Quarterly Results and Conference Call

29th May,2020

Rain Industries Limited
(Formerly Rain Commodities Limited)

KeyData	
Industry:	Metal
CMP:	Rs.72.35
MarketCap(Cr):	Rs. 2433.46
52-Weekhigh/low:	Rs.128/44
InvestmentHorizon:	2-3years
Outlook:	Positive

Shareholding Pattern	
Promoters:	41.12%
FII:	14.33%
Mutual Funds:	1.10%
Public:	43.45%

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Rain Industries Ltd. reported a reasonably good set of results in Q1 CY2020 showing resilience and improvement in its performance. The volumes and margins remained firm carrying over from Q4 CY2019.

What does the company see today due to the pandemic ?

1. Slowdown in the Aluminium Industry

There has been slowdown in the aluminium industry since last 3-4 quarters and COVID has accelerated this trend further. During these times also the company has been able to maintain its volume in the carbon segment and showed improved margins since the last 3 quarters. If, this would continue to persist is really difficult to guess because there is huge uncertainty in the market due to this know-unknown virus in our lives.

The current risk in the aluminium market is the overcapacity persisting since last 3-4 quarters. There has been fall in demand but the supply of aluminium hasn't reduced much. Also, many producers will not cut, partly because the costs of inputs such as electricity, carbon and alumina have also fallen, supporting their margins. In near term, smelters would prefer to wait and monitor the situation because re-starting plants take time and comes with high cost. They avoid closing even if in the short term they are losing money. They guided that there is so much speculation in the aluminium market where some are expecting the LME prices to strengthen while the other group is expecting it to weaken leaving them with no choice other than to have wait and see attitude and closely monitor the situation. A lot depends on how the economy opens up, economic policies of the government, where the spending happens once the coronavirus dust settles.

2. The advantage of wide geographical presence come into play

Aluminium is mainly produced in China, North and South America, Europe, Middle East, India, Africa and Australia. Rain supplies CPC or CTP to all of these except Australia and China. On the positive side, it has geographic presence in almost all aluminum producing countries but there are also some risk of being a global company influenced by Aluminium and Carbon Industry of many countries and not just one. This pandemic has certainly brought the geographical advantage into play for the

The plants in the the U.S. and Europe were operational during the stay at home orders. Being, a part of developed nations, they have been able to take advantage of COVID packages supported by government. The Indian carbon plant was shut down from 25th March to 5th April, 2020. After obtaining requisite approvals, production resumed at 50% on 6th April and ramped-up to 100% on 4th May.

3. Concern on CPC Margins

At the start of Q1 CY 2020, there was rise in CPC prices due to lockdown in China and GPC prices were low. Since, the nationwide lockdown, GPC prices have inched up due to reduced refinery runs in various part of the world. Going forward, the margins would depend on the availability of GPC and how the economy restarts.

4. Significant decline in oil prices

The decline in oil prices had a material impact on BTX , carbon black oil divisions. As a result, they had to take an inventory write down of Rs. 90 crores in Q1 CY2020.

Conference Call Highlights

The management sounded conservative, cautious, confident and optimistic at different points. Overall, it was a mixed response to the unprecedented crisis favouring a holistic approach. The management highlighted the following in the conference call:

1. Carbon Segment

i. CPC:

- **Volumes and Margins**

The company maintained its CPC volume qoq. The per ton realization declined from $265/ton in Q4 CY2019 to $235/ton in Q1 CY2020. At the same time company maintained its spread levels at steady rate highlighting cost efficiency. The company also made few spot sales in this quarter due to lockdown in China.

- **New Expansion Update**

There is a delay in commencement of ACP Plant in India and US due to COVID-19 impact as guided by management. The plant is expected to commence in Q1 2021.

- **Addressing the Supreme Court Ban**

The case verdict regarding the GPC allocation for this year and the issue of ACP would be issued next week as per the management.

ii. CTP

CTP volumes increased by 10.5% qoq owing to increased demand in North America. This time the performance depicted better raw material efficiency too aiding in improved margin

2. Advanced Carbon Materials Segment

- **Volumes and Margins**

Revenue increased by 6% due to increase in volumes and better realisations. EBITDA doubled as compared to Q4 CY2019. There was a better raw material efficiency that improved margins in this segment. Resins sales increased in this quarter because of increase in prices and shifting from traditional markets to a more customised markets.

- **Closure of the Uithroon resins production facility announced in August, 2019**

In March, the company also ceased the Uthiron facilitry in Netherlands as highlighted in the previous updates too and shifted its production to Duisburg plant in Germany . The closure would reduce annual fixed cost by $10mn without reducing resins production or profitability.

- **New Expansion Update: HHCR Plant**

Commercial Operations started on 18th May, 2020 and operations are expected to be stabilised by Q4, 2020. The management expected the margins to be around 30-35% once it starts operating at full capacity utilisations.

3. Cement Segment

- **Volumes and Margins**

Revenue increased by 9.7 % qoq but EBITDA remained flat qoq because of decrease in realisation.

Cement Plants were shut down from 25th March, 2020. Kurnool plant resumed production on 27th April and the plant in Telangana resumed on 2nd May, 2020.

4. Other Updates

The company's debt obligation is due in 2025. The management has guided that they are focusing on reducing debt once the expansion gets completed and the virus dust settles.

5. Financials:

(Rs. In Cr.)	Mar-20	Dec-19	Mar-19
Revenue	2897.6	2830.4	3196.5
Adj. EBITDA	557.9	453.5	366.4
EBITDA Margin	19.3%	16.0%	11.5%
Profit before Exceptional Items and Taxes	161.4	149.2	130.4
Exceptional Items	-	-	-
Profit Before Tax	161.4	149.2	130.4
Tax Expense	47.5	27.5	37.2
Net Profit	113.8	121.6	93.2
Adjusted Net Profit	204.4	132.5	72.4
Adjusted EPS	6.08	3.94	2.15

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

The company has performed well in good times and better than the competitors when the tide was not in its favor. The past results have depicted that the company surely has a durable competitive advantage and could sustain margins even when aluminum demand was sluggish, low demand from automobile sector and most importantly when other calciners and distillers were having a tough time in maintaining margins. This makes us believe that the management has been agile towards adopting the best practices in different scenarios in the past. The focus of the management is to improve cash flow from operations in any scenario presented to them. They have been able to maintain steady cash flows too. On debt front, they guided that they will repay the debt once the expansions get completed.

Overall, a transparent, proactive management and attractive valuations gives a sense of comfort in this uncertain economic environment.