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Mumbai

## CRISIL Equities assigns fundamental grade 3/5 to Rainbow Papers Ltd.

CRISIL Equities has assigned a CRISIL IER fundamental grade of 3/5 (pronounced three on five) to Rainbow Papers Ltd (Rainbow). The grade indicates that the company's fundamentals are 'good' relative to other listed equity securities in India. CRISIL Equities has assigned a valuation grade of 4/5, indicating that the market price of Rs 220 (closing price as on August 6, 2010) has an 'upside' from the current levels. We have arrived at a one-year fair value of Rs 246 per share. The grades are not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The assigned fundamental grade reflects Rainbow's established position in the domestic paper industry. Post completion of the first phase of the expansion plan in FY10, Rainbow's capacity has almost doubled to 183,000 tpa from 100,000 tpa. After the completion of its second phase in Q1FY12, the company will become the sixth largest paper manufacturer in India with an installed capacity of 303,000 tpa, i.e. about 3% of the total industry capacity. We expect the company to leverage its network strength of 35 dealers to sell increased production from expanded capacity. CRISIL Research expects the domestic paper industry to log a healthy growth rate of 7.4% over FY10E-FY14, which would support Rainbow's growth. Concurrently, Rainbow has changed its product mix to produce more high-value writing and printing, and newsprint paper, which is expected to increase its realisations.

The grade is constrained by Rainbow's increasing reliance on imported waste paper (raw material), which exposes the company to adverse movements in international waste paper prices. The company is also expected to face stiff competition from imports as it forays into the coated paper and glazed newsprint market.

### Financial outlook

CRISIL Equities expects Rainbow's revenues to register a strong growth of 46% over FY10-13 to Rs 8.3 bn in FY13 on the back of increased capacity. EBITDA margins are expected to be range-bound at 23-24% but at higher realisations because of a change in the product mix, resulting in higher profits over FY11-FY13. Net margins are expected to improve to 12.5% in FY13 from 8.8% in FY10 because of lower tax provisioning due to higher capitalisation of assets. We expect EPS to jump to Rs 49.1 in FY12 from Rs 13.5 in FY10 and further to Rs 59.0 in FY13. RoE is expected to increase to 26.2% in FY13 from 15.5% in FY10 as the company realises the benefits of expanded capacity.

### Valuation grade 4/5 – The market price has 'upside' from the current levels

CRISIL Equities has used the price-to-earnings ratio (PER) method to value Rainbow. We have assigned a PER of 5x to FY12 EPS of Rs 49.1 to arrive at a one-year fair value of Rs 246 per share.

### About the company

Incorporated in 1986, Rainbow Papers is a paper and paper products manufacturing company promoted by Mr Radheysham Goenka and Mr Ajay Goenka. The company has grown from a modest capacity of 6,000 tpa at inception to an estimated production capacity of 183,000 tpa in FY10. Rainbow is present in both domestic and global markets. It exports to the US, the Middle East, South Africa, South East Asia and the UK. About 20% of total revenues in FY10 were from paper exports.

## About CRISIL Independent Equity Research

CRISIL IER (Independent Equity Research) is an independent, unbiased opinion on fundamentals and fair valuation of the company. CRISIL IER encompasses a comprehensive analysis of the four pillars of sustainable value creation, namely: Industry and business prospects, financial performance & outlook, management capabilities and corporate governance.

## About CRISIL Fundamental and Valuation (CFV) Matrix

The CFV matrix addresses two important aspects in investment making decision – analysis of fundamentals (addressed through fundamental grade) and analysis of returns (valuation grade). CRISIL's fundamental grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. A CRISIL IER fundamental grade of '5/5' indicates 'excellent' fundamentals and a fundamental grade of '1/5' indicates 'poor' fundamentals relative to other listed equity securities in India. CRISIL's valuation grade represents an assessment of the fair value of the company's stock for an equity investor over a 12-month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP) to grade 1 (strong downside from the CMP). A CRISIL IER grading should not be construed as a recommendation to invest in the graded security, nor a comment on suitability of a particular investment for the reader.

Media Contacts	Analytical Contacts
<p><b>Mitu Samar</b> <b>Head, Market Development &amp; Communications</b> <b>CRISIL Limited</b> Tel: +91-22- 3342 1838 Mobile: +91- 98200 61934 Fax: +91-22- 3342 3001 E-mail: <a href="mailto:msamar@crisil.com">msamar@crisil.com</a></p> <p><b>Tanuja Abhinandan</b> <b>Market Development &amp; Communications</b> <b>CRISIL Limited</b> Phone: +91-22- 3342 1818 Mobile: +91- 98192 48980 Facsimile: +91-22- 3342 3001 E-mail: <a href="mailto:tabhinandan@crisil.com">tabhinandan@crisil.com</a></p>	<p><b>Tarun Bhatia</b> <b>Director, Capital Markets</b> Tel: +91-22- 3342 3226 E-mail: <a href="mailto:tbatia@crisil.com">tbatia@crisil.com</a></p> <p><b>Sudhir Nair</b> <b>Head, CRISIL Equities</b> Tel: +91-22- 3342 3526 E-mail: <a href="mailto:snair@crisil.com">snair@crisil.com</a></p>

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