MOTILAL OSWAL

26 April 2012

1QCY12 Results Update | Sector: Metals

Rain Commodities

BSE SENSEX	S&P CNX
17,151	5,202
Bloomberg	RCOL IN
Equity Shares (m)	349.5
52-Week Range (INR)	42/25
1,6,12 Rel. Perf. (%)	-2/23/25
M.Cap. (INR b)	12.9
M.Cap. (USD b)	0.2

CMP: INR37 **TP: INR89** **Buy**

Year End	Net Sales (INR m)	PAT (INR m)	EPS (INR)	EPS Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/ Sales	EV/ EBITDA
12/10A	37,557	3,305	9.3	-18.8	-	-	23.7	13.2	-	-
12/11A	56,317	6,642	19.0	103.6	1.9	0.6	31.3	19.6	0.8	3.2
12/12E	53,594	6,264	18.2	-4.0	2.0	0.5	23.3	17.7	0.7	2.8
12/13E	50,704	6,007	17.5	-4.1	2.1	0.4	18.5	16.5	0.6	2.4

Consolidated

- Rain Commodities' (RCOL) 1QCY12 consolidated adjusted PAT increased 3% QoQ to INR1.8b (v/s our estimate of INR1.6b). Net sales declined 10% QoQ to INR14.6b, in-line with our estimate of INR14.4b. Reported PAT was boosted by forex gain of USD169m (v/s loss of USD294m in 4QCY11).
- EBITDA was flat QoQ at INR3.7b (estimate: INR3.3b) as the carbon business continued to deliver superior margins with calculated EBITDA/ton at USD97 (down 6% QoQ). EBITDA/ton for cement improved 24% QoQ to INR844/ton.
- Total carbon volumes (CPC and pet coke) increased 6% QoQ to 701kt, while cement volumes improved 15% QoQ to 604kt.
- RCOL's gross debt has now come down to USD679m (from USD709m in 4QCY11) on account of reduction in both term debt (USD625m to USD610m) and working capital debt (USD85m to USD69m). Net debt declined by USD79m QoQ to USD463m. Net D/E ratio fell to 1.1x and is expected to decline further to 0.9x by 4QCY12.
- Interest charges declined 13% QoQ to INR582m on account of lower debt levels.
- The company completed the buyback of 10m shares at an aggregate amount of INR319.9m.
- Current valuations are (2x CY12E EPS and 2.8x CY12E EV/EBITDA) are attractive. We believe RCOL's business remains strong and the stock offers superior risk-return ratio. We expect stock to get rerated on further de-leveraging. Re-iterate **Buy** with target price of INR89/share.

Quarterly Performance (Consolidated) (INR Million)

Y/E March	CY11				CY12				CY11	CY12E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Carbon Sales kt	637	585	532	661	701	633	614	705	2,415	2,652
Cement Sales Volume kt	585	584	537	523	604	584	537	569	2,229	2,294
Carbon Realization USD per ton	389	428	446	415	345	337	328	320	419	332
Cement Realization INR per 50 kg	190	195	196	199	200	202	204	206	195	203
Net Sales	13,435	13,743	12,961	16,178	14,564	13,019	12,277	13,733	56,317	53,594
Change (YoY %)	77.9	70.3	25.2	39.7	8.4	-5.3	-5.3	-15.1	49.9	-4.8
Total Expenditure	9,693	10,353	10,578	12,501	10,888	9,830	9,382	10,611	43,126	40,713
As a % of net sales	72.1	75.3	81.6	77.3	74.8	75.5	76.4	77.3	76.6	76.0
EBITDA	3,742	3,390	2,382	3,677	3,676	3,189	2,895	3,122	13,191	12,881
As % of Net Sales	27.9	24.7	18.4	22.7	25.2	24.5	23.6	22.7	23.4	24.0
Interest	517	535	565	669	582	570	558	547	2,286	2,257
Depreciation	271	280	284	295	294	294	294	300	1,129	1,183
Other Income	39	42	52	163	245	44	55	171	297	515
PBT (before EO Inc.)	2,994	2,617	1,586	2,876	3,045	2,369	2,097	2,446	10,073	9,956
PBT (after EO Inc.)	2,994	2,617	1,586	2,876	3,045	2,369	2,097	2,446	10,073	9,956
Total Tax	933	954	487	1,052	1,228.9	843	746	871	3,426	3,688.7
% Tax	31.2	36.4	30.7	36.6	40.4	35.6	35.6	35.6	34.0	37.0
Reported PAT	2,061	1,663	1,099	1,824	1,816	1,526	1,351	1,574	6,647	6,268
Min. Int. & Share of loss in assc.	42	19	-77	22	-31	12	12	12	6	4
Adjusted PAT	2,019	1,645	1,176	1,802	1,847	1,515	1,339	1,563	6,642	6,264
Change (YoY %)	242.0	260.6	25.2	16.9	-8.5	-7.9	13.9	-13.3	101.0	-5.7

E: MOSt Estimates

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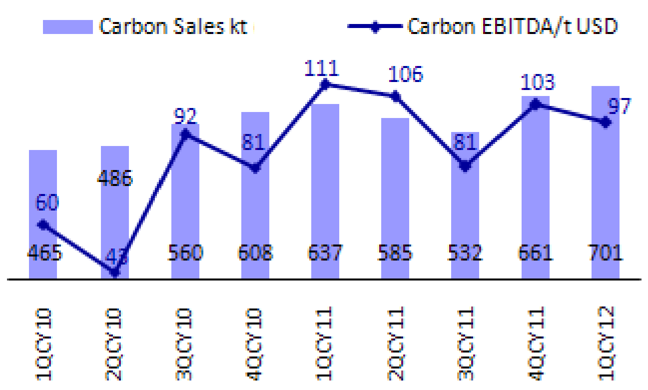
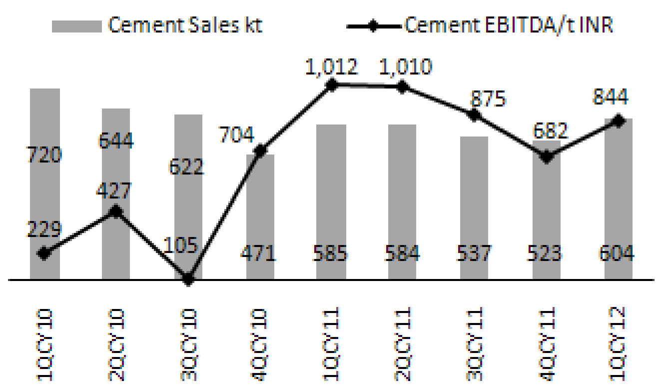
Adjusted PAT up 3% QoQ on superior performance of carbon business

- RCOL's 1QCY12 consolidated adjusted PAT increased 3% QoQ to INR 1.8b (v/s estimate of INR1.6b). Net sales declined 10% QoQ to INR14.6b, in-line with our estimate of INR14.4b. Reported PAT was boosted by forex gain of USD169m (v/s USD294m loss in 4QCY11). We treat the forex gain as normal business expenditure as it relates to working capital loan for raw material (GPC) inventory.
- EBITDA was flat QoQ at INR3.7b (estimate: INR3.3b) as carbon business continued to deliver superior margins with calculated EBITDA/ton at USD97 (down 6% QoQ). EBITDA/ton for cement improved 24% QoQ to INR844/ton.
- Total carbon volumes (CPC and pet coke) increased 6% QoQ to 701kt while cement volumes improved 15% QoQ to 604kt.

Carbon business continue to deliver superior margins



Cement margins recovered on lower base of 4QCY11



Source: Company/MOSL

Net D/E ratio down to 1.1x; gross debt declines by USD30m

- Gross debt declined o USD679m from USD709m in 4QCY11 on account of a reduction in both term debt (down from USD625m to USD610m) and working capital debt (USD85m to USD69m). Working capital debt declined due to lower raw material (GPC) prices
- Cash and cash equivalents increased from USD167m in 4QCY11 to USD216m in 1QCY12. Net debt has declined by USD79m QoQ to USD463m. Net debt-to-equity ratio is down to 1.1x and is expected to further reduce to 0.9x by 4QCY12. Interest charges declined 13% QoQ to INR582m on account of lower level of debt.
- The company completed buyback of 10m shares at an aggregate amount of INR319.9m and has extinguished 9.6m shares.

Carbon superior margins to sustain; attractive valuations of 2x CY12E EPS; Maintain Buy

- Merchant calcining business would continue to deliver superior margins on favorable demand-supply dynamics. Although there has been a slowdown concern in Al industry, limited supply of key raw material (GPC) would continue to support margins.
- Current valuations (2x CY12E EPS and 2.8x CY12E EV/EBITDA) are attractive. We believe RCOL's business remains strong, and the stock offers superior risk-return ratio. We expect stock to get rerated on further de-leveraging. Re-iterate **Buy** with target price of INR89/share.

Rain Commodities: an investment profile

Company description

Rain Commodities (RCOL) is one of the largest calciners in the world, with a capacity of 2.5mtpa. Its CPC capacity is located in North America (1.89mtpa), India (0.6mtpa) and China (0.02mtpa). It has cogeneration capacity of 125MW. It also has cement operations (3.5mtpa) in South India, which contribute 19% of its overall revenue.

Key investment arguments

- Increasing aluminum production is leading to strong demand for calcined petroleum coke (CPC).
- Difficulty in raw material sourcing acts as an entry barrier.
- Strong cash flows to help deleverage balance sheet; expect D/E to decline to 0.5x in CY13.
- Cement scenario in South India to improve as pace of capacity addition slows down.

Key investment risks

- RCOL derives ~90% of its CPC revenue from sales of carbon anode to aluminum smelters. The aluminum industry is cyclical in nature, with demand-supply governed by a variety of factors, especially the economic wellbeing of the world as a whole.
- With its current D/E at 1.1x and significant debt service obligations in the next couple of years, RCOL will be financially constrained in case of a major downturn in the aluminum industry.

Recent developments

- The company has completed the buyback of 10m equity shares on 29 March 2012.
- The company incorporated a wholly-owned subsidiary - Rain Coke Limited. Rain Coke Limited will carry on the business of manufacture and sale of calcined petroleum coke (CPC) and other carbon products.

Valuation and view

- Valuations are compelling as stock is trading at CY12E P/E of 2x and EV/EBITDA of 2.8x.

Sector view

- Merchant calcining business will continue to deliver superior margins on favorable demand-supply dynamics. Although there has been a slowdown concern in Al industry but limited supply of key raw material GPC will continue to support margins.
- Cement demand scenario in South India continues to be subdued. However margins and realizations are expected to improve gradually as pace of capacity addition slows down in South India.

Comparative valuations

		Rain Commodities	Tata Sponge	Adhunik Metaliks
P/E (x)	FY13E	2.0	4.6	4.1
	FY14E	2.1	5.0	1.7
P/BV (x)	FY13E	0.5	0.7	0.3
	FY14E	0.4	0.7	0.3
EV/Sales (x)	FY13E	0.7	0.2	1.7
	FY14E	0.6	0.1	0.9
EV/EBITDA (x)	FY13E	2.8	1.2	6.5
	FY14E	2.4	0.5	3.4

Rain Commodities follows calendar year reporting. Read FY13/FY14 as CY12/CY13

Shareholding pattern (%)

	Mar-12	Dec-11	Mar-11
Promoter	43.7	42.9	42.5
Domestic Inst	15.6	18.5	17.8
Foreign	17.8	15.8	17.5
Others	22.9	22.8	22.2

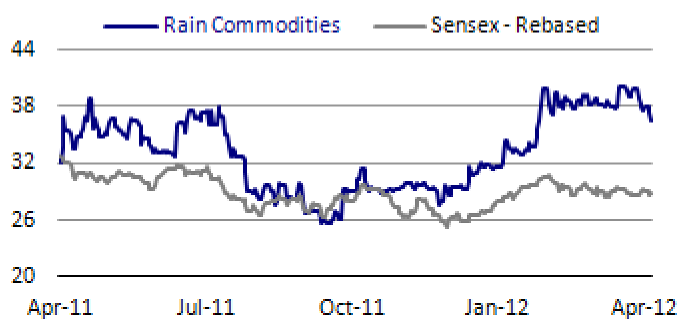
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
CY12	18.2	15.6	17.0
CY13	17.5	10.4	68.3

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
37	89	142	Buy

Stock performance (1 year)



Financials and Valuation

Income Statement (Consolidated)				(INR Million)
Y/E December	2010	2011	2012E	2013E
Net sales	**37,557**	**56,317**	**53,594**	**50,704**
Change (%)	3.1	49.9	-4.8	-5.4
Total Expenses	30,056	43,126	40,713	38,506
EBITDA	**7,501**	**13,191**	**12,881**	**12,198**
% of Net Sales	20.0	23.4	24.0	24.1
Depn. & Amortization	1,157	1,129	1,183	1,262
EBIT	**6,344**	**12,062**	**11,699**	**10,935**
Net Interest	1,896	2,286	2,257	2,082
Other income	179	297	515	541
PBT before EO	**4,627**	**10,073**	**9,956**	**9,394**
EO income	-1,249			
PBT after EO	**3,378**	**10,073**	**9,956**	**9,394**
Tax	951	3,426	3,689	3,340
Rate (%)	28.2	34.0	37.0	35.6
Reported PAT	**2,427**	**6,647**	**6,268**	**6,054**
Minority interests	19.5	5.8	4	47
Adjusted PAT	**3,305**	**6,642**	**6,264**	**6,007**
Change (%)	-18.8	101.0	-5.7	-4.1

Balance Sheet				(INR Million)
Y/E December	2010	2011	2012E	2013E
Share Capital	708	699	686	686
Reserves	13,225	20,510	26,193	31,820
Share holders funds	**13,934**	**21,209**	**26,879**	**32,507**
Loans	31,781	37,787	36,571	31,106
Secured	29,341	35,347	34,131	28,666
Unsecured	2,440	2,440	2,440	2,440
Defferred tax liability (	2,173	2,540	2,540	2,540
Capital Employed	**47,947**	**61,603**	**66,061**	**66,270**
Gross Block	36,692	42,229	42,229	44,979
Less: Accum. Deprn.	4,308	5,438	6,620	7,883
Net Fixed Assets	**32,384**	**36,791**	**35,609**	**37,096**
Capital WIP	561	1,391	2,361	561
Investments	16	16	16	16
Curr. Assets	**19,391**	**29,955**	**33,749**	**34,019**
Inventories	7,452	10,970	10,572	10,002
Sundry Debtors	5,616	7,247	6,748	6,384
Cash and Bank	3,639	8,299	12,989	14,193
Loans and Advances	2,684	3,440	3,440	3,440
Curr. Liability & Prov.	**4,404**	**6,551**	**5,673**	**5,422**
Sundry Creditors	3,526	5,540	4,663	4,411
Other Liabilities & prov	878	1,010	1,010	1,010
Net Current Assets	**14,987**	**23,405**	**28,076**	**28,597**
Misc. Exp. (not w/off)				
Application of Funds	**47,947**	**61,603**	**66,061**	**66,270**

E: MOSL Estimates

Ratios				
Y/E December	2010	2011	2012E	2013E
Basic (INR)				
EPS	9.3	19.0	18.2	17.5
Cash EPS	12.6	22.2	21.7	21.2
BV/Share	39.3	60.7	78.3	94.7
DPS	0.9	1.1	1.1	1.1
Payout (%)	15.7	5.7	6.1	6.3
Valuation (x) CMP@37				
P/E		1.9	2.0	2.1
Cash P/E		1.7	1.7	1.7
P/BV		0.6	0.5	0.4
EV/Sales		0.8	0.7	0.6
EV/EBITDA		3.2	2.8	2.4
Dividend Yield (%)		3.0	3.0	3.0
Return Ratios (%)				
EBITDA Margins	20.0	23.4	24.0	24.1
Net Profit Margins	8.8	11.8	11.7	11.8
RoE	23.7	31.3	23.3	18.5
RoCE	13.2	19.6	17.7	16.5
RoIC	14.5	23.2	23.1	21.2
Working Capital Ratios				
Fixed Asset Turnover (x)	1.0	1.3	1.3	1.1
Asset Turnover (x)	0.8	0.9	0.8	0.8
Debtor (Days)	55	46	46	46
Inventory (Days)	72	72	72	72
Creditors (Days)	34	32	32	32
Growth (%)				
Sales	3	50	-5	-5
EBITDA	-17	76	-2	-5
PAT	-19	101	-6	-4
Leverage Ratio (x)				
Current Ratio	4.4	4.6	5.9	6.3
Interest Cover Ratio	3.3	5.3	5.2	5.3
Debt/Equity	2.0	1.4	0.9	0.5

Cash flow statement				(INR Million)
Y/E December	2010	2011	2012E	2013E
Pre-tax profit	3,378	10,073	9,956	9,394
Depreciation	1,014	1,129	1,183	1,262
(Inc)/Dec in Wkg. Cap.	-4,407	-3,758	19	682
Tax paid	-753	-3,426	-3,689	-3,340
Other operating activitie	-438	1,496		
CF from Op. Activity	**-1,207**	**5,515**	**7,469**	**7,999**
(Inc)/Dec in FA + CWIP	434	-6,367	-970	-950
(Pur)/Sale of Investment	291			
CF from Inv. Activity	**725**	**-6,367**	**-970**	**-950**
Equity raised/(repaid)		-114	-213	
Debt raised/(repaid)	1,469	6,006	-1,216	-5,465
Dividend (incl. tax)	-380	-380	-380	-380
CF from Fin. Activity	**1,089**	**5,512**	**-1,809**	**-5,845**
(Inc)/Dec in Cash	**608**	**4,660**	**4,690**	**1,204**
Add: opening Balance	3,057	3,639	8,299	12,989
Closing Balance	**3,639**	**8,299**	**12,989**	**14,193**

N O T E S

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3. Broking relationship with company covered	No
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