

*Q4-CY16 Post Results Earnings Conference Call Transcript
February 23, 2016 @ 17:30 Hrs (IST)*

MANAGEMENT:

Mr. N. Jagan Mohan Reddy -- Managing Director, RAIN INDUSTRIES LIMITED
Mr. T. Srinivasa Rao -- Chief Financial Officer, RAIN INDUSTRIES LIMITED
Mr. Gerard Sweeney -- President, RAIN CARBON INC
Mr. Guenther Weymans -- Chief Operating Officer, RAIN CARBON INC
Mr. Kris Vanherbergen -- Chief Commercial Officer, RAIN CARBON INC
Mr. Ryan Tayman -- Vice President, Investor Relations, RAIN GROUP

PARTICIPANTS IN Q&A SESSION:

Mr. Nagraj Chandrashekar - LABURNUM CAPITAL
Mr. Vinod Malviya - FLORINTREE ADVISORS
Mr. Zeeshan Bagwan - INVESTEC CAPITAL
Mr. Naresh Kataria - MONEY CURVE INVESTMENTS
Mr. Arvind Kothari - NIVESH I EQUITY RESEARCH
Mr. Mahesh Paranjape - INDIVIDUAL INVESTOR
Mr. Pavan Ahluwalia - LABURNUM CAPITAL
Mr. Bhavesh Chauhan - IDBI CAPITAL
Mr. Sahil Jain - MONEY CURVE INVESTMENT
Mr. Dhruv Muchhal - MOTILAL OSWAL SECURITIES

MODERATOR:

Ladies and gentlemen, good morning and welcome to the RAIN Industries Limited Earnings Conference Call for the fourth quarter 2016. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I will now hand the conference over to Ryan Tayman - Vice President, Investor Relations for the RAIN Group. Thank you and over to you Sir!

RYAN TAYMAN:

Thank you. Good Evening everyone. I welcome all the participants to the Fourth Quarter 2016 Earnings Conference Call of RAIN INDUSTRIES LIMITED. Speakers on today's call are Mr. N. Jagan Mohan Reddy, Managing Director of RAIN INDUSTRIES LIMITED, Mr. T. Srinivasa Rao, Chief Financial Officer of RAIN INDUSTRIES LIMITED, Mr. Gerard Sweeney, President of RAIN CARBON INC., and participants in the question and answer session in addition to the speakers are Dr. Guenther Weymans, Chief Operating Officer, of RAIN CARBON INC., and Mr. Kris Vanherbergen, Chief Commercial Officer, of RAIN CARBON INC.

We will commence the call with opening remarks from Mr. Reddy providing an update on developments during the Fourth Quarter in the RAIN Group. He will be followed by Mr. Rao who will provide highlights of the financial performance during the Fourth Quarter 2016. Mr. Sweeney will then

provide an outlook for the Carbon and Chemical businesses followed by a question and answer session where management will answer the questions from the participants.

Before we begin I would like to mention that some of the statements made in today's discussion may be forward looking in nature that could be affected by certain risks and uncertainties. The Company's actual results could differ materially from such forward-looking statements.

I would now request Mr. Reddy to provide an update on key developments in the RAIN Group.

N. JAGAN M REDDY:

Thank you Ryan. Good evening everyone and welcome to our Fourth Quarter 2016 Earnings Conference Call. I would like to start my discussion with a brief update on the key developments in the RAIN Group.

Over the last few quarters, the Company has aggressively endeavored to strengthen its competitive position in a turbulent macro-economic environment. While the headwinds continued to impact performance across industry, the Company through initiatives in areas of functional integration, new competitive business strategy, commencing operations of its capital projects and implementing various cost optimization programs has maintained its leadership position in the market. As a result RAIN has delivered better Quarterly results for the third consecutive quarter in 2016 compared to 2015.

In the Fourth Quarter of 2016, RAIN has achieved Consolidated Revenue of ₹23.6 Billion; Consolidated Operating Profit of ₹4.1 Billion; and Consolidated Adjusted Net Profit of ₹947 Million. Although market quotations remained low, the contribution from new capital projects and realization of cost optimization programs have resulted in better operating margins compared to the Fourth Quarter 2015. With signs of improvement in market quotations and ramp up of the new capital projects, we are confident that the performance of the Company should gradually improve in forthcoming quarters.

We are pleased to inform you that, the Company has successfully completed the installation & commissioning of its third Carbores Reactor of 17,000 tons per annum capacity in Germany which increases the total Carbores capacity to 53,000 tons per annum. Carbores is an environmentally friendly pitch produced through a sophisticated manufacturing process and is currently used by steel manufacturers. This product further diversifies the Company to markets outside of the Aluminum Industry. The continuously increasing demand for this pitch is encouraging the capacity expansion seen over the last several years.

In the Cement business, due to the impact of demonetization on the construction & infrastructure industries, the sales volumes remained low during the Fourth Quarter of 2016. However, considering the Government's thrust towards higher spending on infrastructure, and housing, the Company expects the cement market to improve going forward. Further, it is widely believed that due to limited capacity additions and demand revival that the sector is entering the earnings growth cycle wherein the Cement sector would achieve a higher growth rate.

My colleague Srinivas will take you through the segment-wise financial impact and Gerry Sweeney will take you through the factors that influenced our performance in the Carbon and Chemical businesses.

I would now request Srinivas to provide highlights of the financial performance during Fourth Quarter of 2016.

T. SRINIVASA RAO:

Thank you sir and a very warm welcome to all the participants in this call.

I would like to highlight the key performance indicators, on a consolidated basis:

Key performance indicators of the Company on a consolidated basis:

- Consolidated Net Revenue of ₹ 23.6 billion during Q4 2016, a marginal increase of ~0.4% compared to ₹ 23.5 billion during Q4 2015.
 - Carbon Products sales volume during Q4 2016 are 833 thousand metric tons, a decrease of ~5.4% compared to 881 thousand metric tons in Q4 2015. The decrease is due to decline in Pet Coke trading volumes and is offset by increased volumes in CPC, CTP & Other Carbon products. The increase in CPC sales volumes is due to increased capacity utilization of the U.S.A. facilities, due to the commencement of FGD plant in Chalmette, in conjunction with the Blending facility in India. The increase in CTP & Other Carbon products sales volumes is mainly from the Russian CTP Plant. During Q4 2016, the average blended realization increased by ~5.9% driven by the increased sales volumes of manufactured products partially offset by reduced prices. Further, the Euro appreciated by ~0.7% and US Dollar appreciated by ~2.3% against Indian Rupee. Overall, due to the aforesaid reasons, the revenue from Carbon Products business increased by ~2.5% in Q4 2016; as compared to Q4 2015.
 - Chemicals sales volume during Q4 2016 are 68 thousand metric tons, a decrease of ~4.2% compared to 71 thousand metric tons in Q4 2015. The fall in Chemical sales volumes is mainly due to the decline in trading volumes. During Q4 2016, the average blended realization decreased by ~1.5% with decrease in volumes and offset with Euro appreciation led to an overall decline of revenues by ~3.7% during Q4 2016.
 - Cement revenue declined during Q4 2016 by ~7.2% as compared to Q4 2015, due to the decreased volumes by ~6.7% and a ~ 0.6% decline in realizations. The decline in volumes is mainly due to the impact of demonetization on the construction & infrastructure sectors during Q4 2016.
- Adjusted Operating Profit margin in the Carbon Business increased by 10.6% due to change in product mix and various cost optimization initiatives. Similarly, Adjusted Operating Profit margin in Chemical Business increased by 7.4% related to cost optimization initiatives despite a fall in volumes. However, Operating Profit margin in Cement Business decreased by 10.6%, due to increased costs and lower volumes.
- Consolidated Adjusted Operating Profit for Q4 2016 is ₹ 4.1 billion an increase of ~86.4% compared to ₹ 2.2 billion achieved during Q4 2015; the increase is primarily due to increase in manufactured carbon products sales volumes and cost optimization initiatives implemented by the Company.
- Due to the aforesaid reasons, Adjusted Operating Profit Margin has increased to 17.1% during Q4 2016, as compared to 9.2% achieved during Q4 2015.
- During Q4 2016, the Company had a Foreign Exchange Gain of ₹ 175 million, as compared to ₹ 75 million in Q4 2015. The gain is mainly due to appreciation of the Russian Ruble against the US Dollar.

- Finance cost during Q4 2016 marginally decreased by ~0.4% compared to Q4 2015 mainly due to the reduced debt efforts achieved through the buy-back of outstanding Senior Secured Notes and the making of scheduled principal repayments of debt partly offset by the depreciation of the Rupee against the US Dollar and Euro.
- Effective tax rate during the quarter is higher when compared to normal tax rate mainly due to US Federal tax on dividends repatriated to the U.S.A.
- Consolidated Adjusted Net Profit during Q4 2016 is ₹ 947 million as compared to Net Loss of ₹ 76 million during Q4 2015.
- The Company achieved a Consolidated Adjusted EPS of ₹ 2.82 during Q4 2016 as compared to Consolidated Adjusted Negative EPS of ₹ 0.23 during Q4 2015.

I would now like to hand over the call to Mr. Gerard Sweeney to provide outlook of Carbon & Chemical business... over to you Gerry.

GERARD SWEENEY:

Thank you Srinivas and good evening everyone. It's a pleasure to speak to our investors once again.

We are very pleased with the performance of the group during Q4. Over the last three quarters, we have established a new level of earnings for the company and believe it to be sustainable. This performance improvement is the result of three strategic initiatives aimed to de-risk and de-commoditize our businesses over the last year. First and foremost, our coming together under one leadership group, has allowed us to drive cost out of the businesses by synergizing the commercial, finance, logistics and operations areas. We also are reaping positive results from strategic investments in our calcination and distillation businesses allowing us to out-perform our competition from a cost perspective globally. Lastly, the investments made in our specialized high value products, such as Carbores, PA, and LP Sealer Base, are driving more sustainable and diversified earnings overall.

These investments over the last several years are now almost complete, and we remain focused on ramping up and optimizing them to reap maximum benefit. The Russian Severtar JV has performed very well after starting up in early 2016. We have ramped up production to 75% of capacity for 2017, and are continuing to optimize the operations. There is still plenty of opportunity to be realized in our system from this strategic investment.

In the CPC business, our investment in Flue Gas Desulfurization technology is perfectly complimenting the India Blend Strategy, allowing us to source low cost GPC inputs in the US, convert it to CPC, and very cost effectively transport it to India for blending. The blend facility was expanded last year to accommodate 1MM total tons in 2017, to address the growing CPC demand in India and the Middle East. The third expansion of our Carbores product line completed in December 2016, and is already operating at full rates due to high demand. CARBORES®, is a specially modified coal tar pitch binder product that is environmentally friendly, and very much the way of the future for pitch products. It combines excellent product properties with an especially low concentration of toxic constituents. We had originally intended to ramp up Phase III over the next year, but strong demand has necessitated a quick ramp up to full production.

In the CPC business line, as mentioned, the India blending strategy is supporting sales volumes, and helping us to drive down our cost per ton of production. During 2016, one quarter of our production was shipped from the U.S. for blending in India. In 2017, we are budgeted to run very close to our

permitted capacities at all U.S. facilities and India. This will further drive down our cost of production, and allow us better economies overall.

The aluminum market continues to improve, with record final production numbers expected for 2016, and further increases in 2017. There is also continued positive movement on the LME aluminum price. The LME has now settled in the upper \$1,800 range for the last month, and market expectations are for movement toward the \$2,000 level in the near future. This continued upward pressure on pricing is fueled by market sentiment that China will curtail some production in response to recent pollution problems in major cities.

CPC availability has clearly tightened in Asia as well. China has long been thought of as having boundless GPC production and CPC capacity to feed their burgeoning aluminum demand, and still continue to export product. This is now changing however. As mentioned in my Q3 remarks back in November, Chinese exports continue to slow, and we have received enquiries regarding our potential to supply CPC to China from some aluminum producers there. This has resulted in increasing prices in China and India for Q1 2017, and is spreading westward as the tightness continues. We are watching the situation closely, as past CPC price spikes have been led by Chinese market tightness. Their withdrawal from the export markets would have a profound effect on India's growing aluminum industry, and their demand for CPC. We are well positioned to capture any market opportunities from our U.S. and/or Indian aluminum producers.

On the GPC front, raw material price pressure from the coal markets subsided Q4, and prices settled back down for Q1. Prices had risen somewhat during Q3 as rising coal prices made GPC attractive cost-wise to the steel, cement and power industries.

For coal tar related products, tar prices are increasing due to rapidly rising liquid product commodity quotations. These were expected, and we are more than compensating for these raw material price increases in our prices to CTP customers during Q1.

From a volume perspective, we anticipate running at or near capacity at our distillation facilities in Belgium, Canada and Germany. In Russia, we will run as previously stated, at 75% of capacity, or 225,000 MT throughput. Pitch sales volumes for the year are expected to remain strong due to steady demand from the aluminum sector. With the extreme downsizing of our main competitor, we continue to pick up market share that is helping to drive volumes.

We saw stable volumes during the quarter on Coal Tar Oils and a buoyant crude oil price aided our commodity indexed products. Fuel oil prices increased from an average of US\$233/ton in Q3 to an average of \$270/ton in Q4. Benzene quotations remained neutral at an average of \$698/ton in Q3 and Q4, positively impacting our BTX Naphthalene, Orthoxylene and Phthalic Anhydride pricing. Fuel Oil is now up 10% during the New Year consistent with crude prices, and Benzene prices are up 30% in Q1 on supply limitations in China.

Chemicals sector volumes and revenues were lower in 2016 versus prior year, due to the strategic decision to move away from some low margin trading volumes and focus on high value RAIN-produced products. This strategic shift resulted in improved operating profit from the business YOY. This business receives the majority of its raw materials from our distillation globally, and is well positioned to generate consistent revenue and profitability for the New Year. We also have a major initiative in Chemicals to leverage more supply and expand our production volumes in the coming years.

We continue to focus heavily on areas of cost to maintain our competitive position on a global basis. We are making strong gains in productivity and driving down our production costs across the Company. We have a full slate of cost initiatives for this year, which will build on last year's successes.

We continue to watch developments on the global front, and are particularly intrigued by the latest developments in China. The LME aluminum price has crossed \$1,800, and is projected to continue to rise. After many years of excess CPC availability in China, Q1 has shown sudden CPC volume shortages and prices are moving up. As we see with so many commodities and products worldwide, as goes China, so goes the world. We will be watching the situation carefully for potential volume and price opportunity going forward.

We have a full production schedule in both businesses for 2017, and will be pushing our facilities to meet these aggressive numbers. Given our run rates in both global businesses, and our ability to source lower cost raw material inputs, we are confident in our ability to compete effectively moving forward. While we hope for continued positive movement in our markets, we are focused on driving productivity, controlling our costs, and managing our balance sheet effectively.

Now I would like to open the meeting up for the Question and Answer session Over to you Operator

MODERATOR:

Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to only use handsets while asking a question. Also participants are requested to limit their questions to two per participant. You may join the question queue for any followups. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Nagraj Chandrashekar from Laburnum Capital. Please go ahead.

NAGRAJ CHANDRASHEKAR:

Thanks for taking my question. I wanted to understand now that most of your expansion projects are done with, what should be the pace of Capex now and what should be the usage of the free cash flow we generate now, and what should be the base of deleveraging we see going forward at a consolidated level?

N. JAGAN M REDDY:

We expect our Capex to be somewhere about \$60 million per annum is required and the balance funds will be used for our any new projects, we at this point of time we do not have any new expansion projects, but while the demand for our product continues to grow, we may have to keep on investing organically for further growth to be able to cater to the demand for the product at that point of time, but at this point of time we actually are considering maybe deleveraging or using the fund for our organic expansion and some funds for returning to the shareholders, but we will see depending on situation and how the board will decide on it.

NAGRAJ CHANDRASHEKAR:

And just for any new projects what is your typical hurdle rate and have you considered given the extremely low multiples you are trading at right now at buying back your stock or returning cash to shareholders in any other way?

N. JAGAN M REDDY:

We would consider all options and will keep it open, depending on how the board decides for the best use of the fund we will proceed accordingly, and anyhow buyback of equity could also be an option, but that will all depend on what the board takes the decision.

NAGRAJ CHANDRASHEKAR:

Okay. Thank you.

MODERATOR:

Thank you. We have the next question from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

VINOD MALVIYA:

My first question is on the volume front. In the CPC, we have seen 5 lakh tonnes of volume this quarter, so can you specify which geographies are seeing this so much of demand coming in and was there any one-of like in terms of shipment which was shifted from Q3 to Q4 and that is where the volume seems to be very high or it is more likely to be the same run rate going forward?

T. SRINIVASA RAO:

There will be minor shifting in the volume from one quarter to the other quarter, but as Mr. Gerard Sweeney just mentioned during 2017 we expect better volumes than what we were doing in 2016 as a whole. So there are no one-of and certainly we can maintain a run rate around that.

VINOD MALVIYA:

Okay. Let me get you, given the capacity you have around 1.6 million tones of capacity in US and around 5 lakhs in India excluding the blending capacity that is 2.1, so you already running at more than 90% utilization excluding the blending. So, if you include the blending how much maximum you can go up, because your blending capacity facility has gone to 1 million now?

N. JAGAN M REDDY:

Blending capacity is basically using our own products to blend where our products to be able to meet our customer specifications, but just the way we are changing our business model is that earlier each of the plants used to produce the product that was directly can be used by the customer. Instead what we are doing is we are producing the material at the lowest cost possible at each plant and we are moving that material to India, even though it may not be meeting especially our customers' requirement, then what we do is we blend it down to improve the quality with other products to be able to make it, so this is how we want to keep the cost low. We expect to operate at our optimum capacity environmentally whatever is permissible, we will actually produce and we expect to operate at full capacity in 2017.

T. SRINIVASA RAO:

One more clarification is when we do the blending in India we take the material from our US plant and also procure the material from other CPC producers, so it need not be our own production in US and India.

VINOD MALVIYA:

That is what I am trying to understand how much maximum you can do including the blending facilities here?

N. JAGAN M REDDY:

We would say somewhere about 2 million tonnes, maximum that is permissible, but it depends on various factors, but probably our annual sales could be up to 2 million tonnes.

MODERATOR:

Thank you. Mr. Malviya we request you to join the question queue as we have several participants waiting for their turn. Thank you. We have the next question from the line of Zeeshan Bagwan from Investec Capital. Please go ahead.

ZEESHAN BAGWAN:

Thank you for taking my question. Firstly, has the high sulfur pet coke versus the low sulfur pet coke prices gap widened because of this Chinese clampdown?

GERARD SWEENEY:

The prices of low sulfur versus high sulfur continue to essentially widen based on two factors. As you said, in particular in China the GPC prices overall are going up. The affect worldwide is that yes, there is some widening of the low sulfur and the high sulfur, and then also the contribution to that is the high sulfur prices settle down a little bit since the fourth quarter which helped us well. So, in general, yes, that is the trend and we do expect it to continue. The positive is that ultimately we can source the high sulfur for our operations from an operating client perspective, which gives us that advantage.

ZEESHAN BAGWAN:

Sir how much has this spread widened, can you quantify like how much was it earlier and what is it now?

GERARD SWEENEY:

I am sorry when you say can I quantify how much was it earlier, I am sorry are you talking about how much was low sulfur, how much was high sulfur and then what is it now?

ZEESHAN BAGWAN:

Yes, the spread, how much has it changed if you could quantify or put a number to that?

GERARD SWEENEY:

It is a global, it is a very complicated, on average you would say the gap is probably widened by \$10 to \$15.

ZEESHAN BAGWAN:

Okay. And sir secondly regarding the GPC and CPC spreads in US how have those spreads behaved?

GERARD SWEENEY:

The spread in the US has not changed dramatically. In US as I said earlier it is more related to the movement. The real tightness that was seen is related to China and that is affecting to this point most of Asia. As I said we have seen prices move significantly in India, in the Middle East, and now it is spreading, but from the GPC perspective, GPC prices have moved up significantly in China. In the US it has not been greatly affected till this point and I would say that the GPC both low sulfur and high sulfur were so far this year have not been greatly affected by any of these factors.

MODERATOR:

Thank you. We have the next question from the line of Naresh Kataria from Money Curve Investments. Please go ahead.

NARESH KATARIA:

Thanks for the opportunity. In the Q3 con-call you had indicated firmness in CPC prices. What I see is that our margins have dropped sequentially Q3 to Q4. Can you please help me understand why this happened? Is it because CPC prices were up or does it act with a lag that our margins go up after lag, how does it work?

GERARD SWEENEY:

It is a number of factors that can affect it. It is just like the volume paradigm if you will. We do not run a seasonal business, but timing of shipments at times and the overall quality of the shipments can influence what the average margin is. A good example of that is we have a quarter where we have shipped higher percentage of CIO2 shipments than we do, anode grade shipments, those prices are significantly lower on the CPC side overall. The margin impact that I say related is some of that run up of the GPC price that we mentioned earlier in that with the coal prices spiking which should now settle then we did see rising GPC prices in the US in particular during Q3 and into Q4 which should now settle down. As you remember, anytime we get a movement in GPC prices like that it usually takes us about a quarter to shake it out and reset our prices to reestablish our margin.

NARESH KATARIA:

Thank you, which means I think current quarter onwards it should settle back into our previous kind of run rate.

GERARD SWEENEY:

That is correct, that is our expectation.

NARESH KATARIA:

Okay, thank you. What I see is that our volumes had gone up and China has kind of curtailed aluminum production or at least they are planning to do it, does it mean that aluminum production will increase in other non-China, which is our market and hence we should have a better tailwind for CPC globally for us?

GERARD SWEENEY:

The Chinese situations continue to run at record levels, so it has long been speculated that the Chinese will curtail production; however, we have not mentioned that resolved by any stretch of imagination over the last five years. With that said, there is discussion taking place allegedly at that high levels to deal with the pollution and so far the word coming out of Beijing that what they might do effective next winter in China, which would be late 2017, that they could institute certain rolling blackouts for aluminum production for a period of time so that they would not overly burden any region related to that. How that plays out and if it plays out is for consternation, but to play out that scenario for your question, the reality is that if China curtails aluminum production in any meaningful way absolutely the western world outside of China will ramp up to meet the demand. India is a good example of that, where India is already ramping up production of aluminum and would help to fill that void. That absolutely would add more demand for us and a more bullish market environment.

NILESH KATARIA:

Thanks a lot Sir. I will come back in the queue.

GERARD SWEENEY:

Thank you.

MODERATOR:

Thank you. We have the next question from the line of Arvind Katari from Nivesh I Equity Research. Please go ahead.

ARVIND KATARI:

Sir I wanted to ask if you can give me what is the capacity utilization that we are operating in our CPC and CTP plants currently and with the full capacity utilization that we are planning in next year how will it affect our ROE with that planning?

GERARD SWEENEY:

In India, we were running at a 100% of capacity very reliably. In the US, we are running at 95% plus of our permitted capacity and I should say both in India and the US we have to consider permitted capacities based on environmental restrictions, but we are running very near to full globally and if the opportunity present itself to even buy in CPC product at a reasonable price we would do that as well for the Indian blending facility. And we would not foresee as far as future. We are going to continue to produce given our current production schedule and expected sales for the year we expect to continue to run full throughout the year.

ARVIND KATARI:

The question is that how much is the pension liability, which has gone up, do you see the bond price, falling?

T. SRINIVASA RAO:

As indicated in the press release, there is Rs. 110 Crores of additional pension liability recognized in Europe because of the fall in the interest rate from 2.10% to 1.31%. In other GAAPs like US GAAP IFRS and IND-AS what we will be following from the calendar year 2017, this type of actuarial losses are eligible to be carried into the balance sheet without routing through the P&L, but the Indian GAAP requires you to route it to the P&L because of the volatility in the interest rates in Europe. In the last three years we have taken some adjustments that we needed to do on account of pension liabilities. In the Year 2014, we recognized about Rs. 182 Crores of incremental pension liability and in calendar year 2015 we have taken Rs. 70 Crores of gain and in 2016 calendar year we have taken about Rs. 110 Crores of actuarial loss.

MODERATOR:

Thank you. We have the next question from the line of Mahesh Paranjapi, an Individual Investor. Please go ahead.

MAHESH PARANJAPI:

Just one quick question. Can you list three factors in terms of your operational or business environment that can help you reduce your debt to a substantial level in the next two to three years? That is the question number one and second is that can you elaborate any impact on the company because of the Trump administration because we are seeing a lot of industries getting affected and you have a global business, so how does your business get impacted because of Trump administration policies?

N. JAGAN M REDDY:

I think I would say the three factors that will influence in reduction of debt is basically the expansion of the margins and basically the improvement of revenues. Once that happens, basically that should improve the free cash flow that can be used for reduction of debt.

MAHESH PARANJAPI:

That is true for any company, but I am asking in terms of your business. What are those factors that we should look out for that would lead to debt reduction? So it could be prices of commodity or it could be anything else. Can you elaborate on that because that remains the same for all the businesses?

N. JAGAN M REDDY:

Basically I want to clarify that while we do supply to commodities, we are a convertor of products. Basically what matters for us is we do buy materials from steel industry and the refinery that are actually essentially by-products to these industries. We do buy and then we do sell. So, basically what we look at is the expansion of margin between the green coke or between the raw materials and the finished products because that is more a factor of the demand for this product and not dependent

very much on the commodity prices. Once if there is a demand irrespective of the commodity prices the margin should expand and the demand does improve compared to whatever is the supply. I think that is a bigger traction for us. You have to understand that we are a converter, not a commodity based company, though we supply to the commodity industry we are a converter, so that is what matters to us. If the margin expands then that is a big factor for us to improve our free cash flow. It is based on the thing and the next question that is going to come in is the need for funds and how we want to use the funds? If we have to meet the growing demand for markets I think we will have to start, maybe for organic investments we have to do and we will also have to do certain strategic investments to ensure that we actually operate at full capacity because certain products will continue to loose market share, for example we are in printing ink industry that actually is going down so we are actually looking at investment in order to how to move away from that market and invest into new products. All these factors will depend on and how our deleveraging is going to take place, so there is no particular factor that results in reduction, but as a converter we always look for improved margins that should improve our free cash flow. With regard to the Trump administration, we do not expect any impact because we are a global company and we move materials all over the world and we make critical products. I do not think we do not expect. As a matter of fact, we expect some benefits in case the tax reductions do take place, corporate tax rates in the US what is being indicated, so that will only help us and we do not expect it to be any detriment to us.

MAHESH PARANJAPI:

And just one more thing with respect to deleveraging, I saw that the bonds that are listed for your company have gone up. So what is your view on buybacks of those bonds with respect to their price being going up in last four to five months?

N. JAGAN M REDDY:

At this point of time depending on the availability, last year we did buyback of about \$60 - \$70 million of debt back from the market, but that is something the board will have to decide and we will actually follow what the board instructions are, depending on the best use for the cash.

MODERATOR:

Thank you. We have the next question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

PAVAN AHLUWALIA:

Thank you very much. Just on the subject of free cash flows, if I look at we are getting a run rate of Rs. 1300 - 1600 Crores of EBITDA. If I strip out what we need to pay in terms of interest cost and taxes and also your US\$ 60 million a year which you anticipate doing in Capex, that does not leave a lot of free cash flow out there right? I am just curious. Is my understanding correct that at this level of EBITDA, the free cash flow would not be very high after factoring all these things in? If I look at last year's cash versus this year's cash, we have added about Rs. 200 Crores of cash. Assuming we do not do any debt pay down of anything and the cash just piles onto the balance sheet is it fair to say that we should expect Rs. 200 to 300 Crores a year to be added assuming there is no increase in dividend? Is that the correct amount of free cash flow we should expect if the current EBITDA run rate is maintained?

T. SRINIVASA RAO:

Pawan actually whatever you have indicated about the 2016 numbers that has been all good, but the Capex in calendar year 2017 is expected to be lower than 2016.

PAVAN AHLUWALIA:

I am sorry, did you say 60 or 16?

N. JAGAN M REDDY:

60.

PAVAN AHLUWALIA:

So you are saying it will be lower than 60.

T. SRINIVASA RAO:

No. What I am saying is the 2017 numbers will be lower than 2016.

PAVAN AHLUWALIA:

You mean the year 2016, okay, but I think Jagan said it will be about \$60 million.

T. SRINIVASA RAO:

Yes, true, but in 2016 we have incurred slightly higher than that because of the German expansion and the Russian plants being operational, etc.

PAVAN AHLUWALIA:

Fair enough. But it is still about Rs. 400 Crores right, so if you take your Rs. 1300 Crores of EBITDA, strip out the taxes, strip out the interest cost, and strip out the Rs. 400 Crores, you would be left with maybe Rs. 200 Crores or so and is that what we should expect absent some bump up in EBITDA?

N. JAGAN M REDDY:

Your calculation is correct, if they remain at the Rs. 1300 Crores EBITDA level we will be ending up somewhere about the numbers you are talking about.

PAVAN AHLUWALIA:

What would then enable us to break into a higher EBITDA level in the next one-year or two years?

N. JAGAN M REDDY:

It basically requires us to improve our EBITDA, to improve our free cash flow and that will require us to improve our EBITDA and we are always working towards improving our EBITDA.

MODERATOR:

Thank you. We have the next question from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

BHAVESH CHAUHAN:

Sir my first question is on US customers now that aluminum prices have gone up sharply over the last nine months, are you seeing revival for and demand in the customer base out of US like Alcoa, Century Aluminum, has the demand come back and your reported volumes in carbon product segment also indicate those kind of things?

GERARD SWEENEY:

To this point, there has been no restart of idled capacity in any company in North America. The expectation is that obviously if China does curtail, if there is more demand than the demand outstrips supply then the expectation is that, that would take place. The people would consider to restart idled capacity. I was in Europe last week there was some discussion with customers there that they are contemplating whether starting to run through the calculations of when they would restart. The overall positive I would say is that the industry after a long languishing at a very low to no margin is now believed to be in a healthy state and gaining strength and the financial viability up against the Chinese supply. That is very important to us because as Jagan touched on what is important to us is really not so much the aluminum price, but that anytime that we are making the goes into the aluminum sector is we make the margin. Ultimately, if there is a demand for CPC then we were able to capture the margin and the profitability attached to that.

BHAVESH CHAUHAN:

Okay. Are we considering the US listing?

N. JAGAN M REDDY:

Yes, we are, but we do not know at what time. Eventually our plan is to do some kind of listing, but that will all depend on what decision the board will take, but at this point of time there is no plan actually.

BHAVESH CHAUHAN:

Thank you Sir.

MODERATOR:

Thank you. We have the next question from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

VINOD MALVIYA:

My question is on the chemical side. Again, we have seen a dip in terms of Y-o-Y volume growth. I understand that you all said in the initial remarks that you are shifting from low-margin product to high-margin product. If I look at the margin front that at least should have shown some improvement considering that your Russia CTP plant has operated and you have favorable arrangement for getting the coal tar from there, but still we are not seeing that improvement in the chemical business. Can

you provide some input over there why the margin sequentially is not improving in the chemical business?

GERARD SWEENEY:

I am sorry I cut out a little bit on that. Can you please repeat the question?

VINOD MALVIYA:

My question is on the chemicals margin. As you said in your initial remark that you are moving away from low chemical products to high chemical products, there should be some improvement, which we should have seen at the EBIT level in the chemical business, but we did not see any improvement, it is actually coming down on a sequential basis.

GERARD SWEENEY:

The sequential impact if you notice, my comments were more Y-o-Y related in that business. We had issues in the chemical business. In fact, in the Q4 related to some downtime on our warehouse and some third party raw material supply deficiency due to an outage of their facility that impacted us in Q4 quarter, it was one time related to our automated warehouse as well as so was the raw material supply difficulty, so that is what impacted the Q4 versus the Q3. There is a little bit of seasonality in that business that we see, a bit of a natural fall off towards Q4.

MODERATOR:

Thank you. We have the next question from the line of Sahil Jain from Money Curve Investments. Please go ahead.

SAHIL JAIN:

Sir I have this question on refinancing cost. When can we expect this refinancing happening on our bonds?

N. JAGAN M REDDY:

We are still contemplating, but we do not have any fixed date. We would like to refinance, but at this point of time there is no any fixed date, but yes that is one of our targets this year.

SAHIL JAIN:

Can we expect something in this financial year?

N. JAGAN M REDDY:

In 2017 yes.

SAHIL JAIN:

Sure, that would be helpful. Thank you.

MODERATOR:

Thank you. We have the next question from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

DHRUV MUCHHAL:

Sir you said about the changing dynamics in Chinese market, China turning an importer from an exporter. I am trying to understand what is driving this. Is it they are reaching their capacity limits or is it because the aluminum production in China has increased quite rapidly and the local suppliers not being able to much or is it structural or is it a temporary change, just to understand more on it?

GERARD SWEENEY:

Yes, the reason why we are watching it closely is to ensure that it is a structural change, but we cannot say with absolute confidence at this point. I am going to take you forward and take you back a little bit. In China over the last year with consistent ramp up of their own aluminum production they have ramped up their CPC supply because they had availability in the national system of GPC. There is really abundant availability of calcinable GPCs. That appears now and 2016 being a record production level, in the second half of the year they appeared to have really reached a tipping point where the demand for CPC and resultant GPC to feed that has been limited and not limited by necessarily what is believed to be one-time event, but we believe at this point, although China is hard to exactly read, that they are having difficulty essentially feeding enough GPC as well as having enough CPC capacity. That is why we are watching it closely. We believe this to be structural, but in the absence of action data that could demonstrate it for us, we definitely know that there is tightness there and watching it closely. Once we get in to March, I do not believe anything will change in March and would come through the Chinese New Year and nothing has functionally changed to reverse that trend. It will be coming up on six months of this tightness, which is starting to show that it could well be structural.

MODERATOR:

Thank you. Ladies and gentlemen, due to time constraint that was our last question. I would now like to hand the conference over to Mr. N. Jagan Mohan Reddy for his closing remarks. Thank you and over to you Sir!

N. JAGAN M REDDY:

Thank you everyone for participating in the call.

In spite of the positive results from initiatives taken so far, we believe there is still work to be done for maintaining an overall balanced position. We will continue to work on our strategic plans and keep improving efficiency across all the segments. Although majority of the Company's Debt is due in December 2018 and January 2021, the Company is continuously evaluating options for refinancing with lower-cost debt. After overcoming major complexities and with a streamlined business model coupled with an encouraging market outlook, the Company is confident to have a secured, a stronger and a brighter future.

Thank you once again.

MODERATOR:

Thank you very much members of the management. Ladies and gentlemen, on behalf of RAIN Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.