

Rain Commodities Ltd.

Sensex: 18145

CMP: INR 37

Target Price: INR 71



Pet Coke

RCL came out with better than expected set of numbers for Q4CY11 on the back of superlative performance by Carbon Products segment. While the topline was in line with our estimates at INR 1608 mn (up 38% YoY & 24% QoQ) led by 18% YoY increase in CPC volumes, net profit exceeded our estimates to INR 1802 mn in Q4CY11 (despite a forex loss of INR 294 mn due to USD denominated forex loan). Its plans of setting up 35 MW waste heat recovery plant by CY12 remains on track. The company has completed 85% of the buyback program at an average price of INR 31/share till date. We introduce CY13 estimates and maintain a BUY rating on the stock with a target price of INR 71/share.

CPC segment on the boil

RCL reported a revenue growth of 38% YoY & 25% QoQ to INR 16079 mn on the back of 41% YoY increase in Carbon Products revenues to INR 13995 mn. This superlative performance was aided by 18% growth in CPC volumes to 533000 tonnes & 24% growth in CPC realisations to \$ 512/tn. In CY11, revenue of Carbon Product segment grew by 56% to INR 48292 mn aided by 4% increase in CPC volumes & 43% surge in realisations to \$ 468/tn. Demand for CPC is healthy and RCL continues to identify new long-term sources for its GPC supplies worldwide due to its limited availability.

CPC EBIDTA/tn to remain between USD\$90-100

EBIDTA of CPC segment improved significantly aided by 17% YoY & 11% QoQ increase in CPC EBIDTA margin to \$123/tn. Currently CPC prices are hovering ~ \$ 500/tn and management expects to negotiate the CPC pricing for H1CY12 in next few days. Although we are expecting some softness in CPC pricing, we expect CPC EBITDA margin to remain in the range of \$90-100/tn going forward.

Cost pressure continue to dent Cement segment

Cement turnover improved by 20% YoY to INR 2081 mn aided by volume growth of 11% YoY to 523000 tonne & 8% increase in realisations to INR 3978/tn. Cost pressure continues to dent this segment as EBIDTA margin declined by 3% YoY & 22% QoQ to INR 682/tn. Volume is likely to remain muted due to political agitations in the state of Andhra Pradesh.

Expansion plans on track

RCL's plans of setting up 35 MW waste heat recovery plant at a cost of \$ 65 mn remains on track and is scheduled to commence operations by CY12. The company has incurred a capex of \$ 25 mn in CY11 and is set to incur the balance in current year. The project is eligible for Government support in the form of tax breaks, capital grants and highest tariff.

Deleveraging the balance sheet

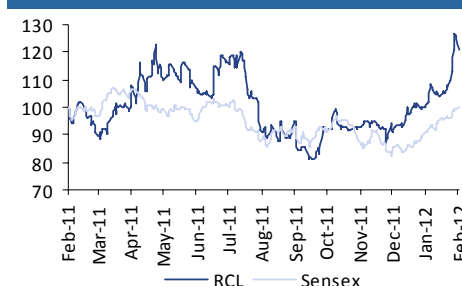
Gross debt as on Dec 2011 stood at \$ 709 mn (reduced by \$ 40 mn QoQ on robust profitability), consisting of term loan of \$ 625 mn and working capital loan of \$ 84 mn. As a process of deleveraging the balance sheet, RCL has repaid the high-cost subordinated bonds of \$16 million carrying interest rate of 11.125% in Nov 2011 by exercising the first call option available to the company. With existing cash balance of \$ 167 mn, RCL is comfortably placed to meet its repayment obligation of \$ 148 mn & capex obligation of ~\$ 55 mn till Dec 2013.

Outlook & Valuation

Increasing demand for aluminium, dominant presence in CPC market, supply agreement for GPC and limited GPC availability presents attractive investment opportunity. Buyback of ~8.5 mn equity shares at an average price of INR 31/share till date & dividend of INR 1.1/share declared for CY11, augurs well for shareholders. We have introduced CY13E estimates and maintain our BUY rating on the stock with a target price of INR 71/share. At the CMP of INR 37, the stock trades at CY13E P/BV of 0.4x & PE of 2.0x and EV/EBIDTA of 2.7x its CY13E earnings.

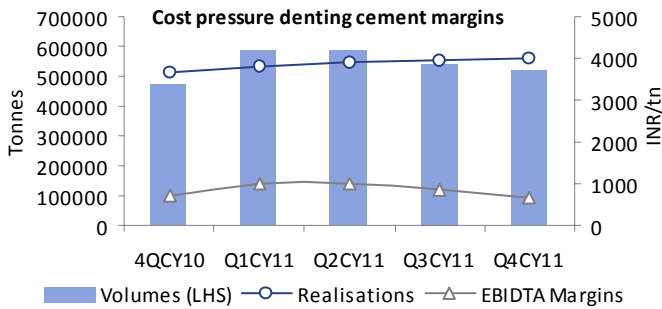
Shareholding (%)	Dec-11
Promoters	42.93
FII's	15.80
DII's	18.51
Others	22.76

Relative Price Performance

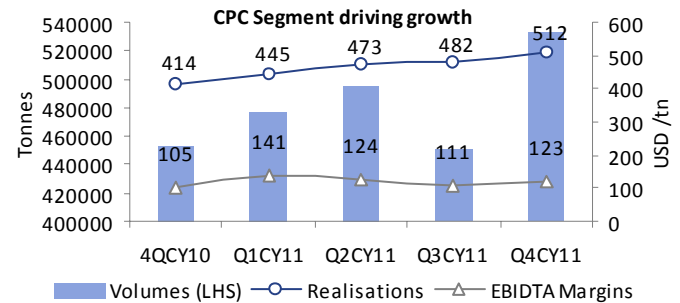


Key Data	
BSE Code	500339
NSE Code	RAINCOM
Bloomberg Code	RCOL IN
Reuters Code	RACL.BO
Shares O/S (mn)	350.45
Face Value	2
Mcap (INR bn)	12.85
52 Week H/L	41.80/25.00
2 Week Avg. Qty, NSE	903682
Free Float (INR bn)	7.34
Beta	0.72

	INR mn	CY10	CY11	CY12E	CY13E
Net Sales		37455	56201	57429	58468
Growth (%)		3.07%	50.05%	2.19%	1.81%
EBITDAM (%)		19.76%	23.32%	21.47%	21.09%
APAT		2407	6641	5935	6287
Growth (%)		-45.77%	175.89%	-10.63%	5.93%
EPS		6.80	19.00	17.24	18.27
P/E		5.41	1.54	2.17	2.04
P/BV		0.93	0.48	0.54	0.42
EV/EBIDTA		5.36	2.94	3.15	2.67
Net Debt-Equity		2.02	1.39	1.13	0.69
RoACE (%)		14.79	23.64	19.76	20.26
RoAE (%)		18.49	37.80	26.39	23.07

Pet Coke


Source: SPA Research



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Consolidated Quarterly Result

Particulars (INR mn)	4QCY10	Q1CY11	Q2CY11	Q3CY11	Q4CY11	YoY	QoQ	CY10	CY11	YoY
Net Sales	11690	13433	13740	12953	16076	37.52%	24.11%	37650	56201	49.27%
Other Operating Income	83	2	4	8	102	22.62%	1223.38%	102	116	13.57%
Other Income	84	39	42	52	163	94.05%	212.05%	227	297	31.04%
Total Income	11857	13474	13785	13013	16341	37.82%	25.58%	37978	56613	49.07%
Total Expenditure	9310	9693	10353	10578	12501	34.28%	18.18%	30071	43095	43.31%
Raw Material Consumed	5526	5546	6393	7085	8101	46.61%	14.34%	17883	27125	51.68%
Stock Adjustment	(329)	107	(1452)	(408)	44	-113.27%	-110.71%	(722)	(1710)	136.92%
Purchase of Finished Goods	973	1186	2383	618	685	-29.58%	10.82%	2245	4872	116.98%
Employee Expenses	457	460	434	458	587	28.51%	28.20%	1617	1939	19.90%
(Gain)/Loss on Foreign Exchange	(14)	0	0	310	294	-2243.80%	-5.11%	(227)	572	-352.34%
Power, Oil & Fuel	618	523	583	561	797	28.83%	41.91%	2205	2464	11.76%
Selling & Administrative Expenses	639	569	586	565	893	39.80%	57.98%	2258	2614	15.75%
Other Expenses	1440	1303	1426	1388	1100	-23.58%	-20.75%	4811	5218	8.46%
PBIDT	2547	3781	3432	2435	3840	50.77%	57.73%	7907	13519	70.97%
PBIDTM	21.07%	27.85%	24.67%	18.39%	22.87%	180 bps	448 bps	20.40%	23.53%	15.33%
Interest	529	517	535	565	669	26.62%	18.51%	2123	2317	9.12%
PBDT	2019	3264	2897	1870	3171	57.09%	69.58%	5784	11202	93.68%
Depreciation	275	271	280	284	295	7.08%	3.99%	1157	1129	-2.37%
PBT	1743	2994	2617	1586	2876	64.98%	81.30%	4627	10073	117.69%
Tax	51	933	954	487	1052	1950.88%	116.04%	951	3426	260.24%
PAT	1692	2061	1663	1099	1824	7.80%	65.91%	3676	6647	80.82%
Minority Interest	21	42	19	(77)	22	4.25%	128.89%	20	6	-70.26%
Net Profit after Minority Interest	1671	2019	1645	1176	1802	7.85%	53.24%	3657	6641	81.62%
Extra-ordinary Items	1249	0	0	0	0	-	-	1249	0	-
PAT	421	2019	1645	1176	1802	327.68%	53.24%	2407	6641	175.89%
PATM	3.60%	15.03%	11.97%	9.08%	11.21%	760 bps	213 bps	6.39%	11.82%	542 bps
EPS	1.19	5.70	4.64	3.32	5.16	333.37%	55.28%	6.80	19.00	179.56%
Equity	708.30	708.30	708.30	708.30	699.00	-1.31%	-1.31%	708.30	699.00	-1.31%

Segment Performance

Revenue from Operations	11788	13602	14011	13015	16349	38.69%	25.62%	38060	56977	49.70%
Cement	1732	2219	2275	2110	2081	20.12%	-1.41%	7166	8685	21.21%
Carbon Products	10056	11383	11736	10904	14268	41.89%	30.85%	30894	48292	56.31%
Less : Inter Segment Revenues	98	169	272	62	273	178.47%	341.59%	410	776	89.18%
Total Segment Revenue	11690	13433	13740	12953	16076	37.52%	24.11%	37650	56201	49.27%
PBIT	2188	3471	3110	2408	3382	54.60%	40.44%	6524	12092	85.36%
Cement	255	513	509	384	250	-1.85%	-35.00%	517	1639	217.08%
Carbon Products	1933	2958	2601	2024	3132	62.03%	54.76%	6007	10453	74.03%
PBITM	18.56%	25.52%	22.20%	18.50%	20.69%	213 bps	218 bps	17.14%	21.22%	408 bps
Cement	14.69%	23.10%	22.36%	18.21%	12.01%	(269 bps)	(620 bps)	7.21%	18.87%	1166 bps
Carbon Products	19.22%	25.99%	22.16%	18.56%	21.95%	273 bps	339 bps	19.44%	21.65%	220 bps

Financials Consolidated
Income Statement

Year End (INR mn)	CY10	CY11	CY12E	CY13E
Net Sales	37455	56201	57429	58468
Growth (%)	3.07%	50.05%	2.19%	1.81%
Cost of goods sold	19464	30288	31603	32515
Employees Cost	1581	1939	1953	1988
Other Exp.	788	5790	1149	1169
Total Expenditure	30056	43095	45099	46138
EBIDTA (without OI)	7399	13106	12331	12331
Growth (%)	19.76%	77.13%	-5.92%	0.00%
EBITDA Margin %	19.76%	23.32%	21.47%	21.09%
Depreciation	1157	1129	1363	1419
EBIT	6242	11977	10968	10911
EBIT Margin %	16.67%	21.31%	19.10%	18.66%
Interest Expenses	1896	2317	2280	1873
Other Income	281	412	317	376
EBT	4627	10073	9005	9414
Tax Expenses	951	3426	3066	3121
PAT	3676	6647	5938	6292
Minority Interest	(20)	(6)	(3)	(5)
Share of Associate	0	0	0	0
Extraordinary Items	(1249)	0	0	0
APAT	2407	6641	5935	6287
Growth (%)	-45.77%	175.89%	-10.63%	5.93%
APAT Margin (%)	6.43%	11.82%	10.33%	10.75%

Key Ratios

Year End (INR mn)	CY10	CY11	CY12E	CY13E
Per Share Data (INR)				
Adjusted EPS	6.80	19.00	17.24	18.27
CEPS	10.62	23.86	21.48	22.43
DPS	0.92	1.10	1.20	1.30
BVPS	39.34	60.68	69.06	89.32
Return Ratios				
RoACE (%)	14.79	23.64	19.76	20.26
RoAE (%)	18.49	37.80	26.39	23.07
Balance Sheet Ratios				
Net Debt-Equity Ratio	2.02	1.39	1.13	0.69
Current Ratio	4.40	4.57	4.11	4.47
Interest Cover Ratio	3.44	5.35	4.95	6.02
Efficiency Ratios				
Total asset turnover	0.85	1.07	1.01	1.05
Inventory Days	74	78	81	81
Debtors Days	49	47	46	45
Creditors Days	28	28	26	25
Valuations				
P/E	5.41	1.54	2.17	2.04
P/BV	0.93	0.48	0.54	0.42
Dividend Yield (%)	2.5	3.75	3.21	3.48
Market Cap / Sales	0.35	0.18	0.22	0.22
EV/EBIDTA	5.36	2.94	3.15	2.67

Balance Sheet

Year End (INR mn)	CY10	CY11	CY12E	CY13E
SOURCES OF FUNDS				
Share Capital	708	699	688	688
Reserves	13225	20510	23081	30052
Total Networth	13933	21209	23769	30740
Minority Interest	59	67	70	75
Secured Loans	29341	29722	29439	24439
Unsecured Loans	2440	8065	1875	1019
Total Debt	31781	37787	31314	25458
Total Liabilities	45774	59063	55153	56273

APPLICATION OF FUNDS

Net Block	32384	36942	38739	37820
Capital Work in Progress	561	1240	720	480
Investments	16	16	16	16
Total Current Assets	19391	29955	23948	26255
Total Current Liabilities	4404	6551	5826	5867
Net Current Assets	14987	23405	18123	20388
Net Deferred Tax	(2173)	(2540)	(2445)	(2430)
Total Assets	45774	59063	55153	56273

Cash Flow

Year End (INR mn)	CY10	CY11	CY12E	CY13E
EBT	4627	10073	9005	9414
Depreciation	1157	1129	1363	1419
Interest	1896	2317	2280	1873
Inc./Dec. in working capital	(4400)	(3726)	1339	(2256)
Tax paid	(702)	(3223)	(2972)	(3106)
Other Income	(281)	(412)	(317)	(376)
Cash flow from operations (a)	2297	6158	10698	6968
Inc./Dec. in investments	291	0	0	0
Change in Fixed Assets	761	(5688)	(3160)	(500)
Change in CWIP	(327)	(679)	520	240
Others	65	70	150	160
Cash flow from investing (b)	790	(6297)	(2490)	(100)
Inc./Dec. in capital	0	(280)	(320)	0
Inc./Dec. in debts	1469	6006	(6473)	(5856)
Dividend paid	(352)	(384)	(413)	(447)
Interest paid	(1896)	(2317)	(2280)	(1873)
Others	(1727)	1775	(2672)	1305
Cash flow from financing (c)	(2505)	4800	(12158)	(6872)
Opening cash balance	3057	3639	8299	4348
Cash Flow during the year (a+b+c)	582	4660	(3950)	(4)
Closing cash balance	3639	8299	4348	4345

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| 3. Broking relationship with company covered | - No |

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