Rain Commodities Ltd. INR 164

Petrochemist - Global Best Seller ACCUMULATE

Gateway to Prosperity

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Company Background

Rain Commodities Ltd.(RCL) a Hyderabad-based company, is engaged in the manufacturing of Calcined Petroleum Coke (CPC) & Cement with an installed capacity of 2.5mn mtpa & 3.16mn mtpa respectively. It has emerged as the world's largest manufacturer of Calcined Petroleum Coke (CPC) with ~20% share of the global market (excl. China). CPC is consumed by primarily by the Aluminium and Titanium Dioxide industries and thus has strong demand visibility. Rain client roster includes global majors like Alcoa, Alcan, BHP Billiton, Dubal, Dupont, Alcasa, Norsk Hydro etc & domestic players like Nalco, Vizag Steel & Kerala Minerals & Metals Ltd etc.

Investment Rationale

➡Financial performance

During the quarter ended Sep 09, RCL's Net Sales saw a decline of less that 1% to INR 2522 mn as gainst INR 2531 mn, while its Net Profit zoomed by 272% to INR 747 mn as against INR 201 mn during the same period a year. However its Operating Profit increased by 121%, led by decline in Expenditure by 27%, with its OPM at 40% along with NPM at 30%.

➡RCL has its Cement plant situated in South India. With the Government likely to spend around 9% of the GDP in the Infrastructure, this is going to boost the demand of the cement sector as nearly 75% of the basic raw materials consists of cement & steel for the infrastructure sector. The Irrigation & Housing Projects are been undertaken by the Govt of Andhra Pradesh, which would further increase the demand for the cement companies & is likely to get benefits for the companies situated in South India which is an added advantage for them.

➡The company is a manufacturer of CPC & holds the market share of ~20% in the Global CPC market, providing its products to various clients like Nalco, Vizag steel, BHP Billiton, Alcoa etc. Aluminium is the largest consumer of CPC. while the demand for Aluminium is likely to grow by 10% in 2010 % is expected to get double in next 15 years.

➡The CPC Plant of RCCIL is approved as a Project under Clean Development Mechanism of United Nations Framework Convention on Climate Change on July 12, 2007 and is eligible for 164,777 Carbon Emission Reductions per annum for a period of ten years from July 12, 2007. Which translates into an earning of around INR 100 mn plus (CER 52 week average rate calculated).

➡The company has completed its expansion of its plants by 1.5 mn metric tnpa at Unit II situated at Sreepuram, Peapully Mandal, Kurnool District, Andhra Pradesh on June 19, 2008, with a project cost of INR 3.34 bn.Total Production capacity of the company after expansion has beeb 3.16 Mn mtnpa.

➡The Company's wholly owned subsidiary, namely Rain Calciner Limited, had acquired land at Visakhapatnam for setting up a plant for producing Calcined Petroleum Coke & generation of power. The Company has kept on hold its Greenfield expansion plans in India and China considering the reduction in demand for CPC. The expansion plans would be taken-up, once there is a revival in the demand for CPC.

Info Codes

Reuters	:	RACL.BO
Bloomberg	:	RCOL@IN
NSE	:	RAINCOM
BSE	:	500339

Market Data

52 Wk Range (INR)	:	205 / 52
Shares in Issue (mn)	:	70.83
Mkt. Cap (INR bn)	:	11.58
BSE 2 Wk Avg Vol	:	13681

Share Holding Pattern (%)

Promoters	:	42.89
MFs, FIs & Banks	:	11.00
FIIs	:	7.35
Others	:	38.76

Investment Theme

Rain Commodities Ltd is the world's largest Calcined Petroleum Coke with having global market share of ~20% (excl China). The existing capacity utilisation in CPC is 76% & for Cement its 80%. An increase in the capacity utilisation, following a global recovery is expected to boost up its revenues. The company has its cement plants located in South Indian, where Govt of Andhra Pradesh is taking up projects for Irrigation & Housing, leading to increase in demand from the cement sector. It has recently received an approval from the United Nations Framework Convention on Climate Change for eligibility for about 165,000 carbon credits.

The Pet Coke of the Globe

Its Business Segments

➡CPC Industry

Calcined Petroleum Coke (CPC) is a form of electrically conductive, dense carbon (carbon content of ~99.5%) with very low specific electrical resistance. Its primary application is in Aluminium Smelters (as Anode), production of Titanium Dioxide (TiO2), as an electrode in Ferro-alloy smelting, in Submerged Arc Furnaces etc. It also find applications in various forms in the steel industry viz. melting of steel, recarburisation, making special steels & alloys etc. Aluminium smelters are the largest consumers of the CPC & accounts for 76% of the total CPC demand in the world. It is expected with the rising demand of aluminium across the globe, the demand for the CPC is likely to increase in the near future. RCL is the world's largest CPC maker with an installed capacity of 2.5 mtpa & has ~20% market share of the global CPC market. In FY08, CPC prices touched a high of USD 700/tn due to high crude prices & are currently hovering in the range of USD 300-400/tn. Since the company has a huge exposure to the global CPC markets, the company is likely to see a huge demand for its products going forward.

➡Cement Industry

RCL's cement operations commenced its production in Oct'86 at Nalgonda, Andhra Pradesh(AP) with a 1.12mn mtpa plant & a 0.5mn mtpa plant at Kurnool (AP) & was being sold under the name of 'Priya Cement'. RCL's current cement capacity stands at ~3.16mn mtpa, post the commissioning of its new 1.5mn mtpa plant at Kurnool, AP. The company has its limestone mines at both locations (key raw material) which are located at different clusters i.e Nalgonda & Yeraguntla with reserves sufficient to serve its plants for 70 years. The company operates with 2 of its plants at Nalgonda & Kurnool districts in Andhra Pradesh with a combined capacity of 3.2mn mtpa. In Jun 08, it expanded its Kurnool capacity to 1.5 mn mtpa at a cost of INR 3.34 bn. The older facilities are operating at 105% utilisation levels, while the newer with around 75% utilisation levels. The company has coal linkages with Singareni Collieries & it meets 70% of the total coal requirement of RCL.

➡International Acquisition

In FY06-07, RCL attempted to buy out Great Lakes Carbon (GLC), a North American company, which was the largest CPC manufacturer in the world at the time. It bought ~20% stake in the company from a financial investor viz. American Industrial Partners for CAD11.6/share & made an attempt to buy 73.5% equity, held by another financial investor namely Great Lakes Carbon Income Fund which was a Toronto's listed fund. The transaction value would have been ~CAD 767mn (~INR25 bn) at that time. However, Oxbow Carbon & Minerals Holding Inc, a Florida based energy & mineral trader who was the world's largest trader in Pet coke, emerged as a counter bidder. After a bidding war, Oxbow successfully took over GLC at CAD14/sh. RCL exited its holdings in GLC at a profit of CAD2.4/sh. Post this, Rain set out to acquire the next largest CPC manufacturer i.e. CII Carbon LLC, USA (CII) & succeeded in Jul 07. CII, with 7 plants in N. America, had a capacity of 1.9 mtpa & the acquisition price was ~USD 619mn, largely funded through debt. At present, RCL owns & operates 3 cement plants with a combined capacity of 3.16 mtpa, 8 CPC plants with a capacity of 2.5 mtpa. Additionally, it also owns 11.5% stake(at a cost of INR 258mn) in a Kuwait based calcining company 'Petroleum Coke IndustriesCompany' (PCIC) which is setting up a CPC plant plant in Kuwait.

Demand for Aluminium likely to grow, but slow & steady

The current business scenario in the global aluminium sector has turned gloomy following a sharp decline in prices despite various attemps to save the situation. The Aluminium sector has reached its new climax with prices having corrected sharply from USD 3305/tn during July '08, to a new low of UISD 1490/tn in Dec'08. It is expected that the global aluminium prices are likely to be in the range of USD 1600-2100/tn in the near to medium term, while the consumption are likely to fall by 8% to 35 mntn in 2009. The consumption in 2010 is expected to grow by 4.7% to 37.2 mntn in anticipation of an economic recovery. The global production is likely ot de-grow by 6% to 36.4 mntn in 2009, while likely to grow by 7.9% to 39.3 mn tn in 2010, on the back of Chinese consumption & the growth of production mainly from the Asian ecenomies. India has been quite different from other Asian countries. After a sharp fall in its manufacturing activity, there is a sharp recovery in its activities. India accounts for nearly 18% of the total aluminium consumption by Asian economies (excluding China). It is expected that demand to grow by 7.5% in 2009 & 9% in 2010 in India on the back of strong infrastructure demand. The Power & Construction sector accounts for around 61% of the aluminium consumption in India. With strong infrastructure push & high power capacity addition targets, aluminium demand is likely to be strong for some years. Rather a fall in global aluminium demands, India's own internal demands would help more need of aluminium in the next few years.

➡Revenues from Energy segment adds more

RCL has CPC capacities at seven plants in the US & one in India. Of these, four plants have waste heat recovery facilities which enables the company to generate revenues of USD 40 mnpa by generating & selling power. Of the four plants, two are generating power & the balance is generating steam & supplying to the adjacent crude refineries. RCL plans to adopt WHRP in the remaining CPC plants & is seeking approval from the concerned government authorities. In India, RCL supplies power through the Andhra Pradesh Transmission Company where it pays wheeling charges in the form of free units (ranging between 15-20% of sales volume). The company also supplies 20-25% power to its own cement plants at market price. During CY08, RCL derived revenues of IRN 1.6bn from external sale of energy. Of this, 2/3rd of the revenues came from the US. Though the energy segment's contribution to the revenues appears to be low (3.7% in CY08), its contribution at the operating level is ~12%.

➡Carbon Credit - an added advantage

The waste heat generated in the CPC kilns is used for power generation. This qualifies for carbon credits. RCL has received approval from the United Nations Framework Convention on Climate Change for eligibility for about 165,000 carbon credits from July 12, '07 to July 11, '17. The sale of these credits would be done through IFC, World Bank Group on a guaranteed delivery basis & is expected to provide an additional revenue to its basket & further aiding to the company's growth.

➡Cost savings to add revenues

Rain Commodities Ltd, one of the leading producers of calcined petroleum coke & cement has announced that Rain CII Carbon (India), a wholly owned subsidiary has successfully implemented 'oxygen lancing' at its Indian calcination plant. The company has a continuing focus on improving productivity across its operations. The implementation 'oxygen lancing' process would result in substantive fuel savings. The technology would replace the usage of low sulphur heavy stock oil (LSHS) with oxygen that is produced within the plant. This will result in a saving of about 9,000 MT of LSHS (fossil fuel) & thereby an annual saving of INR 150 mn at current market prices of LSHS. The revenues from waste heat recovery, along with the cost savings through oxygen lancing, would further, strengthen the group's competitiveness, as a low cost producer in the calcined petroleum coke industry. The process has been designed to improve the efficiency parameters of the calcining process. Given its global stature as a key input supplier to the aluminium sector — RCL constantly develops and employs processes and improvements that raise the operating standards in the industry.

Key Financials

Year Ended	Mar 2007	Dec 2007	Dec 2008
Revenue (INR mn)	17.4	4645.6	11150.8
Rev. growth (%)	**17300.00**	**26598.85**	**140.03**
EBITDA (INR mn)	9.2	776.3	1798.6
Net profit (INR mn)	(5.6)	253.2	850.5
Shares outstanding (mn)	32.11	32.11	70.83
EPS (INR)	(0.2)	7.9	12.0
EPS growth (%)	**(96.87)**	**(4621.43)**	**52.28**
P/E (x)	(686.6)	37.3	7.5
EV/ EBITDA	4179.5	125.8	38.2
ROCE (%)	**(0.63)**	**6.49**	**10.86**

Rising demand for Cement

The cement sector is gearing up for a fast track growth & the next few years will see the sector zooming past new milestones. The production of cement is expected to cross 400 mntn in the next 10 years, with leading players focusing on capacity expansions two to three times their present capacity. At the same time, the demand for cement is increasing at 8-10%. Currently, 55-60 % of cement produced in India is consumed by the housing sector. This is expected to change in the next few years when the emphasis will be on infrastructure developments like roads, bridges, and railways, which will consume a significant percentage of cement produced in the country. The consumption of cement in agriculture is negligible today, but with a greater thrust on agriculture. This sector too will extensively use cement to build warehouses & other logistics.In the next 10 years, India will become the main exporter of clinker & gray cement to the Middle East, Africa & other developing nations of the world. Cement plants near the ports, for instance the plants in Gujarat & Visakhapatnam, will have an added advantage for exports & will logistically be well armed to face stiff competition from cement plants in the interior of the country. A large number of foreign players are also expected to enter the cement sector in the next 10 years, owing to the profit margins, constant demand & right valuation. With help from the government in terms of friendlier laws, lower taxation & more infrastructure spending, the sector will grow & will take India's economy forward along with it.

Financial Statements

Income Statement

(INR mn)

Year end Mar 31st	Mar 2007	Dec 2007	% Chg	Dec 2008	% Chg
Operating Income	0.0	5277.3	NA	12367.4	134.35
Other Income	17.4	21.4	22.99	29.1	35.98
Change in Stocks	0.0	72.8	NA	26.1	(64.15)
Raw Material Con.	0.0	941.5	NA	3879.6	312.07
Employee Exp.	1.5	116.8	7686.67	246.8	111.30
Excise	0.0	653.1	NA	1245.7	90.74
Other Exp.	6.7	2883.8	42941.79	5251.9	82.12
Operating Exp.	8.2	4522.4	55051.22	10597.9	134.34
Operating Profit	(8.2)	754.9	(9306.10)	1769.5	134.40
Total Interest	14.7	247.4	1582.99	335.2	35.49
Gross Profit	(5.5)	528.9	(9716.36)	1463.4	176.69
Net Dep.	0.1	120.4	120300.00	250.5	108.06
Total Taxation	0.0	155.3	NA	362.4	133.35
Net Profit/Loss	(5.6)	253.2	(4621.43)	850.5	235.90

4 Years Balance Sheets

(INR mn)

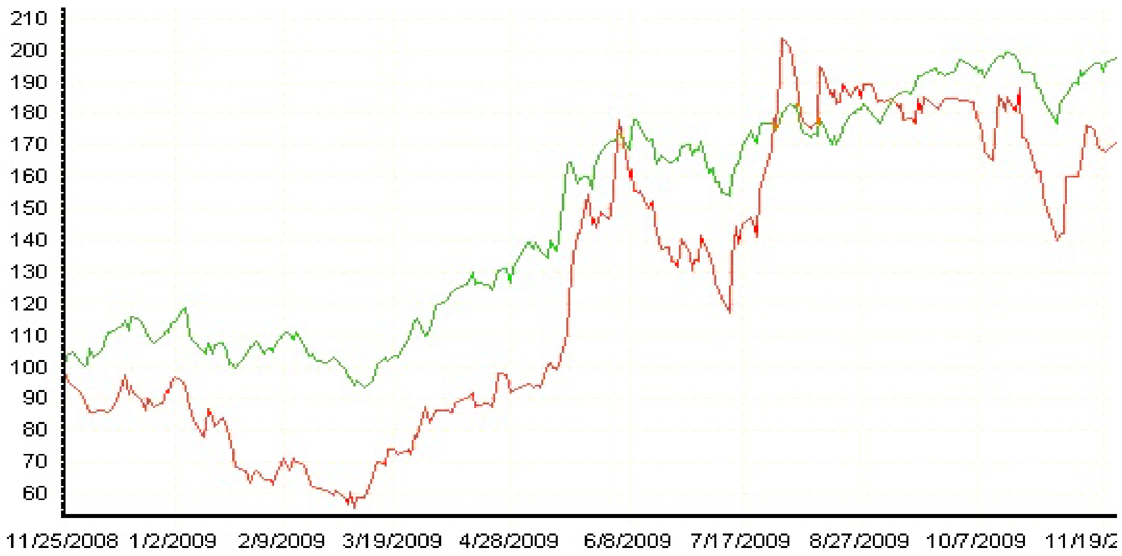
Balance Sheet as on 31st	Mar 2006	Mar 2007	Dec 2007	Dec 2008
SOURCES OF FUNDS	**909.2**	**1041.4**	**7176.3**	**9880.8**
Equity Share capital	221.1	321.1	321.1	708.3
Share Application Money	40.0	136.0	484.5	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	421.4	584.3	2885.5	4254.1
Loan Funds	0.0	0.0	2850.0	4264.3
Unsecured Loans	226.7	0.0	635.2	654.1
USES OF FUNDS	**909.2**	**1041.4**	**7176.3**	**9880.8**
Gross Block	1.6	0.0	2056.7	5178.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	0.7	0.0	101.2	300.5
Net Block	**0.9**	**0.0**	**1955.5**	**4878.4**
Capital Work in Progress	.0	0.0	2418.2	313.8
Investments	821.9	1062.0	2406.3	2405.8
Current Assets	109.0	119.5	2151.4	4729.1
Less : Current Liabilities	22.6	140.1	1755.1	2446.3
Net Current Assets	**86.4**	**(20.6)**	**396.3**	**2282.8**
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	811.9	1051.9	2406.4	2405.9
Mkt Val. Quoted Investments	41.5	38.5	0	0
Contingent Liabilities	0	0	3288	4541.1
Dividend (%)	0	35	28	37

Quarterly Income Sheets

(INR mn)

Quarter Ended	Dec 08	Mar 09	Jun 09	Sep 09
Net Sales	3355.8	2310.6	2292.5	2253.8
Cost Of Sales	2693.3	1390.3	1267.5	1441.1
Operating Profit	662.5	920.3	1025.0	812.7
Recurring Income	8.4	3.0	7.7	516.8
Adjusted PBDIT	670.9	923.3	1032.7	1329.5
Financial Expenses	141.2	113.9	71.7	57.0
Depreciation	75.2	75.4	76.4	77.8
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	454.5	734.0	884.6	1194.7
Tax Charges	110.4	124.2	148.3	132.6
Adjusted PAT	344.1	609.8	736.3	1062.1
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	273.3	278.6	292.9	314.8
Net Profit	70.8	331.2	443.4	747.3

52 Week Index Relative Percentage Appreciation



RCL with Sensex

Risks Associated

Slowdown in housing & infrastructure sector

90% of demand for cement is accounted for by 2 sectors, viz. housing (~60%) & infrastructure development (~30%). A huge surge in construction of residential & IT/ ITES properties over the last few years is the primary reason for buoyant cement despatches & realisations in India. With the government likely to spend 9% of GDP on Infrastructure sector, the demand is likely to remain robust. Any slowdown on the capex & spending plans of the government, the demand would likely to fall leding to affect the volumes & margins of the companies.

Global prices plays a role

Aluminium prices have a direct link with the international prices, which fluctuates with the rising or falling dollars & demands. Even the coal prices plays an important role here, as any sudden surge in international prices of coal would adversely impact the bottomline of the companies.

In a Nutshell

Rain Calcining Ltd, promoted by Mr Jagmohan Reddy commenced its operations in 1989 with a CPC manufacturing plant of 0.24mn tn capacity in Vishakhapatnam & Andhra Pradesh, along with a 49 MW power plant. Later on in 2006, the Promoters merged the operations of Rain Calcining Ltd with a group company Rain Commodities Ltd. RCL together with its subsidiaries is engaged in the manufacture & sale of cement in India & internationally. The company markets cement under the Priya Cement brand in Andhra Pradesh, Karnataka & Tamil Nadu. It also involves in manufacturing & trading calcined petroleum coke that is used in various industries, such as aluminium, steel & titanium di-oxide industries & generation of power through waste heat recovery. Its CPC & Cement segment has an installed capacity of 2.5 mtpa & 3.16 mtpa respectively. The company has emerged as the world's largest manufacturer of Calcined Petroleum Coke (CPC) with ~20% share of the global market (excl. China). Going forward the internal demand for Aluminium & Infrastructure sector would help to grow & also help to earn a significant revenues from it.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months
Accumulate : Expected to appreciate up to 20% over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days
Reduce : Expected to depreciate up to 10% over 12-months
Sell : Expected to depreciate 10% or more over 12-months
Trade Sell : Expected to depreciate more than 10% over 45-days

Disclaimer