

Q3-CY16 Post Results Earnings Conference Call Transcript
November 11, 2016 @ 17:00 Hrs (IST)

MANAGEMENT:

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

PARTICIPANTS IN Q&A SESSION:

Mr. Vinod Malviya - FLORINTREE ADVISORS
Ms. Gunjan Kalra - NIVE SHAAY
Mr. Sureddy KR - MERGERSINDIAINFO.COM
Mr. Tirach Muchalla - INDIVIDUAL INVESTOR
Mr. Akhilesh Kumar - INDIVIDUAL INVESTOR
Mr. Sandeep Baid - QUEST INVESTMENTS
Mr. Piotr Ossowicz - IRONSHIELD CAPITAL

MODERATOR:

Ladies and Gentlemen, Good Day and Welcome to RAIN Industries Limited Earnings Conference Call for the Third Quarter 2016. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ryan Tayman – Vice President for Investor Relations from RAIN Group. Thank you and over to you, sir.

RYAN TAYMAN:

Thank you. Good Evening everyone. I welcome all the participants to the Third Quarter 2016 Earnings Conference Call of RAIN INDUSTRIES LIMITED.

Speakers on today's call are Mr. N. Jagan Mohan Reddy, Managing Director of RAIN INDUSTRIES LIMITED, Mr. T. Srinivasa Rao, Chief Financial Officer of RAIN INDUSTRIES LIMITED, Mr. Gerard Sweeney, President of RAIN CARBON INC., and participants in the question and answer session in addition to the speakers are Dr. Guenther Weymans, Chief Operating Officer, of RAIN CARBON INC., and Mr. Kris Vanherbergen, Chief Commercial Officer, of RAIN CARBON INC.

We will commence the call with opening remarks from Mr. Reddy providing an update on developments during the Third Quarter in the RAIN Group. He will be followed by Mr. Rao who will provide highlights of the financial performance during the Third Quarter 2016. Mr. Sweeney will then provide an outlook for the Carbon and Chemical business followed by a question and answer session where management will answer the questions from the participants.

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

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

N. JAGAN M REDDY:

Thank you Ryan. Good evening everyone and welcome to our Third Quarter 2016 Earnings Conference Call.

I would like to start my discussion with a brief update on the key developments in the RAIN Group. While the industry and macro-economic environment remained volatile over the quarter and continued to impact earnings across the sector, our view on the fundamentals remain largely unchanged. During the Third Quarter of 2016, RAIN continued to demonstrate the resilience of its business operations to the current environment with its ongoing work to reset the Company and maintain its leadership position. We are consistently progressing towards establishing the balance in all our functional areas in the current economic environment. The successful fruition of the strategic plans, projects and our progressive business model has had a positive impact on overall performance of RAIN during the Third Quarter of 2016 especially in terms of cost optimization.

In the Third Quarter of 2016, RAIN has achieved Consolidated Revenue of ₹22.3 Billion; Consolidated Adjusted Operating Profit of ₹4.1 Billion; and Consolidated Adjusted Net Profit of ₹1.4 Billion. Although it is widely believed that the market quotations have reached the bottom of the cycle, they remained volatile during Third Quarter of 2016 with recent signs of improvement. Accordingly with the cost optimization program and positive signs of improvement in market quotations, we are confident that the performance of the Company should gradually improve in forthcoming quarters.

In the Cement business, we are pleased to inform that the new 6.5 MW Waste-heat Recovery Power Plant in Kurnool Cement Plant commissioned during September 2016 has stabilized and started delivering the planned savings. Due to heavy downpour during monsoon and disturbances in our major markets in Southern India, the sales volumes remained low during Third Quarter of 2016. However, considering the Government's thrust towards higher spending on infrastructure, roads and housing, the Company expects that cement market to improve going forward in future. Further, it is widely believed that the limited capacity addition and demand revival implies sector is entering the earnings growth cycle wherein Cement sector would achieve higher growth rate.

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

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

T. SRINIVASA RAO:

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

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

- Consolidated Net Revenue of ₹22,295 million during Q3 2016, a fall of ~17% compared to ₹26,817 million during Q3 2015.
 - Carbon Products sales volume during Q3 2016 is 730 thousand metric tons, a decrease of ~5% compared to 771 thousand metric tons in Q3 2015. The decrease is mainly due to the decrease in CPC sales and Pet Coke trading volumes that were partially offset by increased volumes in CTP & Other Carbon products from Russian CTP Plant. The fall in CPC sales volumes is mainly due to change in customer delivery schedules. During Q3 2016, the average blended realization decreased by ~14%. Further, the Euro appreciated by ~3.5% and US Dollar appreciated by ~3.2% against Indian Rupee. Overall the fall in the average blended realizations after partial offset by increase in exchange rates and decrease in volumes led to a decline in revenue from Carbon Products business by ~16% in Q3 2016; as compared to Q3 2015.
 - Chemicals sales volume during Q3 2016 is 69 thousand metric tons, a decrease of ~17% compared to 83 thousand metric tons in Q3 2015. The fall in Chemical sales volumes is mainly due to a ~ 59% decline in trading volumes. During Q3 2016, the average blended realization decreased by ~5%. Overall the fall in the average blended realizations after partial offset by increase in exchange rate and decrease in volumes led to a decline in revenues from Chemicals business by ~19% during Q3 2016.
 - Cement revenue during Q3 2016 decreased by ~21% as compared to Q3 2015. This is mainly due to the decrease in volumes by ~14% and a ~ 7% decline in realizations. The decline in volumes is mainly due to heavy rains in our key markets and political disturbances impacting the logistics during Q3 2016.
- Operating Profit in Carbon Business increased by 15% in spite of fall in volumes due to cost optimization initiatives. Also, Operating Profit in Chemical Business increased by 18% in spite of fall in volumes. However, Operating Profit in Cement Business decreased by 58%, due to increase in costs and lower volumes.
- Consolidated Adjusted Operating Profit for Q3 2016 is ₹4,077 million an increase of ~7% compared to ₹3,802 million achieved during Q3 2015; the increase is primarily due to cost optimization initiatives implemented by the Company.
- Due to the aforesaid reasons, Adjusted Operating Margins have increased to 18% during Q3 2016, compared to Operating Margin of 14% achieved during Q3 2015.
- During Q3 2016, the Company had a Foreign Exchange Gain of ₹37 million, as compared to Foreign Exchange Loss of ₹290 million in Q3 2015.
- Finance cost during Q3 2016 is ₹1,430 million, a decrease of ~2% compared to ₹1,464 million during Q3 2015 mainly due to decrease in debt through buy-back of Senior Secured Notes and making of scheduled repayment of debt partly offset by the depreciation of the Rupee against US Dollar and Euro.
- Effective tax rate during the quarter is in-line with the group tax rates at various geographies which include India, Belgium, Canada, Germany and the United States.

- Consolidated Adjusted Net Profit during Q3 2016 is ₹1,392 million as compared to Net Profit of ₹1,014 million during Q3 2015.
- The Company achieved a Consolidated Adjusted EPS of ₹4.14 during Q3 2016 as compared to Consolidated EPS of ₹3.02 during Q3 2015.

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

GERARD SWEENEY:

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

We are very pleased with the performance of the group during Q3, and continue to reap positive results from strategic investments made in our calcination and distillation businesses globally. As mentioned earlier by Jagan, the global industries we serve continue to be pressured, especially against Chinese competition. Our focus on cost competitiveness has protected our margin and allowed us to realize better performance during this period. We remain focused on exploiting the opportunities these investments have provided to protect this advantage.

The Russian Severtar JV has performed well after starting up earlier this year, and we are now focused on ramping up production next year, as well as optimizing the operations. There is still some opportunity to be realized in our system from this strategic investment. In the CPC business, our investment in SO₂ scrubbing technology continues to deliver an improved ability to process higher Sulfur cokes to control our costs, aiding our India blending strategy. Also, a third expansion in our Carbores product line is starting up now, and will produce meaningful quantities during Q1 2017. CARBORES®, our exclusive trademarked product, derives its name from "CARBOnacious RESin powder", and is a specially modified coal tar pitch binder product. Unlike any other binder it combines excellent product properties with an especially low concentration of toxic constituents. It is a highly specialized product, used in high value end products, and will continue to diversify our revenues and increase earnings overall.

These investments over the last several years are now almost complete, and we remain focused on ramping up and optimizing them moving forward to reap maximum benefit.

In our CPC business line, the India blending strategy is driving sales volumes, helping us to drive down our cost per ton of production. While the aluminum market has remained somewhat dampened, there has been some positive movement of late on aluminum pricing, and CPC availability has clearly tightened in Asia. With Indian aluminum production projected to grow rapidly for the next several years, we are pleased with the prospects for continued growth in volumes for 2017 and beyond. These markets will fuel demand, providing a better opportunity to place volumes and drive pricing. We will be watching developments in Asia carefully moving forward, and remain well positioned to serve these growing markets through our India Blend strategy.

On our GPC raw material costs, prices have risen somewhat the last few months as rising metallurgical and steam coal prices have made GPC more attractive cost-wise to the global steel, cement and power industries. We will be passing along these cost increases to customers in the next pricing cycle.

For coal tar related products, we continue to see strong demand and are operating at high rates across all our facilities. We have seen some increases in tar pricing consistent with improving met coal pricing and rising liquid product commodity quotations. We are passing along these price increases to our customers to compensate for the raw material cost increases in Q4.

From a volume perspective, our pitch sales volumes for the year will remain strong due to steady demand from the aluminum sector. We expect to have increased sales volume levels in CY2016, with the addition of our Severtar production and the withdrawal of our competitors in certain markets this year.

We saw stable volumes during the quarter on coal tar oils, and a relatively stable oil price aided our commodity indexed products. The Fuel Oil price increased from an average of US\$ 205 per Ton in Q2 of 2016 to an average of US\$ 233 per Ton in Q3 of 2016. Benzene notations increased from an average of US\$ 662 per Ton in Q2 of 2016 to an average of US\$ 698 per Ton in Q3 of 2016, positively impacting BTX, Naphthalene, Ortho-xylene and PA pricing. Stability in the crude oil price around US\$ 40 per barrel to anything upward, will allow us to maintain our realizations from these tar oil products going forward.

The chemicals business revenues and volumes were lower than prior year related to the strategic decision to move away from low margin trading sales to focus on Rain produced Chemicals. This shift resulted in increased operating profit from the business compared to prior year. The business is well positioned to generate consistent revenue and profit for the year. We are also exploring opportunities to expand our volumes in this business in the future.

We continue to watch market developments on the global front, and are particularly intrigued by the latest developments in Asia. The LME aluminum price has crossed US\$ 1,700, despite most predictions in the opposite direction. The Shanghai price, while less reliable an indicator, remains even stronger. After years of excess CPC availability in China, Q4 has shown sudden CPC volume shortages with some upward bias on prices. If CPC availability in China continues to tighten, there will be opportunity for volume and price throughout the Asian market going forward.

We are currently running at near capacity rates in both businesses globally, and are planning a full production schedule for 2017. We continue to focus heavily on cost optimization ideas to maintain our competitiveness on a global basis. Given our run rates in both global businesses, and our ability to source lower cost raw material inputs, we are confident in our ability to compete effectively moving forward. While we hope for continued positive movement in our markets, we are focused on driving productivity, controlling our costs, and managing our balance sheet effectively.

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

MODERATOR:

Thank you Mr. Sweeney. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. Our first question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

VINOD MALVIYA:

In your press release, you talked about that your CPC volume has declined in the quarter because of rescheduling of delivery. Can you quantify what was the volume which has been rescheduled ? Can you be more specific like what was the reason for the rescheduling of the delivery?

T. SRINIVASA RAO:

The decline under this segment is around 25,000 tons and as we explained in our previous earnings call, our US plants were originally supplying to the customers in North America and Europe. Later, because of uncertainties in the Aluminum industry in these regions, we have started focusing on shifting our sales to Asian and Middle East smelters. Due to this reason, there is an increase in the conversion cycle. We believe by year-end we should be able to cope up with this scenario.

VINOD MALVIYA:

Even if I add 25,000 tons to your current volumes, still there would be a decline on YoY basis and sequentially there would be a significant decline.

T. SRINIVASA RAO:

Yes it is. As I mentioned before, we are shifting our sales from North America and Europe to Asia and Middle East which results in a time lag for about one month. Hence, to that extent, there will be a temporary difference on a year-on-year basis till this system gets aligned. Mr. Gerry Sweeney has just mentioned that we are running our plants near to their full capacity i.e. around 85% and we should move towards 90-95% going forward in calendar year 2017.

VINOD MALVIYA:

Second question in on the margin of CPC, If I look at the sequential margin from Q2 to Q3, your Carbon margin was around 19% and this quarter it has moved to 21%. So can you just provide some detail what is the major benefit you have accrued in this quarter which has led to such high margin and going forward, what will be the normal run rate you would be able to make in the Carbon business?

KRIS VANHERBERGEN:

One of the main developments compared to last year especially on the Coal Tar Pitch side is that we have been able to maintain healthy margin to the Coal Tar and the second one is that, at our facility in Russia which is a joint venture with Severstal, where we have a better raw material arrangement. Both factors have allowed us to significantly boost the margin on Coal Tar Pitch side.

VINOD MALVIYA:

What would be the utilization at the Russia level right now in the CTP?

KRIS VANHERBERGEN:

With regard to the utilization, this is the first nine months of operations wherein we are around 65-70%. The plan is to further increase this to the range of 80% going forward.

VINOD MALVIYA:

So going forward, as the contribution from Russia improves, your margin can improve from this level as well from 21% can move to 22-23%?

KRIS VANHERBERGEN:

It will be at a margin similar to the level we have at this point of time.

VINOD MALVIYA:

Second question was on the Chemicals business. So in the Chemicals business we had seen really very good volume in the Q2 calendar '16, but this quarter we have seen sequentially there is a dip like from 15% margin it has come down to 11% margin. Can you provide some more details, what is the reason why the margins have dipped and what would be the likely run rate going forward for the margins?

KRIS VANHERBERGEN:

One of the key issues we have been battling within Q3 is the availability of raw materials and there has been sequential technical issues with some of the crackers that are supplying us in Europe in Q3 including what you may have also seen a significant fire at the BASF cracker in Ludwigshafen. So these elements have significantly impacted our raw material base in Q3. We will not see that going forward to the same extent and on top of that we are taking measures to improve the sustainability of raw material flow in the Chemicals area going forward.

VINOD MALVIYA:

What was the Bond Buy-back during the quarter?

T. SRINIVASA RAO:

A very minimal debt reduction of about € 5 million Bonds buy-back happened during this quarter.

MODERATOR:

Thank you. The next question is from the line of Gunjan Kalra from Nive Shaay. Please go ahead.

GUNJAN KALRA:

My question is we are seeing the current economic scenario if the dollar depreciates, so will that benefit to the company, do you keep your hedging position open seeing the blending strategy from US to India, so will that benefit the company?

N. JAGAN M REDDY:

We are a naturally hedged company, so it should not impact us. Even if the dollar strengthens, since all our CPC sales are made in US dollars around the globe, the same should not impact us. Rather on a positive note, if the dollar strengthens, the euro becomes weaker which means the European market will become more competitive. Hence it is not a bad thing for us.

MODERATOR:

Thank you. The next question is from the line of Sureddy KR from MergersIndiaInfo.com. Please go ahead.

SUREDDY KR:

Can you please give some broad view on your capital allocation plan for next one or two years? Are you expecting your refinancing cost will come down or what is your view on that?

N. JAGAN M REDDY:

In next one or two years we only want to focus on reducing the debt. We are looking at refinancing debt in calendar year 2017. As of now, majority of our capital investments are completed with the last - Carbores-III under construction expected to be completed by the end of this year. So hopefully over the next two years, whatever comes in, we want to use the same to reduce the debt. Anyhow, we are also planning for completing the refinancing sometime in next year.

SUREDDY KR:

Are you expecting your refinancing cost will come down?

N. JAGAN M REDDY:

Yes, certainly we hope that the refinancing cost should come down. I don't know by how many basis points... but we are fairly sure of it because our only criteria for refinancing at this point of time will be reducing the interest cost because we have another two years to pay off about 35-40% of the debt and we have four years to pay the balance debt. So there is no pressure to do the refinancing. We will only do the refinancing provided we can reduce the incidental cost.

MODERATOR:

Thank you. The next question is from the line of Tirach Muchalla who is an individual investor. Please go ahead.

TIRACH MUCHALLA:

I have two questions actually: Everything is happening in Europe with respect to Brexit or euro zone breakup. In terms of contingency planning, how are we placed for any wild swing in any new currency or euro because we are heavily exposed to the German market in terms of production, like have you guys thought of that at all or...?

KRIS VANHERBERGEN:

With regard to Brexit, let us say, indirect influence is very minimal because our overall sales in the UK markets are minimal from a range perspective. In regards to euro zone, in Germany in particular, we do not see any indication at this point of time regarding any slowdown either in consumption or in production level for base materials like aluminum, steel, etc., So due to the geographical spread of our sales, we do not see any significant impact at this point of time from Brexit or from the potential effect on euro zone economy or German economy.

TIRACH MUCHALLA:

I am sorry, I think I did not frame my question correctly; it was just that if there is a euro zone breakup in the sense that if Germany decides to exit or has to and you move to deutsche mark, how big the impact would that have on the operations, like have you guys thought of that?

KRIS VANHERBERGEN:

At least I can say from a commercial perspective, we have been there before, we have been successful in a vibrant where euro zone was united as it is today, of course, it would bring together a much more complex environment than we see at this point in time, but I have no doubt that we will try for success in one month as we are leaving out. Maybe from a financial perspective, Jagan, maybe you can give some feedback on that?

T. SRINIVASA RAO:

Actually, our sales happen across the world other than China and Australia. The European Chemical products are sold in all major markets like North America, Europe, Middle East and South Africa. So as just mentioned by Kris, Ruetgers is a 130-year-old company and since then they are doing this business. Today Ruetgers is one of the large suppliers with a good market share to meet the requirements of aluminum smelters. Nobody can predict the currency fluctuation. There are predictions that euro can even go below par and also that euro may get split into different zones. As of now, we cannot comment anything on these matters.

TIRACH MUCHALLA:

On the revolver facility, a) the amount has come down substantially, I think it was more than \$200 million, now it is around \$140 million and b) could you disclose some terms of the arrangement like is there a chance that our access to the revolver in case of an emergency can be blocked by the participating banks?

T. SRINIVASA RAO:

A substantial part of the revolver facility availed is in European as well as Indian companies. All these are first lien debts and are ~2x or ~3x covered with the current assets. Because of this, we do not see any blocking on these revolver facilities. From the banker's point of view, we are duly meeting all their covenants, security and any other requirement. Hence, we do not foresee any issue in renewing or withdrawing funds against these revolver facilities. Further, our relationship with these banks is 10 plus years.

MODERATOR:

Thank you. The next question is from the line of Akhilesh Kumar, who is an individual investor. Please go ahead.

AKHILESH KUMAR:

My question is, our Cement business has got more impact on the leverage ratio what we have all our debt in US and Europe, right?

T. SRINIVASA RAO:

Yes.

AKHILESH KUMAR:

Ok, In that case, what is the plan for investor like me who are long term holding for last 10 Years whose value has been lost because of merger of Cement Company with the Carbon Company. Why we are not relisting that Cement again since there is no point like say impact of cement division contributing more earlier... right? Instead of receiving dividend of Re.1 per year, if we relist that, the individual investors like me, they will get unlocking of the value, right?

N. JAGAN M REDDY:

See... the way this company was found was by the strength of both the cement and the calcining companies. Because of this only, we from being a less than \$100 million or \$150 million about 10-years back are now several times of that. The cement business is the one that actually gives us strength to grow globally. From this business we get dividends and other things can be serviced from India within the cement company. So that is the reason we just cannot split but maybe at an appropriate time we can think about it and if it is value accretive, we will do it.

AKHILESH KUMAR:

I agree, but can you give me better picture, what is the strategic point of keeping it there, like since it has got no impact even if you do your better, it has revenue contribution less than 10% of the entire consolidated revenue, right, so even if you perform here better, there is no impact on leverage ratio?

N JAGAN M REDDY:

No, it is nothing to do with the leverage ratio or what percentage it contributes. It is basically based on the fact that it provides the security required from investor. From a dividend perspective cement is the one that gives us the security so that though we have grown well in the global markets, cement is the one actually that has been providing the base security to go and grow in the global markets so that we are not just exposed to the global markets, but we also have some exposure to India.

AKHILESH KUMAR:

But instead of talking about and discussing about our US listing of the Carbon business, we keep talking about for the last 8-years as well that US listing, which is obviously not possible in the near future as well. But why we do not discuss this one all at all like say I can receive the same dividend from the combined group, I can receive the same dividend from the delisted cement group, what is the impact to anyone?

N. JAGAN M REDDY:

We will keep on thinking about the strategic issues and we will come back to you when a decision is made but this is subject to the board and other discussions, several factors are considered when we are actually looking at splitting a company. So, at an appropriate time will come back to you on when we will do it.

MODERATOR:

Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.

SANDEEP BAID:

Cement numbers have come as a surprise, because I thought the industry is seeing volume growth in your key markets of Andhra and Telangana, but you have delivered a de-growth. Just wanted some more color on that?

N. JAGAN M REDDY:

Mainly, there are two reasons why the Cement Company did not perform well. One was the consistent monsoons in this area and more than that because of Kaveri river issue between the two southern states that has impacted quite a bit. Due to the strikes there was no movement of material, majority of our material moves through truck and because of the bandh and lot of things going on in both the states, we could not move the material, this was for a prolonged period during this quarter. So hopefully, I think that is done now and we are back and by the end of this quarter we feel that we should move back to our normal performance.

SANDEEP BAID:

Are you saying that the impact was more in Karnataka and not so much in Andhra and Telangana?

N. JAGAN M REDDY:

No, it was not much in Andhra...Andhra and Telangana were more from rains perspective because there were severe rains but the impact was mainly on Karnataka and Tamil Nadu.

SANDEEP BAID:

Secondly, on the Carbon business, normally Q4 is the weakest quarter for you historically. Will this Q4 be different or the same trend is expected to continue?

N. JAGAN M REDDY:

We hope and pray that it should be different but we will let you know once actually the quarter completes.

SANDEEP BAID:

But it is almost 45-days since the quarter started, so we are of late through...?

N. JAGAN M REDDY:

We generally do not give guidance.

T. SRINIVASA RAO:

This year will be better than last year.

MODERATOR:

Thank you. The next question is from the line of Piotr Ossowicz. Please go ahead.

PIOTR OSSOWICZ:

First one on the operating side, I think you mentioned during your presentation when you commented on commodity prices that, you need oil of about \$40-\$45 a barrel I think to realise / deliver your margin. That was a very brief comment. Can you please elaborate on this, I want to understand what this \$40 mean and how do you look at the oil price in this context?

KRIS VANHERBERGEN:

In general, oil price has an influence. For instance, some of the oil products that we sell in carbon segment and some products in chemicals segment that we produce are linked to quotations like fuel oil, benzene, orthoxylene, etc; as already referred to during the presentation. So, higher the oil price, ofcourse, there is an upward trend in pricing of these products. Parallel to that, we have worked hard to have a balancing mechanism in auto hedging between the pricing of the end products and the pricing of the raw materials so that with a \$40 per barrel oil price, we feel comfortable to be in line with the kind of budgeting and the kind of forecast that we have put in place. If the dollar per barrel goes up, that would give us a relative upside margin going forward.

PIOTR OSSOWICZ:

But \$40 is it a breakeven or is it the level that you need to have the margin of 19-20%?

KRIS VANHERBERGEN:

It is at the level where we foresee margins in line with what we see now in Q3.

PIOTR OSSOWICZ:

My second question is on the refinancing. You mentioned that you are thinking about refinancing your bonds in 2017. In one of the previous calls, you have mentioned that you need that in order to refinance you would need to see leverage going to about 4x. So can you please comment on what is still the case and what do you foresee the leverage to be there? Also how advanced the refinancing process is, in a sense that are you talking to the banks, do you have the date in mind... it is early '17 or late '17, if you could give some more color on that?

T. SRINIVASA RAO:

We have been constantly working with the banks and watching the markets. We observe that, the companies with similar ratings as ours are able to do financing at a better interest rate than our current interest rate. Hence, we are confident that we should be able to maintain a good leverage ratio when we go to the market and we are planning to do it anytime in the beginning of 2017.

PIOTR OSSOWICZ:

Beginning of 2017, so after the quarter is going down in January?

T. SRINIVASA RAO:

Yes.

PIOTR OSSOWICZ:

Just to understand, you probably know this there is a lot of emerging markets in the credit markets going on after the US election and given that the exporting to India especially on the CPC side is a big part of your story, how do you feel with what is going on in the market today?

T. SRINIVASA RAO:

We are not just an emerging market company. We have operations in Europe and North America. We have a good market share in both the products. Because of this, we should be able to demonstrate a better rating. We should be able to do refinancing in the beginning of 2017. But as just mentioned by Jagan, unless there are savings, we will not pursue refinancing since we have two years of time for refinancing. Hence, we will start the initiatives in the beginning of 2017 but the refinancing can happen anytime during 2017.

PIOTR OSSOWICZ:

You are saying is it early '17 to mandate the banks or is it early '17 to actually go out in the market?

T. SRINIVASA RAO:

Yes, we are already in discussion with the banker, we are also looking for impact of US presidential election. Now we have to see how the markets react.

PIOTR OSSOWICZ:

You said that you would not push your refinancing unless the rate are attractive, do you have a rate in mind the current...?

T. SRINIVASA RAO:

No. As we mentioned before, we should see a good saving. Our average cost of borrowing is around 8.25%. Refinancing should be better than that. I do not want to comment exactly what rate we are looking at because we need to get a feedback from the banks on that. What I am saying is there is no compulsion for us to do the refinancing unless there are savings that are compensating the redemption premium and the issuance cost, etc.,

MODERATOR:

Thank you. As there are no further questions, I now hand the conference over to Mr. Reddy for closing comments. Over to you, sir.

N. JAGAN M REDDY:

Thank you everyone for participating in the call.

Although the environment is moving slowly towards a more balanced position, we are continuing to work on our strategic plans and also on the new business model effectively to improve the growth and also optimize costs to remain sufficiently resilient in these volatile conditions. Although majority of the Company's Debt is due in December 2018 and January 2021, the Company is preparing to refinance such debt during CY17 with lower-cost debt through a variety of options available to it.

Thank you once again.

MODERATOR:

Thank you. On behalf of RAIN Industries, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.