RAIN INDUSTRIES LIMITED

Prabhudas Lilladher

Q1CY16 Post Result Conference Call Transcript

RAIN Representatives:

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Mr. Gerard M Sweeney – President, RAIN CARBON INC., US
Mr. T. Srinivasa Rao – Chief Financial Officer (CFO), RAIN INDUSTRIES LIMITED
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Date: May 06, 2016

MODERATOR:

Ladies and gentlemen, good day and welcome to the Rain Industries Limited Earnings Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder, all participants' 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 * and then 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 Private Limited. Thank you and over to you sir.

KAMLESH BAGMAR - PRABHUDAS LILLADHER PRIVATE LIMITED:

Good Evening everyone. I welcome all the participants to the First Quarter 2016 Earnings 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. Kris Vanherbergen, Chief Commercial 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 First Quarter 2016. Mr. Gerard Sweeney will provide Outlook for the Carbon and Chemical business. 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 sir.

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

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

During the First Quarter of 2016, RAIN made considerable progress in implementing strategic plans to maintain its leadership position in this sluggish macro-economic environment. During this period, RAIN commenced operations of its fourth CTP plant in Russia which is operating reasonably well. Further, the aligning of the Calcination and Distillation businesses along functional areas of Operations, Commercial, Finance and Logistics permits RAIN to manage these businesses as one global company. This integration creates cost optimization, more cross-selling opportunities and leverages talent worldwide. This also provides the necessary platform for implementing best practices, streamlining responsibilities and driving efficiencies across the companies to overcome the challenging times in our end market sectors.

In the First Quarter 2016, RAIN has achieved Consolidated Revenue of ₹ 21.5 Billion; Consolidated Adjusted Operating Profit of ₹ 1.9 Billion; and Consolidated Adjusted Net Loss of ₹ 0.2 Billion. As the Company is engaged in the business of converting by-products into value added products, the Company generates operating margins that move in a narrow band with any variations in prices of raw materials mostly reflected in the prices of finished products. As lower market quotations developed in the quarter under review, operating margins were impacted by a time lag of up to one quarter while prices were re-aligned between finished products and raw materials. Further, the Company maintains about three months inventory of raw materials for uninterrupted production and, when markets for finished products move to lower quotations, operating margins are temporarily impacted until prior inventories are fully consumed. It is widely believed that the market quotations have reached the bottom cycle with minimal changes likely going forward. Accordingly, the performance of the Company should gradually improve from the second quarter of CY16 onwards.

My colleagues will elaborate further when Srinivas takes you through the segment wise financial impact and when Gerry takes you through the factors that influenced our performance in the Carbon and Chemical businesses.

In the Cement business, during the First Quarter 2016, although there was an increase in sales volumes, the revenue and operating margins declined mainly due to lower quotations. However, the Company expects the cement market to improve going forward on the back of higher spending on infrastructure, roads and housing. In order to optimize the cost of electricity in its Cement business, the Company is commissioning a 7 megawatt Waste-Heat Recovery Power Plant at its existing Cement Plant in Kurnool, India. The Power Plant is in the final stage of execution and as per the revised estimate, it will be commissioned during June 2016.

With regards to the 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, India. The Company owns 51% of the shares of the Solar SPV and the remaining 49% of the shares are owned by SunEdison. SunEdison is responsible for achieving Financial Closure and for Project Execution of Dharmavaram Solar Power Plant, along with two other Solar Power Plants of SunEdison in the state of Andhra Pradesh. SunEdison engaged L&T as turnkey Engineering, Procurement and Construction contractor for Dharmavaram Solar Power Plant. L&T faced considerable local challenges and interferences while mobilizing its team, which has caused a delay in the expected project execution date. SunEdison requested an extension of time from the Government of Andhra Pradesh until August 2016 and is currently waiting for the consent of the Government of Andhra Pradesh for extension of time. There is no financial impact on the Company related to this delay.

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

MR. T. SRINIVASA RAO - RAIN INDUSTRIES LIMITED:

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 ₹ 21,503 million during Q1 2016, a fall of ~15% compared to ₹ 25,290 million during Q1 2015.

- Carbon Products sales volume during Q1 2016 is 633 thousand metric tons, a decrease of ~25% compared to 848 thousand metric tons in Q1 2015. The decrease is mainly due to decrease in Pet coke trading and CPC sales volumes. Carbon revenues in Indian Rupees decreased by ~16% during Q1 2016 due to the decline in the average blended realization by ~17%. During Q1 2016, the Euro appreciated by ~6% and US Dollar appreciated by ~8% against Indian Rupee. Overall the fall in the average blended realizations supplemented by decreased sales volumes partially offset by appreciation of foreign currencies led to a decline in revenue from Carbon Products business by ~16% in Q1 2016; as compared to Q1 2015.

- Chemicals sales volume during Q1 2016 is 70 thousand metric tons, a decrease of ~6% compared to 75 thousand metric tons in Q1 2015. Chemical revenues in Indian Rupees decreased during Q1 2016 by ~16% due to the decline in average realization by ~15% as compared to Q1 2015 supplemented with decreased sales volumes and partially offset with appreciation of Euro against Indian Rupee by ~6%.

- Cement revenue during Q1 2016 decreased by ~4% as compared to Q1 2015. This is mainly due to the decrease in realizations in non-traditional markets areas and offset with a 7% increase in volumes in traditional markets.

Consolidated Adjusted Operating Profit for Q1 2016 is ₹ 1,997 million a decrease of ~36% compared to ₹ 3,135 million achieved during Q1 2015; the decrease is primarily related to the substantial fall in the prices of Carbon Products and consumption of high cost raw materials procured in earlier periods. Further, the fall in sale volumes of Carbon products, due to delays in scaling-up of the new CPC blending operation in India also contributed to the fall in Operating Profits.

Due to the aforesaid reasons, Adjusted Operating Margins have decreased to 9% during Q1 2016, compared to Operating Margin of 12% achieved during Q1 2015.

During Q1 2016, the Company had a Foreign Exchange Loss of ₹ 33 million, as compared to Foreign Exchange Gain of ₹ 459 million in Q1 2015. The Company has designated certain long term inter-company loans as Investments in non-integral foreign operations, as per Indian Accounting Standard 11 with effect from July 1, 2015 and transferred foreign exchange losses on reinstatement of such inter-company loans to Foreign Currency Translation Reserve.

Finance cost during Q1 2016 is ₹ 1,484 million, an increase of 4% compared to ₹ 1,432 million during Q1 2015 due to the depreciation of the rupee against US Dollar and Euro and offset by decrease in debt through buy-back of Senior Secured Notes of US$ 10.25 million during Q1 2016 and making of scheduled repayment of debt.

The effective tax rate remains normal in Q1 2016.

Consolidated Adjusted Net Loss during Q1 2016 is ₹ 250 million as compared to Net Profit of ₹ 843 million during Q1 2015.

The Company achieved a Consolidated Adjusted Negative EPS of ₹ 0.74 during Q1 2015 as compared to Positive EPS of ₹ 2.51 during Q1 2015.

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

MR. GERARD SWEENEY – PRESIDENT, RAIN CARBON INC., USA:

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

As a Company, we are very pleased with our efforts to diversify away from a reliance on the Aluminum industry for our revenues have been successful. For 2015, only approx. 30% of our revenues were generated from the aluminum industry in the form of CTP and CPC sales. The main driver of this result is our continued investments in more valuable downstream intermediate and chemical products. The development of our creosote strategy, investment in PA and Carbores expansions have helped to replace and diversify our revenues, and sustained us through the downturn in global commodities.

The push in our CPC product line over the last years for loosening the quality specifications by customers has helped us materially to manage our costs and maintain our margins. This initiative has had great success over the last several years given the difficult circumstances in the aluminum business, and their need to control costs. These proactive efforts on product specification and strategic investment in desulfurization had helped us to manage our margins in light of the weak market conditions and the continual pressure on our CPC prices.

On the CPC volume side, we are executing our comprehensive India blending strategy to capture additional volume, from second half of CY2016. The basis of the plan is to ship locally sourced product from our US plants, and blend it with our Indian produced product for re-sale in India and the Middle East. This distribution play has been in the planning for two years, and has been aided by cost synergies as well as low global ocean freights. As Aluminum smelting is shifting from countries with high operating costs such as the US and South America, to countries with lower costs of productions such as India and the Middle East, this plan allows us to maintain our volumes in the U.S. and meet the growing demand of these markets.

On our GPC raw material costs, the weak steel, cement and power markets had caused a significant drop in the prices of fuel grade GPC in general during late 2015, and during Q1 of 2016, we saw the pricing of low sulfur drop as well. The low sulfur price has now provided relief for all grades of our raw materials, an important counter to increasing pressure on our finished product CPC prices. While our inventories of both CPC and GPC were fairly high at year end, we will only see the effects of these price declines during Q2 and beyond.

For coal tar related products we continue to pressure prices down on the coal tar supply to match price pressures on our end products. We were reasonably successful in reducing our tar prices during Q1, and will see the benefit of this price reduction moving forward. This, as well as the economies of scale of our distillation facilities and logistically favorable locations will allow us to reasonably maintain our margin in this environment. Our pitch volumes for the year will remain strong despite struggling demand from the aluminum industry. The initiatives taken to move the coal tar oil product mix toward the sale of more creosote oil; less sensitive to notation fluctuation, helped us to reduce our exposure to coal tar oil price fluctuations over the last year.

While we had stable volumes during the quarter on coal tar oils, we saw a reversing trend for oil notations. The Fuel Oil price decreased from an average of US$ 185 per Ton in Fourth Quarter of 2015 to an average of US$ 138 per Ton in First Quarter of 2016. Benzene notations decreased from an average of US$ 627 per Ton in Fourth quarter of 2015 to an average of US$ 622 per Ton in First quarter of 2016, impacting BTX, Naphthalene, Ortho-xylene and PA pricing. We believe the oil product prices have now bottomed and have already seen some recovery. Stable to slightly upward prices will allow us to show improved results from this business going forward, and we believe the market is poised for more stability.

Although the chemicals business generated lower revenues mainly due to the change of notations, the profitability in the First Quarter of 2016 marginally improved compared to First Quarter of 2015 due to the re-aligning of our product mix.

We are focusing on cost optimization to maintain our competitiveness on a global basis. We are utilizing a cost optimization program, referred to as OPEX, to identify and track cost savings by plant, product and project. In addition, the new global management team is facilitating the sharing of best practices globally across the company, capitalizing on the extensive experience at our 15 production sites and 2 technology centers.

We continue to watch developments on the global front, especially those in China. The western world is struggling to stay profitable in the aluminum and steel sectors during these difficult times. We have seen some improvement in AL prices of late and certainly hope the trend continues. While we certainly wish times were better, we are comfortable with our position and ability to compete in these circumstances. For now, we will continue to drive productivity, control our costs and manage our balance sheet.

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

MODERATOR:

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on your touch tone phone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to only use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles.

We will take the first question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

MR. RAJESH RAVI – CENTRUM BROKING:

Yeah hello, good evening sir. My question pertains to the cement business. Can you throw some color on how has been the demand in the quarter gone by and how are things looking up in Q2 i.e., in this current quarter?

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

Thank you. See the demand actually you know being in South India, the demand in January is generally weak because of the festivals and other reasons.

MR. RAJESH RAVI – CENTRUM BROKING:

Right sir.

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

So the demand was somewhat weak. But as you are aware the cement companies in Andhra Pradesh are operating in about 55-60% capacity. But the cement we have seen in the last few days that the demand is increasing especially with the Telangana government building the irrigation project and some amount of investments going into the new capital and in other areas. Actually we do see the real estate in parts of Hyderabad is improving. With this we think you know the rest of the 2016 should be reasonably strong and the prices also should hold through the last quarter.

MR. RAJESH RAVI – CENTRUM BROKING:

Okay. And sir what are your geographical mix please?

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

Basically majority we sell in Telangana, state of Andhra Pradesh, Karnataka and Tamil Nadu.

MR. RAJESH RAVI – CENTRUM BROKING:

Sir break up in terms of….

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

Say again?

MR. RAJESH RAVI – CENTRUM BROKING:

Some break up in terms of 50-60% Telangana, AP.

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

Yeah 50% in the Southern states like Telangana, Karnataka, Andhra Pradesh.

MR. RAJESH RAVI – CENTRUM BROKING:

Okay so these are 50%. And how about Maharashtra, Odisha and all?

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

Those are much smaller. See basically we sell about 80% of our sales and 50% of our capacity maybe in these parts. And 20% is in Maharashtra, Odisha and Kerala.

MR. RAJESH RAVI – CENTRUM BROKING:

Okay, okay. And sir on the pricing front has there been in any price recovery in the current and how do you see the price movement?

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

In the last 1 week there is a price recovery and we do expect that sustains for a while. Because the demand is increasing, we have seen some price recovery in the last one week. That sustains going forward at least in the rest of the year.

MR. RAJESH RAVI – CENTRUM BROKING:

Okay. And lastly in terms of what are your capex plans for your cement division?

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

As we have said we are completing co-generation project of 7 Megawatts in the next one month. At this point of time apart from that we don't have any other major capex in cement business.

MR. RAJESH RAVI – CENTRUM BROKING:

Okay. Thank you and all the very best.

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

Thank you.

MR. SUREDDI KR – MERGERS INDIA INFO:

Hi. What is the progress regarding refinancing the debt? The market seems to be valuing the company as if it is going to default. In this negative rate environment what is the delay in refinancing the debt? My second query is what is the company policy on hedging the foreign exchange?

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

Thank you. Basically we have our debt – the first 40% of our debt is payable in December 2018 and the balance is actually payable in 2021. So we have some time at least another 2 and half years to pay off 40% of the debt and another almost close to 5 years to pay the balance of the debt. So we are proactively looking at refinancing. We do expect to start looking at refinancing sometime in second half of 2017 because as you said the markets are a little challenging now. So we do expect to refinance in 2017. And we have 3 or 4 options for refinancing. So we are comfortable that refinancing can be achieved.

MR. SUREDDI KR – MERGERS INDIA INFO:

Let me add a small supplement to that. In the negative interest environment why are you postponing the refinancing till end of 2017?

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

Negative interest rates are for the government bonds, not for the corporate bonds

MR. SUREDDI KR – MERGERS INDIA INFO:

I am talking about the general macro environment, not about the rating of default companies.

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

Yeah. Basically we cannot be talking about negative interest rates. We are not a triple A rated company to talk about negative interest rates

MR. SUREDDI KR – MERGERS INDIA INFO:

I am aware. I am asking why the delay you are taking. You want to refinance….

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

See as you are aware the performance has been challenging in the last few years and there is a leverage ratio. We ideally want to complete refinance when our financial leverage is less than 4 times. So we expect to get to that number probably in 2017. So until such time we cannot refinance.

MR. SUREDDI KR – MERGERS INDIA INFO:

Okay. And the Foreign exchange side please?

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

Because we actually are naturally hedged because majority of our revenues are in US dollars and Euro and our debt is actually in US dollars. So we don't see any need for Fx because we don't have any exchange fluctuation risk and we don't borrow in Indian Rupees. It's all in dollars. We don't see any need for any hedging.

MR. SUREDDI KR – MERGERS INDIA INFO:

In case the Rupee appreciates you won't have a problem? Your balance sheet is in rupee terms?

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

No, because our debt is all in the US not in India.

MR. SUREDDI KR – MERGERS INDIA INFO:

Okay. My last query is you talk about cost optimization. Are you quantifying it? What is the cost optimization? Last time also it was mentioned that you have a plan to – internally some plan. But have they been quantified or you are just only talking about it?

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

No we have a program called OPEX, Operational Excellence and Commercial Excellence. We do quantify that.

MR. SUREDDI KR – MERGERS INDIA INFO:

Okay, appreciate that. Thank you.

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

Thank you.

MR. ACHAL LOHADE – JM FINANCIAL:

Yeah good evening sir. Wanted to check in terms of if I look at carbon products as well as chemical products, volumes have declined. How are you looking at it from the full year point of view? Do you think is there any one off out here in the first quarter? Or do you think the sluggishness in volume will continue even in the coming quarters?

MR. GERARD SWEENEY – PRESIDENT, RAIN CARBON INC., USA:

Yeah from a volume perspective we do think it's just for the first quarter. From an overall volume perspective for the year with what we are showing at this point from an order book for the major of the year, an expectation during the second half of the year, we are very comfortable with the volumes as well as for the total year.

MR. ACHAL LOHADE – JM FINANCIAL:

Does it mean our volumes will be similar to the last year? Is that the kind of indication sir?

MR. GERARD SWEENEY – PRESIDENT, RAIN CARBON INC., USA:

Yes we expect both coal tar pitch and the distillation business as well as the calcinations or CPC business that the volumes year over year should be better in 2016 than they were in 2015.

MR. ACHAL LOHADE – JM FINANCIAL:

Got it. If you could talk a little bit about the inventory write down what we have taken in the first quarter, you have kind of briefly talked about prices have come off. But in terms of our pricing what is the kind of inventory we are having even now? Are we looking at any further write down in the next quarter? And in terms of the profitability if you could give some idea of what kind of margins we are looking at for the full year?

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

We are not expecting any further write downs. We have an inventory of about 3 months. So I don't think any further write downs are required. But as I said we actually do expect a gradual improvement going forward in the margins. But hopefully in the second half we should be back to the usual margin levels.

MR. ACHAL LOHADE – JM FINANCIAL:

Got it. Sir I also see that you have reduced pet coke trading volumes. Any conscious strategy out there? Is the inventory write down pertaining to that or if you could talk which particular business inventory write down is majorly?

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

See basically we want to concentrate on our main business. And at this point of time because of the lower prices we did not want to take any risk. But any how all the write downs we have taken is not related to the trading business because we always do that on a back to back basis. So it is not related to the trading business. And the write downs we have taken is related to the calcined petroleum and GPC business because we are holding this high cost inventory against the cost of production was very high. So because of that the write down has to be taken. Apart from that we don't expect any further write down.

MR. ACHAL LOHADE – JM FINANCIAL:

So just an added question on that sir. What has driven this sudden decrease in the GPC price? Has availability gone up or demand has come off? What is kind of driving and how are we looking at the negotiations for the first half?

MR. GERARD SWEENEY – PRESIDENT, RAIN CARBON INC., USA:

The availability of high Sulphur components of GPC remains readily available and the big change in the market during the first quarter is for low Sulphur. GPC components both availability is decreased due to reduced demand from nearly all sectors, as well as the price drop fairly dramatically compared to the support that the price had over the last several years.

MR. ACHAL LOHADE – JM FINANCIAL:

Okay. And in terms of the negotiations, for the first half are they concluded? And what kind of given we already hold in kind of three months of inventory? What is the EBITDA margin one can kind of look at for the first half?

MR. GERARD SWEENEY – PRESIDENT, RAIN CARBON INC., USA:

Yeah the….you know as we said in our comments, both Jagan and myself, it was an impact of the higher inventories working those through that had impacted many margins. But as far as CPC prices and GPC prices the matching reductions fairly consistently. It is just the loss on some of the inventories of both businesses in the coal tar pitch as well as the calcinations products. Working off those inventories is really the biggest impact on us right now. But the margins moving forward should be restored to the traditional levels.

MR. ACHAL LOHADE – JM FINANCIAL:

Got it. And just the last question in terms of the working capital I see that the working capital loan has kind of increased. If the prices have come off, if the inventory and the data number has come off, I am just curious to understand where is this increase in working capital?

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

Achal this is Srinivas. The reason for increase in the working capital because of the India blending strategy, some of the finished products of calcined petroleum coke we are shipping from US to India, and in the process the working capital in the Indian company has increased.

MR. ACHAL LOHADE – JM FINANCIAL:

Sorry I didn't get this part. You said also delayed the CPC blending operations. If you could elaborate what exactly is…

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

So basically shifting of volumes is happening from selling to the aluminum smelters in North America selling to the aluminum smelters based out of India and Middle East.

MR. ACHAL LOHADE – JM FINANCIAL:

Okay.

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

Part of Indian smelters and aluminum smelters based out of Middle East which are massively ramping up their capacities.

MR. ACHAL LOHADE – JM FINANCIAL:

Right.

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

To meet that requirement we are shifting the volumes from US to India. In the process the inventory holding in the Indian CPC plant has increased and it has resulted in increase in the working capital in India.

MR. ACHAL LOHADE – JM FINANCIAL:

Got it, got it. So basically we are substituting the US sales with India sales. In terms of the Indian capacity is it at full level? And what is the statement related to the delayed CPC blending operations? Just wanted to understand.

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

The Indian CPC manufacturing capacities are operating at full capacity. But we also set up a new blending facility where the CPC imported from the US plant will be blended with the CPC plant in India and then get sold to the Indian customers and the Middle East customers.

MR. ACHAL LOHADE – JM FINANCIAL:

Okay. And what is the kind of capex and what kind of capacity are we talking about?

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

About 2 million dollars.

MR. ACHAL LOHADE – JM FINANCIAL:

And any tonnages?

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

The immediate benefit is only increased capacity utilization in our US plants or not losing those volumes.

MR. ACHAL LOHADE – JM FINANCIAL:

Okay. So we are actually importing….

MODERATOR:

I am sorry to interrupt….

MR. ACHAL LOHADE – JM FINANCIAL:

Yeah I'll come back,

MR. TIRATH MUCHHALA – INDIVIDUAL INVESTOR:

Hello? Hi can you hear me?

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

Yes we can.

MR. TIRATH MUCHHALA – INDIVIDUAL INVESTOR:

Okay. Thanks for taking my call. I have a question about the notations. Would you say that the fall in notations in this quarter was a bit of a surprise for the company or did you expect this? Both industry as a whole and at the specific prices?

MR. KRIS VANHERBERGEN – RAIN CARBON INC., USA:

Yes so I guess if you look at the first quarter my assumption would be that the whole industry has been surprised to see oil prices go to the top. So although we had seen this trend in the start in the fourth quarter, we have not seen it bottom to the extent that it has in the second quarter or in February month. So we are happy to see though that prices as of today have increased at almost 40% from that depth point. So we have a positive outlook with regards to the notations.

MR. TIRATH MUCHHALA – INDIVIDUAL INVESTOR:

Okay. And one last question, this is – so the drastic effect that the fall in notations and the write down in inventory that we had to take, the effect that it had on our operating process, would that swing meaningfully now that the prices have gone up or if the prices become steady?

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

See we have been carrying this inventory for the last 7-8 months and the price was quite high. Just on that portion it was written off as well on the very high price, and the current prices are quite low. Almost whatever we got 8 months back and now the price drop was almost about 50%. So that was the reason for a write down. So hopefully as we said there will be no further write down. So with any improvement going forward in basically low cost of inventories, it should act the other way when the prices come through.

MR. TIRATH MUCHHALA – INDIVIDUAL INVESTOR:

Okay, okay wonderful, thank you. And just one last thing, I think the amount of disclosure the company is doing is amazing. So thanks a lot for the improvement.

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

Thank you.

MR. SANDIP BAID – QUEST INVESTMENT:

Thanks. Good evening Mr. Reddy.

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

Good evening.

MR. SANDIP BAID – QUEST INVESTMENT:

One thing is the company's performance is quite volatile over the last few quarters. So what would you say is the normalized EBITDA? You had mentioned that we should return to the normalized EBITDA over the next couple of quarters. So what in your opinion is the new normalized EBITDA for the company now?

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

Sandip, see one thing is we have to recognize that we are not a commodity company but a convertor. Basically what happens is being a convertor of raw material prices depend on our finished product prices. So as the raw material prices go up or down, or as the finished product prices go up or down, so will the raw material prices. But in the last 2 years what happened was there has been a continuous fall on our finished product prices. So by the time and so with the raw material prices we are also adjusting. But what happened was that when the raw material prices had been, when the finished stock prices was falling and raw material prices are adjusting, but the finished product prices are again falling. By the time it adjusts there was always this negative impact. Hopefully I think we are thinking that the prices have bottomed out and hopefully things should improve. I cannot comment on – we cannot give guidance on how it will be. But generally we should be doing reasonably well compared to in the last 2015 or next quarter or whatever we have seen till now at least in the last 5-6 quarters. So I think we should be doing reasonably well.

MR. SANDIP BAID – QUEST INVESTMENT:

Sir a couple of years back when sales were more stable, your EBITDA if I remember correctly used to be in the range of mid-teens. Can we expect mid-teen EBITDA again once things become normal?

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

I say we will definitely improve. I cannot comment on you know numbers but I am pretty sure it will be much better than what we have done in the first quarter, way better than first quarter, but I cannot give you any particular numbers.

MR. SANDIP BAID – QUEST INVESTMENT:

Mr. Reddy my second question was on this new strategy of transporting CPC from US to India and blending it here. Now what I understand is the baltic index has been going up recently. So would it given the increase in freight rate or the likely increase in freight rates, will it still be viable this strategy?

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

This is actually beyond nothing to do with freight rate because you have to recognize that we always import green coke irrespective of the price rates that we import and we are actually 100% dependent on imported green petroleum coke.

MR. SANDIP BAID – QUEST INVESTMENT:

Right.

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

And for every tonne of calcined petroleum coke you require 1.4 tonnes of green petroleum coke. Whereas here we will be only transporting 1 tonne of CPC and the other advantage will be that normally calcined petroleum coke is moved in 20-25 thousand tonnes at a time, whereas we will be moving 50-55 thousand tonnes. So either way irrespective of the price rate there should be a benefit for us.

MR. SANDIP BAID – QUEST INVESTMENT:

Right. And in your press release you mentioned some delay in the blending operations. Has that been sorted out now?

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

Yes. Basically it was the basic system setting up and other things but yes it has been set up now. And as a matter of fact 250,000 tonnes per annum has already been commissioned and we expect the balance 250,000 tonnes blending facility to also come into operation by the end of this year. So you will have totally 500,000 tonnes blending capability additionally from what we produce which is another 500,000 tonnes in India.

MR. SANDIP BAID – QUEST INVESTMENT:

And Mr. Reddy my last question was on your refinancing you had mentioned you are looking at second half of 2017. So basically about 15 months down the line from now.

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

Yes. Yes please. Because we want to make sure when you are raising an international bond or debt financing, normally they prefer debt to be less than 4 times EBITDA. So we expect the – hopefully the last 12 months or the second half of 2017 should be reasonably strong. It should give us better interest rates compared to what we can do now.

MR. SANDIP BAID – QUEST INVESTMENT:

Right. And I guess around that time you would also be looking at listing the carbon business in US?

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

We will notify when the board takes the decision on this things

MR. SANDIP BAID – QUEST INVESTMENT:

But from a medium term perspective you are thinking on those lines?

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

Yeah as a matter of fact one thing that I can tell you is as a company we have setup and now if we want we can list in a time of about 6 to 12 months at any point of time. But it’s up to the board to take a decision. But as a company we are setup to list at any point of short notice.

MR. SANDIP BAID – QUEST INVESTMENT:

Thank you Mr. Reddy.

KAMLESH BAGMAR - PRABHUDAS LILLADHER PRIVATE LIMITED:

Yeah I thank the management and the participants for participating in the call. Now I hand over the call to the management for their closing remarks.

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

Thank you everyone for participating in the call. With market quotations reaching the bottom and the expansion projects completed, the company's performance is expected to improve form second quarter of calendar year 2016 onwards. The company has also initiated various cost cutting measures to improve its performance. Although majority of the company's debt is due in December 2018 and January 2021, the company is preparing to refinance such high cost debt during calendar year 2017 with lower cost debt and a variety of options available to it. The company is confident that with a change is being implemented, combined with improvements in market conditions, the performance will improve and thereby lower its financial leverage. Thank you again all for participating.

MODERATOR:

Thank you very much. Ladies and gentlemen on behalf of Prabhudas Lilladher Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.