Quarterly Results and Conference Call

28th Feb, 2020

Rain Industries Limited
(Formerly Rain Commodities Limited)

KeyData	
Industry:	Metal
CMP:	Rs.103.3
MarketCap(Cr):	Rs. 3474
52-Week high/low:	Rs.147/77
Investment Horizon:	2-3years
Outlook:	Positive

Shareholding Pattern	
Promoters:	41.10%
FII:	13.97%
Mutual Funds:	0.87%
Public:	44.06%

Research Analyst

Arvind Kothari
arvindkothari@niveshaay.com

Gunjan Kabra
gunjan.kabra263@gmail.com

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An investor has an investment checklist ready every time before investing in a stock. The one box that needs to be ticked before investing is that does this business have a sustainable competitive advantage over its peers? What is so special about this company that it can outperform in their own industry?

The Q4 CY2019 results of Rain Industries Ltd. answers the above questions. The results exhibited that the company surely has a durable competitive advantage over its peers. The results show that the business could sustain margins not only when there is an upturn in the economy but also when the tide turns. The company reported a good set of numbers at a time when aluminum demand is sluggish, low demand from automobile sector and most importantly when other calciners and distillers are having a tough time in maintaining margins. For a business like Rain, maintaining margins is very important. What has played out for Rain is:

i. **Quality Customer Base:** Top-notch aluminium players who are properly placed on cost curve and can compete in cost in downturn. This enables the company to maintain margins on the back of strong volumes.

ii. **Economies of scale**: Capacity in distillation is huge as compared to competitors. Location of plants near the customers helps in saving cost. These things help a lot in a cost competitive niche industry where there is a lot of fluctuations in margins.

iii. **Diversification in sourcing raw materials than others in the industry**

Going forward, another key event is impact of Corona Virus on commodity markets and on Rain Industries Ltd.

The management guided that there wouldn't be much impact on the company in long term. However, the markets would be affected in H1 2020.

- **Logistics issues:** Shipments of raw materials are limited due to transportation restrictions in China having an impact on green coke prices in China. The prices in China have edged up whereas in other markets, green coke prices are on a declining trend.

Rain Industries import some part of their raw material requirement for the Indian CPC plant from China. It has a long term agreement with Sinopec for green coke supplies. This may not affect the pricing of raw materials much. The development of ACP would reduce reliance on imports from China. The company gets positively impacted because it has more diversified customer base than others in the industry. But, there are lot of uncertainties which needs to be monitored very closely.

The company doesn't supply in China.

- **Aluminium Production:** Data sources suggest that aluminium inventory is high in China and demand is low because of Coronavirus. Later, there could be an increase in exports from China to the rest of the world, if the demand doesn't pick up in China.

The management guided that whether the price of CPC is $800/ton or $200/ton, the company would take measures to protect margins.

The results exhibited:

i. **Volumes and Margins in Carbon Segment**
CPC revenue increased on account of higher volumes. The margins improved from 18.7% in Q3 2019 to 20.2% in Q4 2019. The management guided it to be sustainable.

ii. **Strong Cash Flows:** In the current scenario also, the company managed to generate healthy cash flow, which is expected to continue in coming quarters too. The company generated FCF of Rs. 1046 crores in the current year.

iii. The **margins of Advanced Carbon Material** got impacted because of weakness in pricing and demand from end user industries.

Profitable when others are losing money

Our recent visit to China and discussion with different calciners there guided us that the calciners in China are having a tough time in maintaining cash flows. The results of Goa Carbon and Rain Industries CPC division actually support the view that market leaders retain margins when the competitors lose money.

Rain Industries Ltd. (CPC Division)

(Rs. in crores)	Dec (2019)	Sep (2019)	June(2019)
Revenue	780.6	681.2	873.6
Estimated EBITDA/tonne (in $)	53	54	38
Estimated EBITDA (in Rs.)	155.54	127.99	109.94
EBITDA Margins	20.2%	19%	13%

Goa Carbon Ltd.

(Rs. in crores)	Dec (2019)	Sep (2019)	June(2019)
Revenue	106.95	101.49	138.86
EBITDA	-0.98	-9.65	-2.36
PAT	-4.11	-13.77	-5.02

Koppers Holding Inc. (CMC Division)

(in million $)	Q4 2019	Q3 2019	Q2 2019
Sales	119	152	149.9
Adjusted EBITDA	14.8	26.7	25
EBITDA Margins	12.44%	17.57%	16.68%

Rain Industries Ltd. (Carbon Division)

(Rs. in crores)	Q4 2019	Q3 2019	Q2 2019
Sales	1905.6	1923.8	2160.4
Adjusted EBITDA	384.8	360.4	272.5
EBITDA Margins	20.19%	18.73%	12.61%

Conference Call and Result Highlights

The management highlighted the following in the conference call:

1. Carbon Segment

i. CPC:

- **Volumes and Margins**

The company reported an increase of 22% in CPC volumes qoq. The per ton realization declined from $287/ton in Q3 CY2019 to $265/ton in Q4 CY2019. The company maintained its spread at steady levels.

- **New Expansion Update:** Delay in commencement of ACP Plant in India

- Vertical Shaft Calcination plant, India is expected to commence in Mar 2020.
- ACP plant in the U.S. is expected to commence in Q2 CY2019 (Delayed by 1 Quarter)
- ACP Plant in India is expected to commence during H2 CY2020 (Delayed by 2 Quarters)

- **Addressing the Supreme Court Ban**

During Q1 2020, Rain was allocated an additional GPC of 103,852 tonnes from volumes surrendered by other calciners. This enables the company to operate at 85% capacity utilization.

The Supreme Court is expected to issue new guidelines for calcination plant emissions in first half of March 2020.

ii. CTP

CTP volumes decreased by 8.8% qoq. In last quarter, the company sold in non-traditional market which didn't happen this quarter.

2. Advanced Carbon Materials Segment

- **Volumes and Margins**

Revenue decreased due to decline in volumes and lower realisations in some products. The margins got impacted due to weakness in prices and demand in end user industries. The speciality binders cater to steel industry and downstream markets of steel and graphite. There was a slowdown in these industries along with weakness in European automobile and Adhesive industry.

- **New Expansion Update: HHCR Plant in Germany**

Delay in Commencement: The plant is expected to commence in Q2 2020. The project got delayed on account of arrival of equipments and also on construction side.

3. Cement Segment

- **Volumes and Margins**

There was decrease in revenues by 6.3%. and increase in volume by 1.5%.

4. Industry Update

- **Koppers sold its China Distillation Business at EV/EBITDA of 10x.**
- **Aluminium Production**
  Aluminium production in CY 2019 remained flat yoy. There was an increase in production in Middle East and North America offset by decrease in China and Europe.
- **Calcined Petroleum Coke**
  The exports from China in CY 2019 declined by 4% and in India by 26.3%.

5. Financials:

(Rs. In Cr.)	Dec-19	Sept-19	June-19
Revenue	2830.4	2992.27	3341.5
Adj. EBITDA	453.5	471.9	450.9
EBITDA Margin	16.0%	15.8%	13.5%
Profit before Exceptional Items and Taxes	149.2	108.5	202.7
Exceptional Items	-	-	-
Profit Before Tax	149.2	108.5	202.7
Tax Expense	27.5	7.6	55.9
Net Profit	121.6	100.8	146.7
Adjusted Net Profit	132.5	174.9	141.3
Adjusted EPS	3.94	5.2	4.20

*Adj. Net Profit excludes the one-time expenses.

There was an additional provision of accelerated depreciation of 58.7 crores in this quarter on account of close down of Netherland facility. Cash Flows remained steady.

Going forward, the company is expected to perform well on account of sustainable improved margins and the two new plants coming this next year.

Overall, we maintain a positive outlook on the company