

# Rainbow Papers Ltd

## Q3FY12 First cut – Revenue in line, profits lower than expectation

Fundamental Grade 3/5 (Good fundamentals)  
Valuation Grade 3/5 (CMP is aligned)

Industry Paper and Forest Products

Rainbow Papers Ltd's (Rainbow's) Q3FY12 revenues were in line with CRISIL Research's expectations driven by higher trading income; revenue from the core business was lower. EBITDA and PAT were below expectations due to higher proportion of the low-margin trading business. Rainbow's new capacity continued to face stabilisation issues and will take longer than expected to stabilise. As a result, depreciation was lower than expected since the company is yet to capitalise assets of the new capacity. We will revise FY12 estimates post interaction with the management. We maintain our fundamental grade of 3/5.

### Q3FY12 result analysis

- Revenues were up by 51% y-o-y (41.9% q-o-q) to Rs 1.6 bn driven by trading revenue of ~Rs 530 mn, which is significantly higher than in previous comparable quarters. Realisation increased by ~8% y-o-y (flat q-o-q) to Rs 31.7 per kg. The company sold 33,916 MT of manufactured paper as compared to 35,517 MT in Q2FY12 and 36,338 MT in Q3FY11.
- EBITDA margin declined by 335 bps y-o-y (and 466 bps q-o-q) to 17.6% due to higher proportion of revenue from trading, which has ~8-10% margins compared to ~20% margins from core operations.
- PAT margin declined by 152 bps y-o-y (57 bps q-o-q) to 8.2% primarily due to lower EBITDA margin.
- EPS for Q3FY12 was Rs 1.4 compared to Rs 1 in Q2FY12.

### Valuations: Current market price is aligned

We continue to use the price-to-earnings ratio method to value Rainbow at Rs 67 per share. At the current market price of Rs 63, the valuation grade is 3/5.

### KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	2,264	2,681	3,840	5,202	8,875
EBITDA	501	643	869	1,234	2,316
Adj PAT	236	236	372	602	1,276
Adj EPS-Rs	6.6	2.7	4.3	6.6	13.1
EPS growth (%)	84.2	(58.8)	57.7	55.0	98.8
Dividend yield (%)	0.6	0.7	0.6	0.7	0.7
RoCE (%)	8.7	8.7	9.4	12.6	27.4
RoE (%)	33.1	15.5	14.7	19.3	30.7
PE (x)	9.6	23.2	14.7	9.5	4.8
P/BV (x)	2.7	2.5	1.9	1.7	1.2
EV/EBITDA (x)	9.9	11.8	10.2	7.3	3.5

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

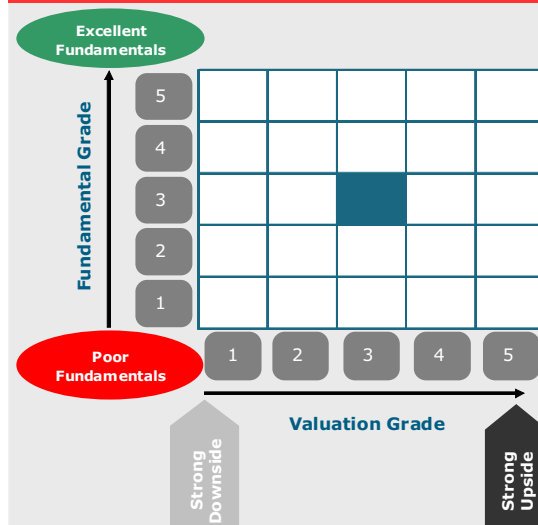


February 10, 2012

Fair Value Rs 67

CMP Rs 63

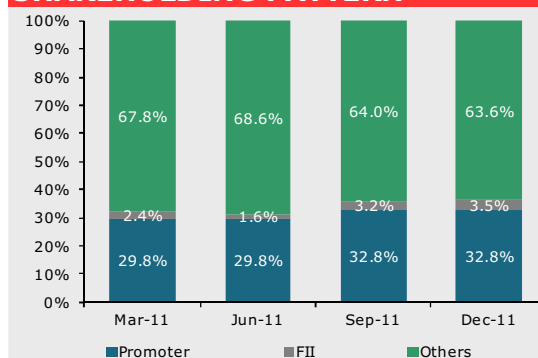
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY / SENSEX	5381/17749
NSE / BSE ticker	RAINBOWPAP/ RAINBOWPQ
Face value (Rs per share)	2
Shares outstanding (mn)	87.2
Market cap (Rs mn)/(US\$ mn)	5429/109
Enterprise value (Rs mn)/(US\$ mn)	8838/172
52-week range (Rs) (H/L)	70/51
Beta	0.99
Free float (%)	67%
Avg daily volumes (30-days)	160616
Avg daily value (30-days) (Rs mn)	9.83

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
RAINBOW	4%	-1%	6%	21%
NIFTY	11%	3%	4%	3%

### ANALYTICAL CONTACT

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