

Rain Industries Limited

Q3 CY15 Post Result –Conference Call Transcript

Representative:

Mr. N. Jagan Mohan Reddy – Managing Director, Rain Industries Limited
Mr. Gerard M Sweeney – President and CEO, Rain CII Carbon LLC
Mr. Henri Steinmetz – President and CEO, RÜTGERS Group
Mr. T. SRINIVASA Rao – Chief Financial Officer, Rain Industries Limited

Moderator:

Ladies and gentlemen, good day and welcome to the Rain Industries Q3 FY 15 Earnings Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder, all participants' 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 call please signal an operator by pressing * and the 0 on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Bagmar from Prabhudas Lilladher. Thank you and over to you.

Mr. KAMLESH BAGMAR - PRABHUDAS LILLADHER PRIVATE LIMITED:

Good Evening everyone. I welcome all the participants to the Third 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 and CEO of Rain CII Carbon LLC, USA and Mr. Henri Steinmetz, President and CEO of RÜTGERS Group.

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 Third Quarter 2015. Mr. Gerard Sweeney will provide Outlook for the CPC business and Mr. Henri Steinmetz will provide outlook for other Carbon products and Chemical businesses. 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.

Over to you Mr. Reddy

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

Thank you Kamlesh. Good evening everyone and welcome to our 2015 Third Quarter earnings call. I would like to start my discussion with a brief update on the key developments at Rain Group.

The performance of RAIN during Third Quarter 2015 has been reasonably good considering the current challenging economic environment. The Company has been working constantly 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 Third Quarter 2015, RAIN has achieved Consolidated Revenue of INR 26.8 Billion; Consolidated Operating Profit of INR 3.8 Billion; and Consolidated Net Profit of INR 1 Billion. Although the revenues declined due to depreciation of Euro and fall in quotations for key products, the overall margins in current quarter has improved over the comparative quarter in previous year; due to change in product mix across carbon & chemical businesses, coupled with increased volumes. My colleagues Gerry and Henri will take you through the factors that influenced our performance in Carbon and Chemical businesses.

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In Cement business, during the Third 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 Odisha; 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.

The Company in its continuous endeavor to reduce debt and optimize interest cost has bought-back Bonds of US\$ 41.4 million during the current year. Since last December, the Company prepaid total debt of US\$ 67.7 million resulting in annual interest savings of US\$ 6 million.

To give you an update on strategic developments, the construction of Russian Coal Tar Distillation Plant is in its last stage of commissioning and is expected to commence operations in December 2015.

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 and the Project would be completed within the revised timelines.

During the current quarter, the Company has commissioned a new Flue-gas Desulfurization in its Calcining Plant at Chalmette, Louisiana, USA. With the commissioning of the Chalmette FGD Plant, the Company will be able to use abundantly available low grade Green Petroleum Cokes to produce Calcined Petroleum Coke at lower cost. Further, the Company would be able to re-store CPC Capacity at its Chalmette Plant to 230,000 Tons per annum. With the FGD plants operating at both Chalmette and Lake Charles calciners, Rain is in a unique position in North-America to use marginal grade Pet Cokes to further reduce raw material prices.

Further, during this quarter, the Company has commissioned a CPC Blending facility in Vizag with a capacity ranging 200K -250K tons. The new CPC blending facility would facilitate increased CPC sales to Aluminum smelters.

I would now request SRINIVASA to provide highlights of the financial performance during Third Quarter 2015.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Thank you and a warm welcome to all the participants.

To highlight some of the key performance indicators, on a consolidated basis:

- Consolidated Net Revenue is INR 26,817 million during the current quarter, a fall of ~10% compared to INR 29,697 million during Q3 2014.
 - Carbon products sales volume during the current quarter is 771 thousand tons, a decrease of ~5% compared to 813 thousand tons in Q3 2014 mainly on account of decrease in Pet coke trading sales volume which was offset by increase in CPC and CTP sales volumes. Carbon revenues in Indian Rupees decreased during current quarter due to decline in average blended realization by ~11%, substantially due to depreciation of Euro against Indian Rupee by ~10% and partly offset by appreciation of US Dollar against Indian Rupee by ~7%. Overall revenue from Carbon Products business declined by ~9% in Q3 2015; as compared to Q3 2014.
 - Chemicals sales volume during the current quarter is 83 thousand tons, an increase of ~3% compared to 81 thousand tons in Q3 2014. Chemical revenues in Indian Rupees decreased during current quarter due to decline in average blended realization coupled with depreciation of Euro against Indian Rupee. Overall revenue from Chemical business reduced by ~21% in Q3 2015; as compared to Q3 2014.

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- Cement volume during the current quarter is 561 thousand tons, an increase of ~10% compared to 512 thousand tons in Q3 2014. With increase in price realization coupled with higher sales in new markets, Cement revenues increased by 13% in Q3 2015; as compared to Q3 2014.
- Consolidated Operating Profit for the current quarter is INR 3,802 million an increase of ~5% compared to INR 3,617 million achieved during Q3 2014. Operating Profit increased during current quarter mainly due to change in product mix and supplemented by savings in other operating expenses. Operating Profit during Q3 2014 included environmental indemnification claim of INR 531 million received from prior owners.
- Operating Margin has increased to 14% for the current quarter, compared to operating margin of 12% achieved during Q3 2014.
- During Q3 2015, the Company had a foreign exchange loss of INR 291 million, as compared to a foreign exchange gain of INR 196 million in Q3 2014. The Foreign Exchange loss in the current quarter is mainly on account of reinstatement of intercompany loans due to depreciation of Russian Ruble and Canadian Dollar. Further, the Company has designated certain long term inter-company loans as Investment in non-integral foreign operations, as per Accounting Standard 11 with effect from July 1, 2015 and accordingly foreign exchange losses of INR 311 million on account of reinstatement of such inter-company has been transferred to Foreign Currency Translation Reserve.
- Finance cost during the current quarter is INR 1,464 million, a decrease of ~2% compared to INR 1,489 million during Q3 2014. Even though there is an appreciation of US dollar against Indian Rupee by 7%, finance cost has reduced on account of prepayment of Junior Subordinated Notes of US\$ 26.3 million during December 2014 and buy-back of Senior Secured Notes of US\$ 41.4 million during last two quarters, making of scheduled repayment of debt and translation impact of Euro currency interest cost which is partially offset by increase in bank debt.
- Effective tax rate during the quarter is in-line with the group tax rates in various geographies which include India, Belgium, Canada, Germany and United States.
- Consolidated net profit during the current quarter is INR 1,014 million compared to consolidated net profit of INR 1,147 million during Q3 2014.
- The Company achieved a consolidated EPS of INR 3.02 during the current quarter as compared to consolidated EPS of INR 3.41 during Q3 2014.

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

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

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, remain mired in a prolonged downturn that is shaking the industry to its core. Many curtailments have been announced with ALCOA just announcing three new closures in the US last week. This is quite contradictory to the demand side, where there is ever-growing demand for Aluminum in every major end use market sector, and worldwide growth of 6% for the last several years. Growth in aluminum demand outside China is expected to be 3% for CY15. This represents the largest growth in western world Al production since 2011.

Despite these factors, primary LME Aluminum prices dipped under to US\$1,500 per Ton, the lowest level since July 2009. The decline is attributable to a global oversupply fueled by Chinese overproduction and dumping of fabricated products and ingot on the world markets. Aluminum premiums strongly supported the profitability of smelters through 2014, and have all but collapsed this year. Also, an ever strengthening US dollar and overall depressed attitude towards commodities globally are contributing to the headwinds.

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The recently announced curtailments by ALCOA at their North American smelters will have marginal impact on our CPC business. Although closely watching these markets, we are reasonably confident of withstanding the current volatile conditions.

CPC contract price negotiations completed for the second half with average reductions in the range of 3-4%. Our continual push over the last several years, for loosening of product specifications by customers, is helping us in very material ways to manage our margins. All customers are considering spec changes in exchange for prices reductions given their need to control costs. This is allowing us to manage our margins in light of the weak market conditions and the resultant pressure on our CPC prices. The difference this year and hopefully going forward is our ability to offset sales price reductions through raw material cost reductions.

On the CPC sales volume side, with an estimated increase of 10% production of Aluminum in India over the last year, we will execute a comprehensive blending plan in 2016. The basis of the plan is to ship low cost product from our US plants and blend it with our Indian produced product for sale to Indian Smelters. This comprehensive plan has been in the works for years, and will be rolled out in the fourth quarter 2015, aided by regional cost synergies and low global ocean freights.

The commodity cycle specifically, steel, cement and power markets are helping to drop the fuel prices. This lowers the floor price for the fuel use alternatives on our lower grade blend components. Again, this helps us protect margin and control our costs. Lower ocean freights are having a positive impact on the US and Indian CPC businesses, and will continue as long as freight markets remain low levels.

From an operational perspective for the period, our Indian Calcining facility is operating at or near the maximum capacity and our US plants are running at approx. 80-85% utilization levels.

We will continue to watch developments on the global front, especially those in China. The western world is struggling to stay profitable in these difficult circumstances. While we certainly wish times were better for the aluminum sector, we are comfortable with our position and ability to thrive in this market. For now, we will continue to protect our margin, control our expenses and manage our balance sheet.

Now I would like to hand over the call to my colleague Mr. Henri Steinmetz to discuss the Rütgers businesses... Henri....

Mr. HENRI STEINMETZ – PRESIDENT & CEO, RUTGERS GROUP:

Thank you Gerry. It gives me immense pleasure to address you all once again.

First I would like to share with you recent market trends.

Although we saw an increase for all the critical notations in Second Quarter 2015, we saw reversed trend for oil notations in Third Quarter 2015 due to a structural oversupply, lower consumption growth especially in China and additional anticipated volumes resulting from the political developments with Iran. The Fuel Oil price decreased from an average of US\$ 324 per Ton in Second Quarter of 2015 to an average of US\$ 243 per Ton in Third Quarter, Benzene notations decreased from an average of US\$ 834 per Ton in Second quarter of 2015 to an average of US\$ 716 per Ton in the current quarter, while there was a negligible depreciation in US dollar against Euro from the end of Second quarter of 2015 to the end of Third Quarter 2015.

Our supply of coal tar was in line with our demand and we could operate our coal tar distillation plants at a utilization level of above 80%.

Economic growth in Third Quarter 2015 in our major market the Atlantic region was good, resulting in a good demand for our products. Given the strengthening of the US Dollar, the competitiveness of all our products, especially compared to China and the USA, has increased and resulted in a positive impact on demand for our products. Overall, we expect a reasonable output growth in EU Chemicals during CY15.

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Although the chemicals business faced lower revenues of 21%, mainly due to change of notations, in current quarter compared to the Third Quarter of 2014, the profitability in current quarter was sustained to the level in Third Quarter of 2014 by re-aligning product mix.

For the coal tar related products we have a natural hedge on oil prices to a great extent. The initiatives taken by the Company to move the oil product mix more towards the sale of creosote oil; less sensitive to crude prices had helped to reduce our exposure to crude oil. The BTX related product margins are mostly affected directly by the benzene notations which bottomed out in the Third quarter and are currently trading in the range of \$560 -\$700 per ton, although currently the markets prices remain volatile

We are happy to announce that we are in the last stage of implementation of our Russian Project and its operations will start in December 2015. Further, we should be able to substantially ramp up the production in the First Quarter of 2016.

Thank you. I would like to open the meeting up for the Question and Answer session.

Over to you Operator.

MODERATOR:

Thank you very much sir. 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 touch tone telephone. If you wish to remove yourself from the queue you may press * and 2. Participants are requested to use only handsets while asking questions. Ladies and gentlemen we will wait for a moment while the question queue assembles. To ask a question please press * and 1. The first question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

Mr. PAWAN AHLUWALIA - LABURNUM CAPITAL:

Thank you very much. My question....

MODERATOR:

Ahluwalia sorry to interrupt you sir? Can you change your phone from speaker if you are on speaker mode because it's causing a feedback on the call?

Mr. PAWAN AHLUWALIA - LABURNUM CAPITAL:

Unfortunately I am on a speaker phone. Is this better?

MODERATOR:

I would request you to use the handset sir.

Mr. PAWAN AHLUWALIA - LABURNUM CAPITAL:

I don't have a handset here. Why don't you continue with your questions? I'll dial back in from a handset.

MODERATOR:

Thank you much appreciate it. Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please proceed.

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Mr. SANDEEP BAID – QUEST INVESTMENTS:

Good afternoon sir. My first question is for Gerry. I guess on the CPC business if I compare your numbers with Q2 of this year, and I remember you had mentioned that Trading volumes were high in Q2 because of trading of pet coke, and in this quarter I guess the trading volumes have come down. But despite that your margins compared to Q2 is lower. If you can elaborate on that please.

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

Yeah specific to margins, I don't have the data in front of me.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Mr. Sandeep when we declare the carbon division revenues as a whole, that includes all the three types of revenues that we generate in CPC business, coal tar business and in pet coke trading business. All the three volumes are getting combined. And due to the fall in the oil quotations and other commodity prices what Mr. Henri has mentioned, there is a lower margin in the coal tar pitch business actually in the current quarter.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Okay. And can you give me the production of sales figures for CPC in the third quarter?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

We are not giving it product-wise like that but if you are specifically looking at the third quarter, we have CPC production of 405,000 Tons and sales of about 400,000 Tons.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Okay. Great. And the capacity utilization mentioned was about 80-85%.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Yeah about 80%.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Right. And I think Gerry mentioned there have been closures of three plants in the recent weeks. So how is that likely to impact demand for us?

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

Demand for CPC obviously curtailment on those plants will directly affect total demand for CPC. Specific to us on CPC side we do not supply any of those plants on the Alcoa system that have been announced. We don't have any business with those plants. So we're not affected in any material way. However it does contribute to the overall weakness in the aluminum market and therefore demand for CPC in total.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Okay thank you. My second question was for Henri on the chemicals business side. I guess the profitability was similar to Q3 of last year but when I compared it with Q2 of this year, the margins have fallen substantially. So I wanted to understand what should we assume is a sustainable margin in this business?

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Mr. HENRI STEINMETZ – PRESIDENT & CEO, RUTGERS GROUP:

Yeah sustainable margin in this business is basically related to the notations we have I think in the BTX business, we have the substantial decrease on the notations that has a direct impact on the margins. So if we saw basically the benzene notation go from \$850 down to about lower \$600 that has affected the margins. So if the benzene notations go up, we will see the increase in margins. While for Resins & Modifiers part of the Business we could keep the margin as they were in the second quarter. It is basically related to the notations of the benzene related products.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Okay right. And my third question was for Mr. Rao. Why is the senior debt gone up substantially from \$67 million last quarter to \$103 million this quarter, senior bank debt? And what is the status of refinancing of the loan?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Yeah the reason for increase in the senior debt is the borrowing made against the ABL bank loans, , where the interest rate is around 2-3%, and we are utilizing these loans to buy the bonds, that carry an interest rate of 8-8.5%.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Okay.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

In Q3 there is a reduction Senior Secured Bonds. Compared to December 2014 they reduced from \$1,035 million to \$974 million. And the senior bank debt has slightly increased from \$85 million to \$103 million.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Okay. And what is the status of refinancing of the High Yield Bonds

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

We are working with the banks and it m happen in the next few months. It may be done by December end or by next quarter in 2016. But the company is constantly working to evaluate the options for refinancing. This time similar to what we have done in July 2015 quarter, borrow a bank debt and utilize those funds to reduce the senior secured notes. So net we will be borrowing at 4-5% and reducing 8-8.5% interest.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Okay. If I am allowed one more question, last question on the Russian facility, if you can give us some guidance on the revenue and EBITDA that this facility will generate in 2016...

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

No, we are yet to develop the business plan but only guidance we can provide is we will see operating our Russian CPC plant, and Russian CPC plant there will be good demand for the end products and whatever is produced, we are confident to achieve a good capacity utilization which is similar to what we do in our Ruetgers other plants. So that should certainly contribute to the profitability. And the cement business is also expected to continue to do well. So I can only give a feeler that things would be better in 2016 but I can't give you a specific guidance.

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Mr. SANDEEP BAID – QUEST INVESTMENTS:

Thank you.

MODERATOR:

Thank you. The next question is from the line of Pawan Ahluwalia from Laburnum Capital. Please proceed.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

Thank you very much. Just wanted a little more clarity on the balance sheet. So we had – there was one tranch of unsecured debt that we see eligible to refinance without paying a penalty starting January of next year. How much is that and how much of that has already been refinanced by the transaction you described? How much is left and what are the – you mentioned the terms in the bank debt, but what is the duration of the bank debt, what period does it take can you give us some idea?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Yeah actually Pawan out of the \$974 million senior secured notes outstanding as of September 30th 2015, about \$378 million fall due in December 2018. And after 1st December 2015 we only need to pay a call redemption premium of 2%.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

Right.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

After 1st December 2016 the call premium will disappear and we can buy them at par. So we are not specifically buying the bonds that are there. In fact we didn't go and make any offer to any of the bond holders. Whatever bonds are available in the market, through the dealers who trade these bonds on a day to day basis, whatever proposals are coming, we are buying those bonds. So it is not that we are focusing to buy only 2018 bonds or January 2021 bonds. It is not like that. Whichever bonds are available in the market, we are buying them.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

What was the total bond purchase this quarter?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

During the last two quarters, it was \$ 41.4 million.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

So one issue was you talked about de-levering company as a priority and generating a decent amount of cash every year. Given that some of this debt is short duration in nature, would it make sense to you to use the cash flow to substitute the 2018 maturity bond with the bank debt?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Pawan actually if you see we have the capital projects the Russian CPC plant expansion is in progress, and we are maintaining about \$100 million of cash, and for a business of about revenues of about \$1.8 to \$2 billion dollars of revenues. \$100 million is not very high cash but it can meet the immediate requirements of one year's of interest obligations. So when the refinance takes place maybe in the next 3-4 months, we will be recapitalizing

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the balance sheet in such a way that we will take some amount of debt in the form of a bank loan and some amount of debt will continue as senior notes. So...

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

In the next 3-4 months what is it that we can expect that you will – you are not sure whether it will be the 2018 bonds because you find that based on the offers in the market and what price you get it at, but the priority in the next 3-4 months will be to take a bank loan and pay down some of the unsecured debt.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

We are exploring the non-conventional thing because we cannot buy such \$300-400 million of bonds in one go from the market, because the liquidity per day will be something like \$5-10 million. So we are referring with the councils and the banks what is the best way of refinancing transaction, because some of the bonds if you want to go for refinance, like the part of the bonds are \$500 million worth of bonds they fall through only in January 2021 and from 15th of January 2016, i.e., 3 months from now, we can redeem them. But the redemption premium is very high at 6%. So we will be focusing to redeem only the 2018 bonds where the redemption premium is only 2%.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

Right. Right. So you will be focusing in the next 3-4 months whatever action you take, conventional or unconventional, it will be targeted at the 2018 maturity bond and we will find out more in the next 3-4 months as to what course of action you are going to take.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Yeah.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

And what size of transaction could you expect roughly speaking?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

No it will be in line with the 2018 bonds only.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

So it could be as much as \$300-400 million transactions?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

That's correct.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

Okay, okay. Thank you very much.

MODERATOR:

Thank you. A reminder to our participants. If you have any questions please press * and 1. The next question is from the line of Mitul Kalawadia from ICICI Prudential. Please proceed.

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Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Yeah hi, good evening. My first question is there a risk to our volumes.

MODERATOR:

Mitul can you repeat your question once again and please be a bit loud?

Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Sure I would do that. Since we are seeing aluminum under pressure after china having lot of capacities shut and Do we see this as a risk and if any of our customers have already announced that they would be shutting down their capacity in next 6 months - 1 years' time and that leading to some kind of a hit to our volumes?

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

Yeah we've seen as far as the reduction of aluminum production, we've seen a considerable amount in the west. We've been affected to some point on that we've had a reduction in the sales volume and obviously that remains. However we don't believe – we've always strategically tried to align our customers with more reliable and more sustainable smelters. We believe we're experiencing the benefit of that versus our competitors. Now as far as going forward we believe there could be some chasing out of volumes in the western world that could affect us. But again we're comfortable and we're confident that we will continue to be well positioned in order to maintain our sales. At this point we don't have anything that has been announced that we have not realized. This year we did have a few customers that has reduced their production levels which did affect us, and will carry over to a full year next year. But we've digested that already and considered that in our opening comments.

Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Okay. Anything further to the announcement which has been made there is no risk right, for the at least next 2 quarters volumes? We don't see that as a risk.

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

As far as what's already been announced as far as curtailment?

Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Yeah.

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

Yeah that's correct. Anything that's been announced to this point, we have fully digested and it's part of our forward expectations so we do not see anything material.

Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Okay. Second question is on the chemical side of the business and the CPC side of the business. Has there been any kind of an inventory loss in this quarter compared to the price volatility in the commodity side?

Mr. HENRI STEINMETZ – PRESIDENT & CEO, RUTGERS GROUP:

I think there we had seen some inventory adjustments in the current quarter. But at the moment again we see some of the notations for Benzene are going up again. So I don't think its material. So they can go up and down. But I think we've reached the bottom. So the trend is up again.

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MODERATOR:

Does that answer your question Mr. Mitul?

Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Yeah. So then just a last question if you may allow. On the solar side if you can mention what is the status because you mentioned there is some delay and the product is scheduled to now come by March 2016. So has the on-ground execution activity started or it's about to start? And how confident are we on the March 2016 deadline given by – sorry not deadline, the extension given by AP?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Mitul actually in solar projects the EPC contractors are very confident in executing the projects in less than 3 months. Once the land is handed over to them, it can be compressed to 60 days also. The big challenge here is only procurement of land. And though parts of the land have been acquired, but it should be a continuous piece of land so that the laying of the solar panels can be done in an efficient manner. So actually the entire EPC contract is being handled by the JV partner Sun Edison, because they are doing two other projects in the same state of Andhra Pradesh. So all the three projects they are developing together and there is a reasonable amount of confidence is there that the project can be completed within the deadline of March 2016 given by the government of Andhra Pradesh.

Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Sir can you tell me about what is the land which you are still to acquire.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

We acquired about 80 acres of land. Another 20-30 acres of land has to be acquired.

Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Okay, and what is the status on that?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

It is actually – the land aggregator has identified you know some of these farmers are away who have to hand over those lands to us. So because of that there are delays. But we don't expect that it will drag the project beyond March 2016.

Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Okay. And in terms of this new partner which has been part of this JV, how does the capital infusion into the company now happen and what would be our share of equity and what will be the total debt which will be there....

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

It is actually as per the government of Andhra Pradesh 44 crores is the equity required for this project. They will be contributing the equity in the ratio of 51 and 49. 51 will be owned by Rain and 49 by the JV partner. Apart from that any additional capital required will be infused by Sun Edison because they are raising the funds on a global basis for all their projects in India.

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Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Okay. But when you said equity of 40 crores, 44 crores, is that all in cash to be infused by both? Or the....

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

No, it is 44 crores Mitul, 44 crores is the total equity out of which 51% will be invested by Rain Cements or our subsidiary Rain Coke, and the balance will be invested by the Sun Edison which is the largest solar developer in the world. And thank you because we have certain other people in queue, so thank you.

Mr. MITUL KALAWADIA – ICICI PRUDENTIAL:

Yeah okay.

MODERATOR:

Thank you. Our next question is from the line of Sandeep Baid from Quest Investments. Please proceed.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Mr. Reddy you mentioned about the CPC blending facility in Vizag with a capacity of 200,000 tons. Now this is something new I think we have talked about. I have not heard of this in the previous conference calls. Just wanted to understand Mr. Reddy what is the capex that we have incurred for this, and is this primarily for the Indian market?

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

Yes please. The total capex for this project was about a million dollars and this will have the capacity to produce the blend of 200K – 250K tons. We will be blending the materials which come from our US Gulf plants and a portion of it will be from India, and the balance will be from China. So we are actually importing different kinds of products which are otherwise unusable by straight calcining, but by straight uses. But when blended it actually can be used. So we are trying to reduce the cost of individual material and when we blend it, it should form a good acceptable material for the smelters. All the material will be focused to be sold in India.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Okay and you have contracts for that for the Indian market?

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

Contract is basically we have ongoing sales to various customers. And as a matter of fact the Indian plant is operating at 100% capacity and we are practically sold out. So we want to meet the going increase in demand. So that is the reason we put up this plant.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

So you expect the capacity utilization blending to be high in the first year itself?

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

It should be reasonably good. I cannot comment on any numbers at this point in time, but it should be reasonably good based on the demand expectation.

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Mr. SANDEEP BAID – QUEST INVESTMENTS:

Okay. The second question was on your press release where you said post commissioning of the flue gas desulphurization plant, the company has been able to restore the CPC capacity back to 230,000 tons. So how much was it before this?

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

Because of the environmental restrictions we actually had to reduce to 130,000 tons. But now we can actually operate it at full capacity. And not only operate it at full capacity but we can also increase the use of marginal grade coke so that we can reduce the cost of raw material.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

So your capacity in US would be now about 1.6 million tons?

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

Somewhere about that.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Yeah it is 1.6 but above that in this particular plant there is a reduction by about 70,000 tons to 100,000 tons for a short period of time. Now we are regaining that actually.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Okay thank you. Sorry just one thing. I think Gerry mentioned that the capacity utilization in US is about 80-85%.

MR. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

That's correct.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

So that would mean that US production would be about 1.2-1.3 million tons?

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

Somewhere around that.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Alright, and if I add India which is 500,000 tons, so the total production will be 1.7 to 1.8 million tons.

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

That's somewhere about that, yes.

Mr. SANDEEP BAID – QUEST INVESTMENTS:

Thank you, thank you.

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MODERATOR:

Thank you. Next question is from the line of Kunal Banerjee from Eight Capital. Please proceed.

Mr. KUNAL BANERJEE – BRIGADECAPITAL:

First on the cash on the balance sheet, hello?

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

Yes go ahead.

Mr. KUNAL BANERJEE – BRIGADE CAPITAL:

Yes. Sir cash on balance sheet went on \$13 million back to the third quarter. And I was just wondering whether all of that was some free cash flow or was it from other factors.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Which number are you referring to Mr. Kunal?

Mr. KUNAL BANERJEE – BRIGADE CAPITAL:

The cash on the balance sheet went up from \$114 million to \$127 million quarter to quarter from the second quarter to the third quarter. I was just wondering whether all of that was free cash flow or was it some other factors?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

It's a combination, it's free cash flow. There is no restricted cash whatsoever in the group. It is free cash flow only.

Mr. KUNAL BANERJEE – BRIGADE CAPITAL:

You had told us on the second quarter that you'd done 45 million free cash flow in the first half. Should we just assume that in 9 months you generated 58 million?

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Yeah I am not able to get it actually.

Mr. KUNAL BANERJEE – BRIGADE CAPITAL:

Just on the second....go ahead.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

No. Some of the cash is the opening cash and it is in lot of operating subsidiaries. See basically there has been a reduction in the inventory values because of the fall in quotation, the amount has come out from that. But yes the cash flow has improved this year to a certain extent. And because the inventories of quotations have bottomed out, we don't think you know the free cash flow should increase at the same level. But there should be reasonable additions to the free cash flow going forward. We do not have any target or estimation at this point of time but there should be reasonable additions to the free cash flow going forward.

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Mr. KUNAL BANERJEE – BRIGADE CAPITAL:

Okay I'll follow up offline. But just one question on the debt. Why would you not be more aggressive in Buying Bonds given that your debt is trading at 85% face value. You know the bonds are sold off. Why would you not be more aggressive? I mean this is a good opportunity for you to buy debt at 85% of face value.

Mr. T. SRINIVASA RAO – CFO, RAIN INDUSTRIES LIMITED:

Kunal the volumes what get traded are very small. It's about less than million dollars. And when we are working on a larger piece of refinancing in the range of \$400 million plus, we do not want to aggressively pursue these buyback of bonds where the volumes are on the lower side.

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

And we are also not permitted – we have been advised not to buy the bonds in the market when we are pursuing the refinancing.

Mr. KUNAL BANERJEE – BRIGADE CAPITAL:

Okay and then just one quick question to Gerry on chemicals. Is the – I think in the fourth quarter of last year you had a mismatch between your quotations and your costs. And you know you had a pretty difficult fourth quarter. Are we in a similar situation this year or would we be in a better position? Because you are saying that the benzene quotations are now recovering in the fourth quarter.

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

Yeah. I'll defer to Henri in total but just to talk to you in macro remember the collapse we saw in the oil price last year sent a lot of commodity prices especially the chemical commodity quotations tumbling. So we're not in a position to see that again in the fourth quarter. And to Henri's earlier point, we're already seeing a recovery in the benzene quotation which in large part helps us. Henri I don't know if you want to add some specifics.

Mr. HENRI STEINMETZ – PRESIDENT & CEO, RUTGERS GROUP:

No I think we don't see it the same drop. But the only thing what we have to consider is that also we see a slight increase but we don't see a very fast recovery in the fourth quarter. As we saw in the first quarter this year, the recovery we don't see in the fourth quarter that recovery as it happened in the first quarter. Quotations are bottoming out but only slight increase.

Mr. KUNAL BANERJEE – BRIGADE CAPITAL:

Last question on that is, is it fair to assume that going from the third quarter to fourth quarter, you will see sequentially better operating profits in the chemicals business?

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

I think Henri's point, we don't see the vulnerability for sure, and we're seeing slight improvement. But whether it's a sequential improvement or not, we really will have to wait and see from a volume and price perspective.

Mr. KUNAL BANERJEE – BRIGADE CAPITAL:

Okay thank you.

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MODERATOR:

Thank you. The next question is a follow up question from the line of Pawan Ahluwalia from Laburnum Capital. Please proceed.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

Thank you very much. I just wanted to understand the benzene notation issue a little bit better. Now you are saying benzene and toluene etc., move in line with oil. But if you look at it from the other chemical companies' in India that do benzene based chemistry, could use benzene based derivatives, we've certainly seen the fall in revenue because of the decline in the benzene price but the margins have actually expanded because obviously there RM costs is a lot lower. So the drop in revenue I can understand. But surprisingly the drop in margin is much more than the drop in revenue. So why are we not able to protect margins because basically converters of this material, then we should be able to earn a conversion margin regardless of where the commodity is priced.

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

We do. The movement affects essentially raw materials and inventory, finished product inventory that we have in the chain effective in point in time. And so we get to the reset. So it's not a prolonged loss position that we get it. But in the quotation we obviously have to mark to market. So that product that we have in a whip prospective is really what is vulnerable in point in time. And as Henri said earlier in his comments that realistically what you saw in the third quarter was the drop in the notation. We had to take that loss on the inventories and the raw materials that we had, marking to market, and now we are back at a profitable position.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

So it would be fair to say that margins in the chemicals business going forward will revert to historic margins starting next quarter?

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

Well yeah, I mean historic margins we do have depending on the direction of commodity. We do have varying margins but yes we are not going to see – we don't believe that we will see anything prolonged from a margin perspective. The third quarter was something that was market related to the drop.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

I mean if I just take a mathematical average of the two years or so, chemicals have done a blend across everything because that's how you reported, has done about a 4% EBITDA margin or segmental margin. So is it fair to assume that going forward you will see somewhere around that?

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

We don't really make forward earnings projections statements. But there has been no functional change in the business so we don't believe that you will see any kind of step change in our margins.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

Okay, okay, okay. And one other question on the coal tar pitch, what is the base of steel plant shut down in Europe and what are the implications of that for our ability to source coal tar there? I mean are we procuring mostly from plants down the cost curve? Or are there some plants we procure from that are half and half on the cost curve where viability is possibly an issue?

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Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

That's a good question. You know Henri I don't know if you want to talk specific to Europe.

Mr. HENRI STEINMETZ – PRESIDENT & CEO, RUTGERS GROUP:

Yeah I think in Europe we have basically very minimal exposure to the UK. So we are not affected by the UK closures. On the other hand we have this year a new opening of capacity in Germany and we also were minor affected by the Ukrainian volume. So actually with Russia and tar supply we are quite well positioned to be minimal exposed by any closures.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

And you said that you think you're quite competitive relative to China both in supplying coal tar to the Middle East because that is likely to be an areas where you will see substantial further growth in smelting capacity, and in the broader chemicals market. You said at the start of the call about greater competition from China. I am just wondering are we still confident we are competitive relative to Chinese both on landed cost of coal tar in the Middle East and on the chemicals business that is related to coal tar?

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

Yeah we have a very good – we have a – as far as – remember there is just a difference of raw materials coal tar, our finished product is coal tar pitch. But I believe I understand the gist of your question.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

Yes, I'm sorry. Yeah.

Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

No problem. I just wanted to make that distinction for everyone. There is no doubt that coal tar availability is getting tighter. But the competitiveness versus China and our comfort with that is exactly that the lower benzene quotations, the lower quotations on the chemicals has really helped the Chinese, the higher quotations helped the Chinese markets in a lot of ways. And now the lower prices for the other extractable products from the distillation process is putting China under a lot of pressure to be profitable really currently as well as going forward. So we like our position because of the value that we extract downstream from the distillation process in the chemicals business. We like our position and how we compete globally. Now dealing specifically with what you're talking about in the Middle East, we are not particularly focused on the Middle East as an end consumer market for us from the coal tar pitch perspective. We compete well in North America, throughout Europe, in Russia. We are very comfortable with both our sourcing and our selling positions and as such the Middle East is really just very much – I guess I term it more as a swing volume for us if we have a cargo here or there that timing wise we would need to move. In past years we've done that but it's not a focused market for us at all. It's more of a stock market from our perspective. So we really don't meet the Chinese product in India or the Middle East on a normal basis.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

But isn't that likely to change? Say on a 5-10 year horizon, a lot of people believe just given cost of smelting, that the European Aluminum industry is gradually going to shut down and essentially relocate. And that will be replaced by a Middle Eastern industry which has energy advantages, costal location and environmental advantages. The extent of that is one possible direction in which the industry might move. Shouldn't we be positioning ourselves for that and gradually building up ourselves in these markets?

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Mr. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC USA:

I think in a word no. but I think it's a very, very far field to talk 5 -10 years. But I guess the way I would answer the question is 10 years ago it was projected by many analysts that the European aluminum industry would be closed down and already replaced by the Middle Eastern smelters. And yet we see India growing faster in aluminum production than the Middle East is. And so like I said I can't really spend a lot of time on it. Something like this 5-10 years. But I believe that the way we see the market and the way we're positioned as demonstrated by our results is very much where we should be, and we tend to look at things – obviously we look at the horizon but we're driving ourselves to the three year horizon more than the 5-10.

Mr. PAWAN AHLUWALIA – LABURNUM CAPITAL:

Okay thank you.

MODERATOR:

Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Reddy for closing remarks. Over to you sir.

Mr. JAGAN MOHAN REDDY – MD, RAIN INDUSTRIES LIMITED:

Thank you everyone for participating in the call.

We are now focusing on timely completion of all the capital projects under execution; 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 members of management from Rain Industries. Ladies and gentlemen on behalf of Prabhudas Lilladher Private Limited that concludes this conference call. Thank you all for joining us and you may disconnect your lines now.