



RAIN INDUSTRIES LIMITED

Fourth Quarter CY 2015 Earnings Conference Call

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Analyst:

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Management:

Mr. N. Jagan Mohan Reddy – Managing Director, RAIN
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Mr. Gerard M Sweeney – President, RAIN CARBON INC., US

Mr. T. Srinivasa Rao – Chief Financial Officer, RAIN INDUSTRIES
LIMITED

Mr. Paul Francese – Chief Financial Officer, RAIN CARBON INC., US



Moderator:

Ladies and gentlemen, good day and welcome to the Q4 CY 2015 Earnings Conference Call of Rain Industries Limited, hosted by Motilal Oswal Securities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjay Jain from Motilal Oswal Securities. Thank you and over to you Mr. Jain!

Sanjay Jain:

Good Evening everyone. I welcome all the participants to the Fourth Quarter 2015 Conference Call of RAIN Industries Limited. We have with us Mr. Jagan Mohan Reddy, Managing Director of RAIN Industries Limited, Mr. T. Srinivasa Rao, Chief Financial Officer of RAIN Industries Limited, Mr. Gerard Sweeney, President, RAIN Carbon Inc., USA and Mr. Paul Francese, Chief Financial Officer, RAIN Carbon Inc., USA.

We commence the call with opening remarks from Mr. Jagan Mohan Reddy providing an update on developments during the quarter in RAIN Group. He will then be followed by Mr. T. Srinivasa Rao providing you the highlights of the financial performance during Fourth Quarter 2015. Mr. Gerard Sweeney will provide Outlook for the Carbon and Chemical business. Mr. Paul Francese will give you updates on Financial Developments in RAIN Group. This will be followed by question and answer session where the 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. Jagan Mohan Reddy to provide an update on the key developments in RAIN Group.



Jagan Mohan Reddy:

Thank you Sanjay. Good evening everyone and welcome to our Fourth Quarter 2015 Earnings Call. I would like to start my discussion with a brief update on the key developments at RAIN Group.

In the daunting macro-economic environment, RAIN has performed reasonably well during the Fourth Quarter 2015. During the quarter, the Company continued with its endeavors to optimize the overheads; optimize the product-mix to minimize volatility and to reduce concentration to any single industry and lastly to reduce interest cost.

In the Fourth Quarter 2015, RAIN has achieved Consolidated Revenue of ₹ 23.5 Billion; Consolidated Operating Profit of ₹ 2.5 Billion; and with some year-end provisions, Consolidated Net Loss of ₹ 63 Million. Although the revenues declined due to depreciation of Euro and fall in quotations for key products, the overall margins in current quarter have improved over the comparative quarter in previous year; due to change in product mix across carbon & chemical businesses. My colleague Gerard Sweeney will take you through the factors that influenced our performance in Carbon and Chemical businesses.

In Cement business, during the Fourth Quarter 2015, on a sequential basis, the operating profit has improved due to improved blended realization coupled with increased focus on Non-traditional markets such as Kerala, Maharashtra and Odhisa; the volumes contribution from these markets has increased from 6% to 16%. Further, reduction in fuel cost due to using cheaper Pet Coke has contributed for better performance during the quarter. The Company expects cement market to improve going forward on the back of higher spending on infrastructure, roads and housing.

Among the updates on strategic developments at RAIN, I am pleased to inform the construction completion of our Fourth Coal Tar Distillation Plant (CTP Plant) with a capacity of 300,000 Tons per annum in Cherepovets, Russia as a Joint Venture with PAO Severstal, Russia on February 11, 2016. The facility is expected to



operate at about 70% of its capacity in the first year of its operation. The technical advances installed in this facility will enable production of vacuum distilled coal tar pitch, a higher quality and higher margin product. The Joint Venture Partner “PAO Severstal” brings in a long-term supply contract for the raw material coal tar into the joint venture.

With regard to Solar Power Plant in Dharmavaram, RAIN partnered with SunE Solar B.V. to develop a 22 MW Solar Power Plant in Dharmavaram, Anantapur District, Andhra Pradesh. The Company owns 51% shares of the said Solar SPV and balance 49% would be owned by SunEdison. Due to delays in procurement of land, the Government of Andhra Pradesh has extended the Scheduled Commercial Operations Date for all such Solar Projects until March 2016.

I would now request Srinivas to provide highlights of the financial performance during Fourth Quarter 2015.

T. Srinivas Rao:

Thank you sir and a warm welcome to all the participants.

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

Consolidated Net Revenue of ₹ 23,511 million during Q4 2015, a fall of ~9% compared to ₹ 25,899 million during Q4 2014.

Carbon Products sales volume during Q4 2015 is 881 thousand metric tons, an increase of ~9% compared to 808 thousand metric tons in Q4 2014. The increase is mainly due to increases in Pet coke trading and CPC sales volumes which were offset by decreased CTP sales volumes. Carbon revenues in Indian Rupees decreased during Q4 2015 due to decline in average blended realization by ~20%. During Q4 2015, Euro depreciated by ~7% and US Dollar appreciated by ~6% against Indian Rupee. Overall the fall in average blended realizations partially offset by increased sales volumes led to a decline in revenue from Carbon Products business by ~8% in Q4 2015; as compared to Q4 2014.



Chemicals sales volume during Q4 2015 is 71 thousand metric tons, a decrease of ~14% compared to 83 thousand metric tons in Q4 2014. Overall Chemical revenues in Indian Rupees decreased during Q4 2015 by 19% as compared to Q4 2014, related to the Euro depreciation of ~7% and reduced sales volumes.

Cement revenue during Q4 2015 increased by 2% as compared to Q4 2014. With volumes remaining constant, the increase in revenue is due to marginal increase in realizations.

During Q4 2015, among exceptional items, the Company recognized an Actuarial Gain of ₹ 697 million on Pension Liabilities, due to an increase in interest rates in Europe. Further, the Company has created Provision for Doubtful Debts of ₹ 134 million related to a customer filing for Chapter 11 Bankruptcy on February 8, 2016. The Company has also provided for liquidated damages of ₹ 429 million payable to EPC Contractors on disputed invoices settled.

Consolidated Adjusted Operating Profit for Q4 2015 is ₹ 2,183 million an increase of ~38% compared to ₹ 1,577 million achieved during Q4 2014. Operating Profit increased during Q4 2015 mainly due to a change in the product mix and savings in Operating Expenses.

Operating Margins have increased to 9% during Q4 2015, compared to Operating Margin of 6% achieved during Q4 2014.

During Q4 2015, the Company had Foreign Exchange Gain of ₹ 75 million, as compared to Foreign Exchange Loss of ₹ 115 million in Q4 2014. The Company has designated certain long term inter-company loans as Investment in non-integral foreign operations, as per Indian Accounting Standard 11 with effect from July 1, 2015 and transferred foreign exchange losses of ₹ 85 million on reinstatement of such inter-company loans to Foreign Currency Translation Reserve.

Finance cost during Q4 2015 is ₹ 1,446 million, a decrease of ~2% compared to ₹ 1,482 million during Q4 2014 due to decrease in debt through buy-back of Senior Secured Notes of US\$ 51.4 million during CY 2015 and making of scheduled repayment of debt.



The effective tax rate is higher in Q4 2015 due to certain taxes pertaining to prior years.

Consolidated Adjusted Net Loss during Q4 2015 is ₹ 76 million as compared to ₹ 321 million during Q4 2014.

The Company achieved a Consolidated Adjusted Negative EPS of ₹ 0.23 during Q4 2015 as compared to ₹ 0.96 during Q4 2014.

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

Gerard M. Sweeney:

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

The Aluminum Industry, the key end use consumer for our CPC and CTP products, remains mired in a prolonged downturn that is shaking the industry to its core. It is reshaping the global industry and we are watching closely and adapting to these changes. While the future for aluminum consumption and production is clearly bright, the current oversupply situation needs to be heavily reduced before the industry will thrive once again. Despite the industries' woes, worldwide demand growth for Aluminum is expected to be 6% including and 4% excluding China in CY16.

In our CPC product line, our push over the last several years for loosening of quality specifications by customers helped us in material ways to manage our costs. All customers have now accepted some form of specification change in exchange for prices reductions. This has gained great momentum over the last several years given their need to control costs. These proactive efforts have allowed us to manage our margins in light of the weak market conditions and the continual pressure on our CPC prices.

On the CPC sales volume side, with an increase of 10% production of Aluminum in India over the last year, we are executing our comprehensive blending plan in 2016 to capture this additional demand. The first small cargo of product was dispatched during Q4



2015, and we are now moving more substantial quantities. As discussed on our prior call, the basis of the plan is to ship lower cost, locally sourced product from our US plants, and blend it with our Indian produced product for sale in country and the regions around India. This comprehensive distribution play has been in the planning for years, and has been aided by regional cost synergies and low global ocean freights. This will allow us to maintain volume during this time of dwindling demand in certain parts of the World.

On our GPC raw materials, the weak steel, cement and power markets dropped fuel prices, and are now even effecting the pricing of lower sulfur product as well. The low sulfur price pressure has been falling during the New Year, and is continuing to drop. This is now providing relief for all grades of our raw materials, an important counter to ever increasing pressure on our finished product CPC prices.

For coal tar related products we continue to pressure prices down on our supply to match price pressures on all products. The economies of scale of our distillation facilities, as well as our logistically favorable locations allow us to compete cost effectively in this environment. Our pitch volumes throughout the year have remained strong despite struggling demand. Again, indicative of our favorable position. The initiatives taken in 2015 to move the coal tar oil product mix toward the sale of more creosote oil; less sensitive to notation fluctuation, helped us to greatly reduce our exposure on coal tar oil price fluctuations.

While we had stable volumes during the quarter on coal tar oils, we saw a reversing trend for oil notations from Third Quarter 2015 onwards. Fuel Oil price decreased from an average of US\$ 243 per Ton in Third Quarter of 2015 to an average of US\$ 184 per Ton in Fourth Quarter. Benzene notations decreased from an average of US\$ 715 per Ton in Third quarter of 2015 to an average of US\$ 627 per Ton in the current quarter, impacting BTX, Naphthalene, Ortho-xylene and PA pricing by roughly 20%.



Although the chemicals business faced lower revenues of 19% YOY, mainly due to the change of notations, the profitability in the current quarter improved compared to Fourth Quarter of 2014 by re-aligning our product mix. Also, on the bright side, our PA expansion which achieved its first full year of operation, achieved 93% capacity utilization rate, raising sales of PA product to 37,500 MT.

Company-wide, from an operational perspective for the period, our Indian Calcining facility operated at maximum capacity and our US plants operated at approx. 80-85% utilization levels. The Tar Distillation facilities operated at a utilization level of above 80%, due to ample supply of raw materials and relatively strong sales volumes. We are also very excited with the startup of our new distillation facility in Cherepovets, Russia. We have a full sales plan for the production during 2016. Given the down commodity cycle, we are focusing on our costs in all of our products to compete effectively on a global basis. All of our efforts during this period are on maintaining market share and protecting our margins.

We continue to watch developments on the global front, especially those in China. The western world is struggling to stay profitable in aluminum and steel sectors during these difficult times. While we certainly wish times were better for these sectors, we are comfortable with our position and ability to thrive. For now, we will continue to drive productivity, control our costs and manage our balance sheet.

Now I would like introduce you all to Mr. Paul Francese, Chief Financial Officer of RAIN Carbon Inc., who will take you through the financial developments in RAIN Over to you Paul

Paul Francese:

Thank you Gerry ... !

A very good evening to all the participants in this call

It gives me immense pleasure to address you all for the first time.

I would like to provide an update on the actions that RAIN Carbon Inc. has already taken and initiatives that we are planning which will



increase cash flow and lead to reductions in our debt and interest expense.

As we have reported, our major capital investment projects were completed in 2015 and we will see their incremental EBITDA contributions beginning in 2016.

With no large capital projects being planned for 2016 and a more stringent hurdle return rate for new projects, we will have reduced allocation for new capital projects going forward.

In the fourth quarter we continued to purchase our high yield corporate bonds with the use of excess cash and lower debt facilities. In 2015 we purchased \$51.4 million of our bonds and an additional \$10.3 million during 2016. These efforts, combined with the prepayment of the Junior Subordinated Notes of \$26.3 million in the fourth quarter of 2014, will reduce interest expense by \$6.5 million on an annual basis.

We will continue to work on the optimal solution for the refinancing of our corporate bonds. However, due to volatility in the finance markets we decided to delay the refinancing actions until the finance markets become more stable. Our bonds mature in December 2018 and January 2021 giving us adequate time to find the optimal time and structure.

In the mean-time the Company will continue to explore options to utilize available liquidity to optimize debt and reduce interest expenses. .

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

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

Pawan Ahluwalia:

Thank you. Just two questions; one is the EBITDA per ton appears to have collapsed completely in the carbon products wherein there is



obviously a compression in chemicals as well but the big driver in the EBITDA collapse for this quarter is in the carbon products. Could you go into a little more detail as to why that collapse happened and also whether it is more in the CPC side or the CTP side or both? Also anything right now at the EBITDA level which is just about enough to cover interest so one thing way going forward is this the kind of what does normalized EBITDA per ton look like in the business and is this quarter a kind of good guide to the new normal or is there something abnormal about EBITDA per ton this quarter which would be you think that this is not what it will continue to be?

T. Srinivas Rao:

Pawan, actually you might have observed our results for the last few years, the Q4 the results performance will be generally on a lower side because some of our facilities in cold countries where the volumes will be on a lower side. Apart from that this Q4 of 2015 also there is a decline in the prices as explained by Mr. Gerry in the opening remarks some of the products there is a decline in the market quotations so we procure those materials in the period prior to say September 30 and we are selling them say after October 1 or in Q4 of 2015 so because of that there will be some amount of inventory loss will be there. So we are not capturing that as a separate line item and certainly that has contributed for lower operating margins in both the products maybe in this year.

Pawan Ahluwalia:

But on a quarter-on-quarter basis, how much lower would production this quarter versus last quarter?

T. Srinivas Rao:

It should be a minor decline of about 5%.

Pawan Ahluwalia:

So then the seasonality should not be a big factor, right because if last quarter and the September quarter you produce only a little bit more than you produce this quarter and the bulk of the disruption, I understand your seasonality point completely, right and you had Christmas and there are all kinds reasons why the number might look different but what I do not understand is why if you produce about the same, this quarter versus last quarter why the EBITDA margin is so massively lower and what is interesting the revenue numbers come



down by a loss but your cost of goods has not come down by as much. So I am trying to figure what is going on there?

T. Srinivas Rao:

But actually Pawan, if you see the press release that we have sent, after adjusted operating profit for Q4 of 2014 is from the carbon business it is 1378 million and for Q4 2015 it is 1437 million.

Pawan Ahluwalia:

I see that. I am just trying to understand the difference between September quarter and December quarter because you are saying the production is roughly the same. That is what I am puzzled by?

Gerard M. Sweeney:

It has nothing to do. What he is saying it is not necessarily the seasonality as much as it is the change in the notations that was noted in my opening remarks that the change in notation that difference has which products that have to get absolutely have a value change very abruptly within the quarter. That is the differential. So to answer your question was simply what Srinivas is saying is that that notation change more than anything is what affected overall profitability on the business not so much the seasonality. Now there is some consistency with the fact that our fourth quarters have turned to be lower, but it is really more a reflection of the product notation drop and that has what happened in the fourth quarter versus any other quarters.

Pawan Ahluwalia:

So going forward if we assume that the commodity prices stay roughly at these levels should we assume that the EBITDA will continue to be at these levels or because notation changes should also bring down the RM cost, right?

Gerard M. Sweeney:

Right. What we are saying it is more the result of the change in notation than it is anything else, so once we get the reset of those prices, in other words if they bottomed out and we have some consistency in the notations then the profitability should be there.

Pawan Ahluwalia:

Sir, you are saying the GPC prices that you are basically whatever CPC you sold this quarter, you had brought the GPC at a different fuel price and whatever CTP I guess, coal tar follows furnace oil roughly so you are saying that because we brought this a couple of



months to go at a higher furnace oil and GPC prices but you had to sell them at a notation that corresponded to a lower GPC and furnace oil price, you had a big margin compression?

Gerard M. Sweeney: It is less about at the GPC, CPC spread and more about in the distillation business where those notation changes affected us. So when you ask which business is more related, it is more related to the distillation business than it was the calcinations business.

Pawan Ahluwalia: What happened in the distillation business, I am guessing is that you bought coal tar at a furnace oil/crude linked price that was September, or August or October price but by the time you started selling in November and December because those commodities had collapsed your sale price had to correspond to the spot price in November and December. Am I understanding this right?

Gerard M. Sweeney: We did not so much see the difference. Again it was in my remarks. We did not see the compression from the pitch volumes and our pitch prices held up fairly well. It was more related to the other products the tar oils that we get off of it with the notation fell. The notations for benzene gets affected the notations for the fuel oils, the notations for benzene, Ortho-Xylene, naphthalene, those more affected us than anything, yes.

Pawan Ahluwalia: Is it fair to infer based and just looking at your results that you may have actually made losses in some of those products this quarter because of the extent of the crude oil?

Gerard M. Sweeney: Yes and that is because when they fall, you actually have that drop. As I have indicated you have a 20% drop that is not only on the products that you are selling, it is the products that you have in inventory.

Pawan Ahluwalia: No, completely I understand that. The only question I have is we have had equally speed fall in crude in previous quarters but we did not see things getting this badly smashed up. Is there any reason why the effect was more this year or this quarter than previous quarters?



Gerard M. Sweeney: We are getting very, very deep into it. We did have a quarter from the CPC side where the volumes were not at large, so in total, you are seeing a total effect here and the year end effect on this. So, it is not the largest effected quarter that we have seen related to price drops and that is what Srinivas was referring to that if you see when oil price drops in prior years actually in the fourth quarter we have seen drops like this before.

Pawan Ahluwalia: But then you are saying that this, you do not expect those notches at least to continue but this quarter is EBITDA is not a good guide to normalize the EBITDA?

Gerard M. Sweeney: That is correct. The overriding message that we are giving is that this is not and I think the question is phrased the right way. This is not the new normal as we see it. It was eventuated in the quarter that should not be a repeating event in future quarters related to it.

Pawan Ahluwalia: Thank you.

Moderator: Thank you. We have the next question from the line of Janvi Shah from Reliance Mutual Fund. Please go ahead.

Janvi Shah: Sir can you just throw some light on the cement business? How is the overall demand and the pricing in your markets?

N. Jagan Mohan Reddy: The south market we are operating at about 60% to 65% capacity and the demand is clearly picking up because especially in south as compared to the north I would say south is doing reasonably well because there are lots of infrastructure projects and there is a new Capital that is being built and there is lot of developments in this area. So, I would say that this will continue but slowly. I think the real demand will come in the next one to two years, but as of now we expect to continue at this lower level, lower capacity utilization about 6% to 65% for at least one more year.

Jahnvi Shah: And on the pricing front?



N. Jagan Mohan Reddy: On the pricing I would say that it is doing well compared to North India, I would say that South India is stronger in the last three to six months. I would say South India has been reasonably strong and we expect this level of pricing to continue at least this quarter, I do not know about how things will go in next quarter but we do see reasonably strong demand in the summer season and hopefully I think this should continue in the near term.

Jahnvi Shah: What is the plan overall, we are generating significant cash now and capex also seems to be not much on the cards, so what is the overall plan for deleveraging or overall capital allocation policy now?

T. Srinivas Rao: I think we have been making attempts to reduce the debt like Mr. Paul has mentioned we are also looking at optimizing our investments in to the new projects and we are also attempting to reduce the working capital and whatever additional liquidity is available within the company we will be applying it to reduce the debt but the total refinancing is slightly getting delayed. Currently the markets are highly volatile and once the markets settle down, maybe we will start exploring the opportunities to do the refinancing of our debt in our US company.

Jahnvi Shah: By what do you think you could reduce the reasonable amount of debt?

T. Srinivas Rao: Most of the debt is in the form of a high yield bond and it consists of two tranches, the first tranche is due for maturity in December 2018 and the second one is maturing in January 2021, so we have clearly two-and-a-half years and four-and-a-half years timeframe is available for us, certainly we will do may be during the course of the year some reduction you will see but maybe early 2017 or mid 2017 is what we can explore.

Jahnvi Shah: Sir can you give us some outlook on the carbon business now that aluminum prices also seem to have stabilized at where they are, so what is your sense going forward?



Gerard M. Sweeney:

The carbon business, the aluminum industry certainly has stabilized at \$1500 level; I am not sure many people worldwide like that commodity at that level, but what we have seen is the industry remains under duress from a profitability perspective. There has been some stabilizing in the industry, we are still seeing some fallout with recent bankruptcy of Noranda in the United States but by and large, it seems that people are still focused on operating in this environment which is a good event for us. In the US, Century and Alcoa who had announced reduction at some smelters and curtailment of few of the smelters have now renegotiated power rate and appear content and continue to operate over the short to medium term which is a positive that we are seeing. India, as I mentioned, has been helping us from an overall consumption perspective, so from our perspective we are really focusing on areas that are stable. The United States needs Europe and feeding more in to India to our global system, so we are comfortable with our position and the GPC prices dropping due to the really other product categories that the GPC supply could go in to should continue to help us to protect our margins. Those are coming down, so we are seeing a little bit of lag which should help us as we go through the year but for 2016 from a volume perspective and a profitability perspective we are comfortable with carbon and very similar on the carbon side of the distillation business, again our aluminum demand is stable and our ability to compete in to it we are very comfortable.

Jahnvi Shah:

But you are not seeing any kind of downward drift to the volumes with the kind of shutdowns that are happening?

Gerard M. Sweeney:

From a global impact perspective we are certainly seeing that but I would say from the distillation side to address that first our volumes have held up very well and again as I mentioned in my remarks, our ability to compete on a cost basis has allowed us to maintain our position. We overall as an industry certainly have seen a reduction in the demand. On the CPC side very similar pressures but we have certainly seen a fairly dramatic reduction in consumption and demand in North and South America and where we try to adopt ourselves as I mentioned in my remarks just to give a little better clarity to that



where we have adjusted ourselves we have taken those and we have redirected them to India and the Middle East where production is holding up and even India where it is growing, we are essentially realigning from the CPC side we are realigning our customer mix, realigning our volumes but to talk specifically about that for 2016 we have a very similar failed volume that we had for 2015 and on the distillation side we have due to the Cherepovets production, we obviously have more but outside of the new Russian production we have substantially similar volume projection for 2016.

Jahnvi Shah:

You mentioned earlier that there is a lag when the raw material prices hit your selling prices, do you think the raw material prices have fallen much more than your CPC or CTP prices?

Gerard M. Sweeney:

It is a good question. From our perspective if you look at our results and exclude the one time notation changes on some products we are pretty much keeping pace. We still have some timing related to that but overall as you drew them up with the absolute fall, we are pretty much keeping pace because as we get the reduction the pressure in the market place and obviously we have tried to keep market share, not focusing so much on growing our margin as much as keeping our volumes because it really helps our unit cost as well, so that has been more of our focus to keep our market share, keep our overall volumes up and drop in raw material prices allows us really to try and match that and protect our margin to the maximum extent possible.

Jahnvi Shah:

So your margins will of course be sustainable or may end up higher, is it what you are referring to?

Gerard M. Sweeney:

As I just said, we are focusing on maintaining our margins and absolutely in this environment I do not need to oversimplify. We are fighting hard to maintain our margins. I do not expect to improve our margins unless we get the market opportunity to do so.

Moderator:

The next question is from the line of Ritesh Shah from Investec Capital, please go ahead.



Ritesh Shah: Hi Sir, thanks for the opportunity. Sir, if you could please provide some colour on the CPC side of our product basket specifically how do you see the demand supply landscape, that is one and secondly if you could please explain what is the normal sulphur content that we have in the CPC that we sell?

T. Srinivas Rao: Can you repeat the second part of your question?

Ritesh Shah: On the CPC side, on our product basket if you could please detail what is the sulphur content of the CPC that we sell; is it high sulphur content or is it low sulphur content?

Gerard M. Sweeney: The first part of your question as I responded to the last question, when you say CPC volumes you have a specific question for that or we are maintaining our volumes but I am not sure.

Ritesh Shah: I am more looking at it from a market share point of view, how much is the total capacity ex China and how are we placed on CPC?

Gerard M. Sweeney: China is not a large export on CPC. China has fairly stable exports. It has grown over the last couple of years competitively, but by and large China is not a large player in CPC outside of China like they are in the aluminum industry outside of China flooding the world with fabricated and semi-fabricated products. We need China mostly in South East Asia and then India in the CPC market but as far as volumes China is for the world outside of China they are relatively small player from a volume perspective exporting maybe a million and a half tonnes, but to go to the CPC sulphur levels, each customer due to their own emission standards and their ability to scrub sulphur have their own specification, but what I can give you is that our overall as an example so that you can understand the trending in the industry and the move in specifications that we have had both in sulphur and trace metallics. The sulphur level 10 years ago for our CPC, the average sulphur level, for our sales globally would have been about 2.5 to 2.6% of sulphur but with new buildings and their ability to handle higher sulphur and extension scrub, we are now up at roughly 3.5% on average sulphur levels in our sales, again



just indicative of the movement and then the trace metallic have moved up appreciably as well. I hope that addresses your question.

Ritesh Shah: That is great, just one follow up, if I may ask, what will be the China's import numbers broadly for low-grade sulphur CPC, would it be substantial or is it self-reliant?

Gerard M. Sweeney: China overall is an importer, you said of CPC or GPC?

Ritesh Shah: CPC, I am looking at our product basket, what we sell, so I am specifically coming to does China import CPC which has low sulphur content?

Gerard M. Sweeney: No. There is very little CPC that China imports. They are more a net producer from the domestic refining industry and they are not an importer in general of CPC let alone low sulphur CPC.

Ritesh Shah: Sir, how do you look at the volume contracts, normally we have six monthly and annual contracts, so looking at the state of industry that we are in, any specific trends that you would like to highlight, you did give some flavour of on likes of Alcoa and couple of smelters not being shutdown recently but overall, how would you look at the volume outlook for the CPC business?

Gerard M. Sweeney: From a contractual perspective we still have actually our contracts for CPC are normally kind of 3 to 5 year contracts with semi annual resets on price. We do have a few that are quarterly resets on price for CPC but that has not been the norm. They are normally semiannual resets on price. As far as any changes contractually that we have seen in the business I think a very natural one that we have seen from aluminum producers from primary producers is more pressure to have longer payment terms so that they can try and stretch out their cash cycle as much as possible and I think that is a very natural thing that we have seen over the last several years, different initiatives amongst the smelters but we have stopped seeing any large scale across our customer base. We have not seen really any material changes in contractual terms.



Moderator: The next question is from the line of Kunal Banerjee from Brigade Capital, please go ahead.

Kunal Banerjee: Good morning, just on the issue around the resets, the lags and the inventory holding losses can you quantify for us on the carbon chemical side that reside within carbon products, BTX, BA, OX etc., what was the magnitude of the inventory holding loss and also what was the magnitude of the timing lag, the way I understand is that you went through the situation and in the fourth quarter of 2014 as well and you just had a time lag on the reset of your raw material which actually ended up resetting with a quarterly lag and you saw pickup in your EBITDA going in to the first quarter, so I just want to get a sense for those two items because last time you had actually quantified it and this time you have withheld that information, are you comfortable providing specific on those?

T. Srinivas Rao: Actually Kunal we are not looking at analyzing product by product but I agree with your comments that there is a decline in other products like BTX etc., which are all distillation derivatives, but they are not derived or we do not buy the product only to make them, they are jointly manufacturing the products.

Kunal Banerjee: I am not going specific by product because the way I understand it is qualitatively the CPC and CTP businesses were pretty stable growing quarter to quarter which is third quarter to fourth quarter but you saw a significant decline in your pricing on benzene and fuel oil, so that affected that carbon product segment, so on segment basis, last year this time you had actually quantified the inventory holding loss and I was just hoping that you could provide a similar number for this year as well, so that will then inform us as to what to expect going forward but if it is an one off you should actually be quantifying that as it is a major item that has substantially driven your profitability down right, so that is what I was looking for. I do not know, we can take it offline but I think that would be very helpful to kind of establish the normal going forward what that holding loss was because if it does not repeat and your relag actually settled your raw material cost has settled down then your margins should normalize and settle down



and so that would be very helpful. Anyway the other question I had was you have had Noranda I am assuming that was the bankruptcy you were alluding to, any change in order patterns there, any change post filing have they taken down any production or are you seeing the same sort of volumes going through them?

Gerard M. Sweeney:

We have shut off shipments to them. We are communicating with the trustee in the bankruptcy. We have shut off at this point shipments to them from the announcements that we have seen of their curtailment obviously communications other than through the trustee have all but ceased at this point and employees are not really communicating out related to the bankruptcy but we have taken them out of our sales plan. They are only operating essentially at one third of their capacity anyway at the aluminum smelter. We have taken them out of our sales plan for the year and are unsure. We are still under contract with them, so to talk about it, the technicalities if you will, we are under contract with them, if they need carbon they are obligated to buy it from us but we will be demanding security of payment related to supplying them given their financial situation and it is very unclear now whether they will continue to operate or not, my belief is that given we have not missed any shipments at this point either as far as since they have declared bankruptcy we did not have anything in the schedule to deliver them barges but the expectation is that if they close down as they have announced they would going forward barring any changes then they probably would not need any more carbon and these are expectation for them before this and are consuming maybe 40,000 tonnes a year.

Kunal Banerjee:

Okay, so it is not a very large volume anyway to start with but the 134 million in bad debt that is really an unsecured there, this is back revenues, these are receivables at Noranda that you basically are yet to receive, you get paid for and at this point it is just part of the bankruptcy process and you will get some sort of recovery on that.

Gerard M. Sweeney:

That is right.



- Kunal Banerjee:** The Alcoa Point Comfort shutdown has that impacted you directly, I know that it might impact you indirectly, but will you feeding that smelter as well?
- Gerard M. Sweeney:** No. We were not supplying that with either CPC or coal tar pitch.
- Kunal Banerjee:** You talk about this new Russian JV which given the level of the rouble and the fact that you are selling most of your products on a dollar basis, it should be a good accretive start up to you, would you care to kind of handicap what the EBITDA contribution your share of that EBITDA contribution would be if that were running at 70% for this year?
- N. Jagan Mohan Reddy:** We cannot comment about each plant but as rightly indicated, all our cost basis is actually in roubles whereas our sales are linked to dollars, yes it should help us, the devaluation should help us to a certain extent and we should expect to operate at about 70% capacity in the first year of operations, so it should provide reasonable accretion to 2016 balance sheet.
- Kunal Banerjee:** My suggestion would be if it is a major product like that what a lot of your peers do is they kind of handicap what that contribution would be and you do not have to put a point estimate out there, you can provide a range because it would help given that other things kind of bouncing along the bottom every accretive project out there would help and I think you had also quantified what the Lake Charles would be 10-15, so this would not be out of the norm for you to kind of quantify what this contribution would be and lastly just had a question around capex reduction year on year, Paul mentioned that in passing but I would appreciate what that reduction is going to be year on year at the Rain India level as well as the Rain Carbon CII level?
- Paul Francese:** As we are looking at our forecast the capital needs for 2016 certainly, capital needs for safety and environmental would never be compromised but when we look at the projects that we have planned we are probably going to see a reduction of about 30 million year over year in capital spending.



Kunal Banerjee:

The Chinese, because of the pollution issues, they have actually started to throttle back on the use of 3% sulphur GPC in country and apparently that has led to and in fact you know they have not really finalized that standard, it could actually go down to 2% as well and I am just wondering it seems like that has actually impacted the availability of CPC in country and I am just wondering if you have picked up on any of that and if that would have come to a pass would you contemplate replacing some of those filling in for some of that demand?

Gerard M. Sweeney:

We have not seen anything roll out in country. Your characterization is accurate in the sense that it is contemplated that the Chinese will pass a new standard for maximum sulphur level and it is contemplated that, that line would be drawn at a max 3% and that would not just be for CPC, that would be the consumption, that would be for the sale consumption and use of GPC within the country as well, so it is really a standard related to GPC, but obviously it could go on and on about that and just to tell you briefly that we would welcome something like that coming in China because it will only help the market, our focus will be less about entering the Chinese market and we are still very skeptical about how this, even if Beijing passes this rule of how it will be enforced and what "official, unofficial" exceptions will take place in country related to that, however anything I think the easiest way for you guys to look at it is to understand that anything the Chinese do along those lines, that truly does affect the use of GPC and CPC within the country in limiting it will have a positive effect on GPC and CPC prices in China related to us, that if GPC prices go up we will make it a little more expensive for us to source for India. CPC prices will go up as a result and as we know a high tide anywhere floats all boats, so that would help overall to tighten the Chinese market and tighten the pricing on their exports, so net-net anything that happens in China that truly affects their pricing for GPC and CPC would be a positive for us.

Moderator:

Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the conference over to Mr.



Rain Industries Limited
February 19, 2016

N. Jagan Mohan Reddy for the closing comments. Thank you and over to you Sir.

Jagan Mohan Reddy:

Thank you everyone for participating in the call.

After the successful implementation of our major capital projects, we are now aligning to ramp up production at these new facilities. We are also focused on integration of our European and US businesses to optimize overheads cost and re-align product mix to improve the operating margins. The Company is evaluating options to refinance the debt to reduce interest cost. All these steps should facilitate to better withstand the market pressure.

Thank you once again.

Moderator:

Thank you very much. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.