



EQUITY STRATEGISTS™

www.equitystrategists.com



Vol.14.248

21st April 2011

STOCKWATCH

LOW RISK / HIGH RETURN

RAIN COMMODITIES

Present Price – Rs. 158.75

Projected Price – Rs. 190

Rain Commodities Ltd. (*Rain*), a Hyderabad-based company, is engaged in the manufacturing of calcined petroleum coke (CPC) and cement.

It has emerged as the world's largest manufacturer of Calcined Petroleum Coke (CPC) with ~14% 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, Dubai, Dupont, Alcasa, Norsk Hydro* etc. and domestic players like *Nalco, Vizag Steel and Kerala Minerals & Metals Ltd.*

Rain's CPC business is on a strong footing as its global scale and presence afford it a discernible advantage on the raw material sourcing as well as marketing fronts, imparting stability to revenues as well as net profits.

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. Raw coke is calcined to develop specific properties to make it suitable for industrial purposes. The calcination (of raw coke) involves controlled heating of the raw coke to a high temperature to drive out moisture, hydrocarbons and other volatile matter present in it thereby imparting density to the particles and changing its electrical properties from insulating to conducting. After calcination, raw coke becomes *Calcined Petroleum Coke (CPC)*.

Demand for CPC is directly related to demand for Aluminum. For every ton of aluminum, approximately 0.4 tonne of CPC is required. Global demand of aluminum of 37.1 million MT in 2009 is expected to grow to 53.3 million MT in 2014 representing a CAGR of ~7-5%. Besides, India's demand for Aluminum is expected to grow 4x to 5mn MT by 2015. RCL, the undisputed leader in CPC, would be a direct beneficiary of this booming Aluminum demand.

There are significant barriers for new players to enter CPC space. Most important is linkage and supply of GPC at reasonable rate. RCC enjoys longstanding relationships with its key suppliers, in some cases has plants in close proximity to the refineries, as well as long-term supply contracts. It would be difficult for any new entrant in the U.S. to secure access to a meaningful supply of high quality GPC. Also most of the new refineries worldwide would have high complexity to process sour crude, whereas GPC is a residue of sweet crude.

Prices of CPC have risen and Rain stands to benefit in a big way inventory gains will be clearly reflected in and the next two quarters will show clear reflection of this price rise. We expect the company to report EPS of Rs.85-90 for the financial year ending Dec 2011. The current price includes dividend of Rs.4.60.

Investment is advised for a period of two months plus. Long term investors with a time frame of 12 months plus can expect substantially higher targets.

Note: In case of any problem in receiving NEWSLETTER, kindly contact Mr Devesh Chauhan at 9350171231

Disclaimer: The recommendations made herein do not constitute an offer to sell or a solicitation to buy any of the securities mentioned. Readers using the information contained herein are solely responsible for their actions. The information and views contained herein are believed to be reliable but no responsibility or liability is accepted for errors of fact or opinion. Editors may or may not have trading or investment positions in the securities mentioned herein.

Website: - www.equitystrategists.com

EQUITY STRATEGISTS is published by
D Prasad & Jatinder Sharma
(9810018028) (9910694444)

Available through Subscription Only
A – 1, Sector - 53
Noida – 201 301

contactus@equitystrategists.com