,559
Debtors	5,649	15,371	13,712	11,968	10,637	16,873	17,779	19,884
Cash & Bank	46,657	8,512	8,995	8,605	10,491	9,426	6,338	8,696
Loans & Adv, Others	2,320	6,961	7,630	6,882	4,901	7,238	7,238	7,238
<b>Curr Liabs &amp; Provns</b>	<b>8,528</b>	<b>25,989</b>	<b>24,926</b>	<b>24,030</b>	<b>22,094</b>	<b>24,943</b>	<b>26,703</b>	<b>28,349</b>
Curr. Liabilities	8,528	25,989	24,926	24,030	22,094	24,943	26,703	28,349
Provisions	0	0	0	0	0	0	0	0
<b>Net Current Assets</b>	<b>55,948</b>	<b>24,856</b>	<b>20,748</b>	<b>19,635</b>	<b>16,613</b>	<b>28,579</b>	<b>26,249</b>	<b>29,028</b>
<b>Total Assets</b>	<b>99,024</b>	<b>120,275</b>	<b>110,625</b>	<b>109,200</b>	<b>108,185</b>	<b>120,560</b>	<b>121,595</b>	<b>124,189</b>

## Financials and Valuations

### Ratios

Y/E Dec	2012	2013	2014	2015	2016	2017	2018E	2019E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>18.2</b>	<b>16.8</b>	<b>10.0</b>	<b>9.5</b>	<b>7.0</b>	<b>23.7</b>	<b>35.2</b>	<b>39.8</b>
Cash EPS	21.7	27.4	20.3	19.3	22.4	39.3	49.6	54.8
Book Value	74.7	95.8	87.6	87.3	89.6	117.3	150.1	187.5
DPS	1.1	1.0	1.0	1.0	1.0	2.0	2.0	2.0
Payout (incl. Div. Tax.)	7.1	13.7	10.0	12.7	21.4	4.2	6.8	6.0
<b>Valuation(x)</b>								
P/E			4.4	4.0	9.5	16.0	7.8	6.9
Cash P/E			2.2	2.0	3.0	9.7	5.5	5.0
Price / Book Value			0.5	0.4	0.7	3.2	1.8	1.5
EV/Sales			0.7	0.8	0.9	1.7	1.1	0.9
EV/EBITDA			6.8	5.9	5.6	8.7	5.7	4.9
Dividend Yield (%)			2.3	2.6	1.5	0.5	0.7	0.7
<b>Profitability Ratios (%)</b>								
RoE	26.9	19.7	10.9	10.9	7.9	22.9	26.3	23.6
RoCE	14.2	11.8	9.4	11.2	12.7	19.7	24.3	26.0
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	0.5	1.0	1.1	0.9	0.9	0.9	1.2	1.3
Debtors (No. of Days)	38	48	42	43	42	54	45	46
Inventory (No. of Days)	67	62	47	58	50	65	55	50
Creditors (No. of Days)	41	39	31	37	31	37	34	35
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	0.9	2.3	2.3	2.3	2.1	1.7	1.2	0.8

### Cash Flow Statement

(INR Million)

Y/E Dec	2012	2013	2014	2015	2016	2017	2018E	2019E
Adjusted EBITDA	11,090	14,978	12,220	13,492	15,307	22,702	27,100	28,972
Non cash opr. exp (inc)	98	-5	-1,925	1,045	479	-103	0	0
(Inc)/Dec in Wkg. Cap.	3,651	-7,954	4,340	-587	2,918	-9,916	-758	-421
Tax Paid	-819	-927	-1,722	-1,567	-3,037	-4,002	-6,296	-7,048
Other operating activities	0	0	0	0	0	0	0	0
<b>CF from Op. Activity</b>	<b>14,020</b>	<b>6,091</b>	<b>12,913</b>	<b>12,382</b>	<b>15,667</b>	<b>8,681</b>	<b>20,047</b>	<b>21,503</b>
(Inc)/Dec in FA & CWIP	-5,284	-3,654	-3,903	-4,987	-4,793	-4,398	-8,200	-4,850
<b>Free cash flows</b>	<b>8,736</b>	<b>2,438</b>	<b>9,010</b>	<b>7,395</b>	<b>10,874</b>	<b>4,282</b>	<b>11,847</b>	<b>16,653</b>
(Pur)/Sale of Invt	0	0	0	0	0	0	0	0
Others	1,338	-37,262	303	505	139	256	854	944
<b>CF from Inv. Activity</b>	<b>-3,946</b>	<b>-40,916</b>	<b>-3,599</b>	<b>-4,482</b>	<b>-4,655</b>	<b>-4,142</b>	<b>-7,346</b>	<b>-3,906</b>
Inc/(Dec) in Net Worth	-276	-203	0	0	0	0	0	0
Inc / (Dec) in Debt	30,993	212	-1,670	-1,782	-2,492	1,522	-10,000	-10,000
Interest Paid	-2,479	-4,299	-6,911	-5,767	-5,868	-6,388	-4,669	-4,152
Divd Paid (incl Tax) & Others	-440	-776	-336	-405	-506	-339	-807	-807
<b>CF from Fin. Activity</b>	<b>27,798</b>	<b>-5,066</b>	<b>-8,917</b>	<b>-7,954</b>	<b>-8,866</b>	<b>-5,205</b>	<b>-15,476</b>	<b>-14,960</b>
<b>Inc/(Dec) in Cash</b>	<b>37,872</b>	<b>-39,890</b>	<b>396</b>	<b>-54</b>	<b>2,146</b>	<b>-666</b>	<b>-2,776</b>	<b>2,637</b>
Add: Opening Balance	8,294	46,657	8,512	8,995	8,605	10,491	9,426	6,338
<b>Closing Balance</b>	<b>46,657</b>	<b>8,512</b>	<b>8,995</b>	<b>8,605</b>	<b>10,491</b>	<b>9,426</b>	<b>6,338</b>	<b>8,696</b>



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

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