

RAIN INDUSTRIES LIMITED

RIL/SEs/2018

August 24, 2018

The General Manager Department of Corporate Services BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Fort <u>Mumbai-400 001</u>	The Manager Listing Department The National Stock Exchange of India Limited Bandra Kurla Complex Bandra East <u>Mumbai – 400 051</u>
--	--

Dear Sir/ Madam,

Sub: Transcript of Earnings Conference Call – Reg.

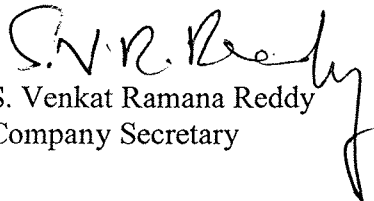
Ref: Scrip Code: 500339 (BSE) & Scrip code : RAIN (NSE)

With reference to the above stated subject, please find enclosed herewith Rain Industries Limited Transcript of Earnings Conference Call on Unaudited Financial Results for the second quarter ended on June 30, 2018.

This is for your information and records.

Thanking you,

Yours faithfully,
for Rain Industries Limited


S. Venkat Ramana Reddy
Company Secretary



National Stock Exchange Of India Limited

Date of Download 24-Aug-2018

NSE Acknowledgement

Symbol:-	RAIN
Name of the Company: -	Rain Industries Limited,
Submission Type:-	Announcement
Short Description:-	Analysts/Institutional Investor Meet/Con. Call Updates
Date of Submission:-	24-Aug-2018 16:53:56
NEAPS App. No:-	2018/Aug/7015/7323

Disclaimer : We hereby acknowledge receipt of your submission through NEAPS. Please note that the content and information provided is pending to be verified by NSEIL.

Date & Time of Download : 25/08/2018 09:42:19

BSE ACKNOWLEDGEMENT

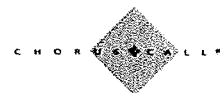
Acknowledgement Number	358313
Date and Time of Submission	24/08/2018 16:48:06
Scripcode and Company Name	500339 - Rain Industries Ltd
Subject / Compliance Regulation	Announcement under Regulation 30 (LODR)-Earnings Call Transcript
Submitted By	S. Venkat Ramana Reddy
Designation	Company Secretary & Compliance Officer

Disclaimer : - Contents of filings has not been verified at the time of submission.



**“Rain Industries Limited
Second Quarter 2018 Earnings Conference Call”**

August 14, 2018



MANAGEMENT:

MR. N. JAGAN MOHAN REDDY – MANAGING DIRECTOR – RAIN INDUSTRIES LIMITED
MR. T. SRINIVASA RAO – CHIEF FINANCIAL OFFICER – RAIN INDUSTRIES LIMITED
MR. GERARD SWEENEY - PRESIDENT– RAIN INDUSTRIES LIMITED
MR. RYAN TAYMAN - VICE-PRESIDENT – IR- RAIN INDUSTRIES LIMITED



“Rain Industries Limited
Second Quarter 2018 Earnings Conference Call”

August 14, 2018



MANAGEMENT:

MR. N. JAGAN MOHAN REDDY – MANAGING DIRECTOR – RAIN INDUSTRIES LIMITED

MR. T. SRINIVASA RAO – CHIEF FINANCIAL OFFICER – RAIN INDUSTRIES LIMITED

MR. GERARD SWEENEY - PRESIDENT– RAIN INDUSTRIES LIMITED

MR. RYAN TAYMAN - VICE-PRESIDENT – IR- RAIN INDUSTRIES LIMITED



RAIN INDUSTRIES LIMITED

*Rain Industries Limited
August 14, 2018*

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Rain Industries Limited to discuss the financial results for second quarter 2018. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ryan Tayman, Vice President IR. Thank you and over to you Sir!

Ryan Tayman: Thank you, Good Evening everyone. I welcome all the participants to the Second Quarter 2018 Earnings Conference Call of RAIN INDUSTRIES LIMITED. Speakers on today’s call are Jagan Reddy Nellore, Managing Director of RAIN INDUSTRIES LIMITED, Gerard Sweeney, President of RAIN CARBON INC., and T. Srinivasa Rao, Chief Financial Officer of RAIN INDUSTRIES LIMITED.

During the call, management will be referencing and discussing a slide show presentation which is available for viewing on our website at www.rain-industries.com in the Investor relations section. We recommend viewing this presentation while listening to management’s discussion.

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. Now if you could turn to slide 3, I would request Jagan to provide an update on key developments within RAIN Group. Over to you Jagan!

N. Jagan Mohan Reddy: Thank you, Ryan. A very good evening to all the participants.

The second quarter of 2018 witnessed lot of uncertainties across the industry and market due to various geopolitical reforms. In spite of such turbulent conditions, RAIN delivered a solid performance during the second quarter of 2018 by achieving a consolidated revenue of ₹ 37.7 billion with an adjusted EBITDA of ₹6.9 billion and a net income of ₹ 2.9 billion. Each of these is an improvement compared with the same period a year ago, and as a result Earnings Per Share increased by ₹ 4.3 in the second quarter of 2018 compared to the second quarter of 2017.

Further, I am also glad to report that we have ended the second quarter with the best safety performance in the history of RAIN. Safety will always be our top priority, and it is an area of continuous focus and ongoing investment. In fact, we created a new Vice President position for Safety, Health and Environment – or “S-H-E,” as we call it. We also are expanding our engagement with DuPont Sustainable Solutions to gain a better understanding of the strengths and gaps in our

current safety culture and process safety management systems, and to identify opportunities for improvement.

From an overall market and industry perspective, sales volumes and realizations improved. I also would point out that – despite some investor concerns about lower volumes during the first quarter – our strategy of not pursuing sales at the expense of profitability is proving successful. As we will discuss later in the presentation, we protected our margins and profitability in the second quarter.

We also saw some turbulence in the market as a result of tariffs imposed by the United States and environmental protection measures being implemented in China and India.

Gerry will take you through these topics on the next slide of this presentation. Gerry!

Gerard Sweeney:

Thank you Jagan and good evening everyone. It is a pleasure to speak with you all again.

Looking at aluminum production and demand, you will see on the chart in the upper left on slide 4 that the worldwide growth we have experienced since 2016 is expected to continue for the foreseeable future.

In the chart to the upper right, we see the healthy performance in the LME aluminum price, which has been trading between \$2,100 and \$2,400 per ton for some time now. The continued decline in LME inventory levels has supported aluminum prices above \$2,000 per ton for the last six months. The lower LME inventories and higher aluminum prices, coupled with moderating production levels in China, have led to several restarts in the United States, which I will discuss on the next slide. At the same time, the world is wary of the high inventories in China, and where these volumes ultimately could wind up in the future. Dumping of aluminum has garnered a lot of attention over the last few years in many countries and become the basis for protected tariffs,

Moving to the lower left of this slide, you can see that fuel oil prices in the second quarter of 2018 continued the upward trend we have seen over the past few quarters. In fact, fuel oil prices at the end of Q2 were more than 40% higher than the same time last year.

Now turning to slide #5, we continue to see accelerated growth in aluminum production in Asia and the Middle East. During the first half of 2018, primary aluminum production was up 12.7% in Asia and 3.9% in the Middle East compared to the first half of 2017, and this time, not dominated by China, but India. The continued demand growth in Asian markets has created favorable market conditions for both our CPC and CTP products. By contrast, in China, production narrowed by about 1.4% in first half of 2018 compared to first half of 2017, and we are seeing fewer than expected additions of new primary aluminum facilities due to government regulations, higher operating costs, weaker aluminum prices and excess inventories in China. We believe that if the Chinese aluminum



Rain Industries Limited
August 14, 2018

producers are successful in removing China's export tax, they would then dump these excess inventories on the rest of the World.

On the right of the slide, you can see the estimated incremental production capacity being added in the United States. The restarts are the result of various geopolitical reforms implemented in the region, including a 10% import duty issued in the country. In the most recent update, Alcoa confirmed it restarted its three potlines in Warrick, Indiana, and Century Aluminum confirmed that it has restarted one of its three potlines in Hawesville, Kentucky. These restarts have been slower than originally contemplated due to the availability of skilled labor and negotiations for power and alumina is causing concern about the viability of these restarts and the key to their long-term survival.

I also want to take a moment to update you on the status of India's ban on imported pet coke. As you may know, to help reduce industrial emissions, the Hon'ble Supreme Court of India issued an order in July 2018 that restricted the use of imported pet coke. Going forward, it could be used only as feedstock or as part of manufacturing process. Essentially the intent is to ban its use as a carbon-based fuel or coal substitute.

At Rain Carbon, all of the green pet coke that we import to our Vizag facility is used as a feedstock for calcination. Also, the calcined pet coke that we import for blending is used by the aluminum industry to manufacture anodes required in their smelting process. As a result, we do not expect to be impacted by these restrictions.

However, since ban was announced, a number of industries – including cement, lime kiln, calcium carbide and gasification units – have received exemptions from the Hon'ble Supreme Court of India, allowing them to import and use pet coke.

As a major importer of anode-grade green petroleum coke -- which is different from fuel grade pet coke -- and as a major supplier of calcined petroleum coke that is used in the manufacturing process for aluminum, we have approached the Hon'ble Supreme Court of India for inclusion of calcination in the class of permitted industries to import and use pet coke as feedstock.

Before we turn to the next slide, I also want to say a few words about the potential impact to our business as a result of the U.S. sanctions on Rusal. It is our belief that Rusal will comply with U.S. requirements, and the sanctions will be lifted in due time. Despite what you might have seen recently in the news, we are beginning to see signs of progress, such as a change in the composition of Rusal's board of directors. The recent proposal filed with the Office of Foreign Assets Control -- OFAC -- Mr. Deripaska has agreed to reduce his holding in its London-listed entity to below 45% from around 70% currently.

Rusal is an important customer to our Severtar facility, representing 37% of the plant's sales but just 1.5% of our global sales. While we don't want to lose Rusal as a customer, if the sanctions do go through, there is growing demand for coal tar pitch in the Middle East and throughout Asia, and we could easily move product from our plant in Cherepovets to those markets instead.

Geopolitical actions like import bans, sanctions and tariffs can have an impact on our industry and our customers. However, our plants have high proximity to transportation hubs to provide maximum flexibility in the markets we can access. We are constantly monitoring activities around the world, and we are prepared to act swiftly and responsibly as events warrant.

Now let us turn to slide #6 addressing MARPOL. In mid-2017, the International Maritime Organization confirmed the application of new regulatory terms under MARPOL limiting the sulfur content in marine fuels starting in 2020. This will require all marine fuels to be 1% Sulphur or less and greatly impact global refining compounds. The enactment of these regulations would impact the existing productions of green petroleum coke worldwide. However, it is too early to drive any solid conclusions on the exact impact it will have on our global GPC supplies. Once again, we are watching the situation closely and we will keep you updated. We believe we are well placed to overcome any impact on availability of raw material for RAIN due to a long-term relationship with suppliers, globally integrated facilities and superior blending capabilities. On the positive side, MARPOL regulations would greatly benefit our petro feed strategy in the distillation business. The restructuring of marine fuels means likely glut of available heavy cuts from global refinery. This should mean more supply of very affordable feedstock in the distillation business.

Now Jagan will give you updates on our ongoing capital projects. Back to you Jagan!

N. Jagan Mohan Reddy: Thanks Gerry. Last year, we announced two major capital projects, including a 370,000 tons p.a. vertical shaft calcination plant in Vizag and the debottlenecking of our petro chemical distillation facilities in Europe.

Preliminary project work began in 2017 on the vertical shaft calcination facility. We have obtained all the requisite permits and the work is progressing according to schedule. We expect to commission the plant and begin operation in the third quarter of 2019.

The debottlenecking of our petro chemical distillation facilities has made substantial progress, and we estimate that this project will be completed on schedule in the fourth quarter of this year.

During the second quarter of 2018, we announced plans to invest €60 million in a hydrogenated hydrocarbon resins plant at our facility in Castrop-Rauxel, Germany. When completed in the third quarter of 2019, the plant will become the centerpiece of our new Advanced Materials business,



Rain Industries Limited
August 14, 2018

producing “water-white” resins designed to meet evolving regulatory and societal requirements for cleaner, greener raw materials.

And speaking of Advanced Materials, I am pleased to inform you that we have hired Mr. Ralf Meixner to lead this crucial part of our business. Ralf comes to Rain Carbon from BASF and brings more than 30 years of global experience across the sales, marketing and business development spectrum to this new role. It is a rare opportunity when a company can add someone with Ralf’s breadth and depth of experience to its team. We are particularly excited about his global background and experience with battery technology, which will be crucial as we work to increase sales to the lithium-ion battery industry. Ralf also will play a key role in helping our Commercial team establish new world-class standards and KPIs for measuring our performance, achieving commercial excellence and uplifting segment performance.

Finally, The Company is undertaking technology upgradation of its existing cement grinding plant in Kurnool, Andhra Pradesh, India. With this technology upgradation, the existing cement grinding capacity will increase from 2.03 million tons p.a. to 2.79 million tons p.a. This technology upgradation will enhance the production efficiency through savings in power consumption. The total estimated CAPEX for this project is ₹ 419.0 million. The project is scheduled for completion by the end of Q2 CY19.

Now Srinivas will update you on the financial position of the company. Srinivas!

T. Srinivas Rao:

Thank you Sir. A warm welcome to all the participants. Turning on Slide 8, RAIN is pleased to report improved performance during the second quarter of 2018 compared to the same period last year due to continuation of favorable market dynamics and positive impact from the appreciation of the Euro and the U.S. dollar against the Indian Rupee. The performance of our Advanced Materials segment was weaker in this quarter primarily due to an increase in operating costs resulting from the appreciation of the Euro.

In the second quarter of 2018, RAIN achieved consolidated revenue of ₹37.7 billion compared to ₹ 27.1 billion in second quarter of 2017, an increase of ₹10.6 billion or 39.3%. This resulted from a ₹9.9 billion, or 61.5%, increase in revenue from our Carbon business segment and a ₹1.2 billion, or 14.5%, increase in revenue from our Advanced Materials business segment, which is partially offset by a ₹0.5 billion, or 16.4%, decrease in revenue from our Cement business segment.

Turning to the next slide on Carbon business performance ...

Revenue from our Carbon business segment was ₹26.0 billion for the quarter ended June 30, 2018, compared to ₹16.1 billion for the same period last year, which we noted the previous slide as an increase of ₹9.9 billion, or 61.5%. This improvement was primarily due to a 48.3% increase in the

average sales realizations of our all Carbon products (that includes 12.5% & 4.0% appreciation of the Euro and the U.S. dollar respectively against the Indian Rupee), coupled with an 8.9% increase in aggregate Carbon products sales volumes, excluding energy.

In the quarter ended June 30, 2018, compared to the prior-year quarter, revenue from Calcined Petroleum Coke increased by 68.8% due to an increase in the average price by 51.4%, including a 4.0% appreciation of the U.S. dollar against the Indian Rupee coupled with an increase in sales volumes by 11.5%. Coal Tar Pitch sales volumes remained constant. However, revenue increased by 84.4% due to increase in aggregate average sales prices by 84.4%, including an 12.5% appreciation of the Euro against the Indian Rupee, compared to the quarter ended June 30, 2017. Revenue from Other Carbon Products increased by 30.8% mainly due to an increase in aggregate average OCP sales price of 20.1%, including an 12.5% appreciation of the Euro against the Indian Rupee coupled with an increase in aggregate sales volumes by 8.9% compared to the quarter ended June 30, 2017. Energy revenue in the quarter increased by 1.9%, including a 4.0% appreciation of the U.S. dollar against the Indian Rupee, as compared to the quarter ended June 30, 2017.

Turning to next slide on the performance of Advanced Materials ...

Revenue from our Advanced Materials business segment was ₹ 9.3 billion for the quarter ended June 30, 2018, as compared to ₹ 8.1 billion for the same quarter in 2017, an increase of ₹ 1.2 billion, or 14.5%. This increase was primarily due to a 14.5% increase in the average sales realizations of our advanced materials, including an 12.5% appreciation of the Euro against the Indian Rupee.

Engineered Products revenues increased by 46.0% in the quarter ended June 30, 2018, as compared to the quarter ended June 30, 2017 due to an increase in aggregate average sales prices of 31.9% coupled with an increased sales volume of 10.7%. Petrochemical intermediates revenue increased by 11.7% in the quarter ended June 30, 2018, as compared to same quarter last year due to an increase in average sales prices of 17.3%, partially offset with decreased sales volumes of 4.8%. Although sales volumes remained constant, naphthalene revenues increased by 6.9% in the quarter ended June 30, 2018, as compared to the quarter ended June 30, 2017 due to increase in aggregate average sales prices of 6.9%. Similarly, resins revenue increased by 7.1% in the quarter ended June 30, 2018, as compared to the prior-year quarter due to increase in aggregate average sales price of 11.3%, partially offset by decrease in sales volumes of 3.7%.

Moving on the next slide on Cement business ...

During Second Quarter CY18, there was a mixed trend in sales volumes in our Cement business. There was an increase in volumes in certain markets such as Andhra Pradesh, Telangana and Kerala, partially offset by a decrease in volumes in Tamil Nadu, Karnataka, Maharashtra, Odisha, Goa and Pondicherry. Overall, our Cement sales realizations decreased by ~18.8% during Q2 2018 as

compared to Q1 2017, and they were partly offset by an increase in volumes by ~2.9%. Due to these reasons, the revenue from Cement business decreased by ~16.4%. EBITDA from the Cement segment decreased by ~44.5%, due to increase in operating cost and lower cement clinker ratio.

We are working towards reducing costs by various efforts, the largest of which was the installation of the waste heat recovery power plant at our Kurnool and Nalgonda facility to enable the plant to produce approximately 7MW & 4.1MW respectively of electricity from the waste gases generated in the manufacturing process. All the electricity generated by this unit is consumed at the plant itself. In addition to this, we have upgraded a cooler in our Nalgonda Plant at a cost of ₹ 156 million to achieve energy efficiency. Further, as discussed in the previous slides, we are undertaking technology upgrade at our Kurnool facility to improve the efficiency.

On a positive note, we have seen increased market demand in the states of Telangana and Andhra Pradesh as compared to the previous quarter, and we anticipate this demand continuing throughout the year due to infrastructure and housing projects.

Moving on the next slide on debt ...

At the end of the Second Quarter of 2018, the Gross Debt is US\$ 1,126 million including US\$ 56 million of working capital debt. The Company continues to utilize higher working capital facilities due to the increase in quotations of raw materials. At the end of the quarter, the Company had US\$ 429 million invested in its working capital requirements.

Due to the refinancing executed in March 2017 and January 2018, the average interest rate has fallen to 5.3% compared to approximately 7.6% a year ago and the Company has extended the first maturity date of its long-term debt to January 2025.

The Company ended the Quarter with a Net debt position of \$ 1,007 million. With \$ 101 million of cash on the balance sheet and unused credit limits of \$ 150 million, the Company is comfortably placed to meet its obligations and continue to make the required investments to meet market demands.

Due to the overall increase in quotations, the net working capital invested in the business has increased from \$ 396 million as at December 31, 2017 to \$ 429 million as at June 30, 2018 -- a \$33 million increase. Although net working capital increased by \$ 33 million, increase in working capital loan is only \$ 6 million.

The Company has minimal scheduled repayments over the next few years as the major debt repayments are not due until 2025. Repayments of US\$ 21 million are scheduled during 2018 and another US\$ 40 million over the next 4 years. However, the Company has the flexibility to accelerate



Rain Industries Limited
August 14, 2018

debt repayments through the prepayment of the Term Loan B after meeting the working capital requirements and CAPEX spending for proposed expansion projects.

Thank you, and I will now turn the call back over to Gerry ...

Gerard Sweeney: Thank you, Srinivas

Before we open the call to Q&A, I wanted to provide you with a better understanding of the importance and widespread use of our Carbon and Advanced Materials products.

While our contributions to steel and aluminum production are well known, if you turn to slide 13, you will see that the average automobile wouldn't exist without the many applications made possible by our products -- everything from the frame and tires to the plastics, paints and interior.

And the car is just one example of how the raw materials that we produce make the products you rely on possible. As an investor in RAIN, you should take pride in knowing that you, too, are helping to make these products possible.

With that, I will now hand the call back to the operator for Q&A. Over to you, operator ...

Moderator: Thank you very much. Ladies and gentlemen we will now begin the questions and answer session. First question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.

Sanjay Jain: My first question is on slide #6 where you mentioned about MARPOL update and can you help me understand how does this equation work with the tightening of sulfur norms, why do you think that green pet coke supply will go down by about 900KT?

Gerard Sweeney: It is not necessarily that pet coke production in general will go down, but alternatively the quality of petroleum coke produced, it will have a deleterious effect, because more heavy cuts from the refinery will alternatively end up in the coke green units, so which could impact essentially the composition and quality of the cokes that are produced. We are necessarily trying to ascertain that less petroleum coke will be produced, but it is the quality and suitability for calcining that could be impacted here.

Sanjay Jain: So does it pose any risks to our sourcing of raw material and will it lead us to reduce our production if this comes through, I mean should we read this as a negative risk to our business or can we pass through these all additional cost if there are and I mean how will it play out if such a situation does happen?

Gerard Sweeney: If this was something that was a true threat to us where we were concerned about the business, we would tell you in plain words that is concern to us and is threat to our business, but we were loading you to with that essentially this is taking shape and overall when we look at it, yes it could impact the



RAIN INDUSTRIES LIMITED

Rain Industries Limited

August 14, 2018

calcinaable coke that's available globally with the global calcining industry. At this point, we have talked to our refinery suppliers, we have not any information that saying that is greatly going to impact them, but we find that because of the flexibility and ability to scrub sulphur to consider to take more marginal cokes competitively we actually like the position that we have related to this because if it does affect the overall supply, we believe that we will have a competitive cost advantage in the cokes that we can use as raw materials for our process. We are not saying that it will have an impact on potentially our ability to run our kilns or our ability to run at full rates as a company.

Sanjay Jain: Another question, generally on the CPC market, how are the margins trending from here, should we expect some compression in margin as the cost of GPC catching up in the profit and loss account or all the incremental cost has already flowed in, so these kind of margins we can expect to sustain, any sense on that, please?

Gerard Sweeney: Yes, good question. We were concerned, and I think it is followup question to really the last quarter call where we said, we were going to be very careful about producing at full rate at the expense of higher cost for our raw materials that we were focused on protecting our margins as a business. We did cut production and essentially protect our margin in the second quarter as GPC cost did continue to rise on us; however to the third quarter, we were more comfortable with the rate that the price increase has moderated, we are still finalizing some of our finished product prices, so I can't make an absolute statement for margin at this point, but we are comfortable with the fact that we are seeing surging GPC prices moderate and really level off which is something for us that was a concern and we are not necessarily concerned about our GPC price running aggressively up against our selling price.

Sanjay Jain: This is useful. But I mean I am not very clear. One thing I want to know is that whatever is the current market price of GPC and what is our expense of GPC cost in the quarter ending June 30, 2018. Is the current price of GPC in the third quarter going to be higher than the price of GPC in the second quarter?

N. Jagan Mohan Reddy: No, we cannot give you that much of guidance, but what we are saying is we will try to protect our margin to that extent possible to try to minimize green coke prices and at the same time try to improve on the calcined coke prices that is our endeavor, but we can try and try to protect the margin to that extent possible and that comes in various forms, we have lot of tools we will try and see what can be done.

Sanjay Jain: I mean I was just only expecting a directional sense on this.

Gerard Sweeney: I did explain, directionally we were concerned in our call regarding first quarter results about GPC prices increasing and they did in to the second quarter. In the third quarter, we have not seen that, we have seen GPC prices for the most part leveling off and we are comfortable with our cost during the

third quarter and so we are not concerned about the cost running aggressively on us, when we were in the first half of the year.

Moderator: Thank you, Mr. Jain. I will request you to join the question queue for any followups as there are several participants waiting for their turn.

Sanjay Jain: Yes.

Moderator: Thank you. The next question is from the line of Arvind Kothari from Niveshaay. Please go ahead.

Arvind Kothari: Congratulations for the great sets of numbers. I wanted a clarification of the overall cash position of our company with the maintenance and the fresh capex that we have announced, we have a cumulative capex lined up of \$145 million, roughly our maintenance capex of around 28 million and plus we have interest repayments which amount to around 73 million, so roughly we would be requiring close to 170 million of cash and we have 100 million of cash on books, so with that 70 million of deficit would be through internal approval or we plan to utilize our working capital limits or take fresh borrowings.

T. Srinivas Rao: See as of now whatever capital project we're announcing, our idea is most of this capital expansion project will be met out of internal cash accruals, we do not intend to make any further borrowings and 100 million cash as on date is available whereas the capex whatever we announced will happen in the phased manner till mid of 2019 or end of 2019. So, because of that we are in a comfortable position and we do not expect to borrow any further debt.

Arvind Kothari: Okay, so Sir we were having close to 100 million of cash in the December quarter itself, and in these two quarters we have generated healthy cash flows, still the position remains the same of the cash, so is that some of part it has been utilized in the working capital, as has been highlighted. The other part has gone into fresh capex or I mean I wanted to get a sense on that?

N. Jagan Mohan Reddy: We have also paid \$40 million of debt. Debt has been paid about \$40 million or about has gone in to the working capital and then some portion has actually gone into the capex, so we are using the funds only for the operations and the balance we have cash so that is the reason why you are seeing a difference between December and June.

Arvind Kothari: My second question was regarding CTP realization, so we had a very good realization on our CTP distillation products, this quarter it has come down a bit, so the reports of the global agencies like CRU highlight that the CTP prices in Europe was still firming and in fact increasing, what can be the possible reason for our CTP realization going down this quarter as compared to the March quarter?



RAIN INDUSTRIES LIMITED

Rain Industries Limited

August 14, 2018

- T. Srinivas Rao:** There is minor reduction there that is partly because of appreciation of dollar against Euro, we are seeing minor decline, but otherwise there is no major decline in the CTP prices.
- Arvind Kothari:** In Euro terms, okay. Got it. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Jimesh Sanghvi from Principal AMC. Please go ahead.
- Jimesh Sanghvi:** Can you share with us the kind of inventory that we have maintained on the GPC side per se and also you said that the prices have started moderating, so if you can just share from which month have the prices started softening?
- T. Srinivas Rao:** If you look at the slide #12, we have given the working capital position, we have about Rs.25,460 million of inventory. Almost 2,500 Crores of inventory we are holding and in general because the Indian CPC plant in India the lead time for getting the materials in on higher side, our US plant we get most of the raw material within US and even the coal tar pitch distillation plant also most of it is procured in the local market, but whereas in India most of it is imported, we maintained higher inventory, something like about three months is what we maintained as inventory.
- Jimesh Sanghvi:** When have we started seeing a price correction on the GPC side or the softening of the GPC prices, is it from June or probably more closer in August?
- Gerard Sweeney:** What we have seen is the prices leveling off, essentially prices were because the CPC price had zoomed up. There was a bit of delay that was all in the first and second quarters of the year. Now we have seen a flattening out, which is a good thing, they are not increasing because the CPC price has not continued, sales prices not continued to increase either, so the comfort we are deriving is that the overall we can control and protect our margin, which would be the sole-focus that we have been explaining over the last couple of calls.
- Jimesh Sanghvi:** Fine Sir and Sir lastly if you can just guide us somewhere on the volumes front, we have seen a good volume growth this quarter, so how does the demand per se look like over the next six to nine months on the carbon products side, if you can also share that and on the engineering product side, what has been the key driving factor for the volume growth in the advanced material segment if you can throw light on that as well?
- Gerard Sweeney:** This is not a consumer product type of business, so simply staring at the volumes and saying that the volumes will continue up or it is indicative if the volumes down in the particular quarter versus another – is a sign of weakness. There is ebb and flow to our sales pattern on the carbon business because of the shipments, because of the product mix and so that is not which you want to look at is essentially our volumes over an annual basis and where we are going. There is nothing that happening



RAIN INDUSTRIES LIMITED

Rain Industries Limited
August 14, 2018

in the markets where we do not provide any forward guidance. There is nothing that happening in the marketwise that causes us concern related to volumes going forward. The second quarter was a good strong quarter for us from a shipment perspective, obviously better than the first quarter wise that is why I said that you can't essentially judge the health of demand based on a quarter-on-quarter type of scenario, but I give you the general observation that there is nothing that we're worried about from that perspective. Overall, the aluminum industry demand has been consistently strong where the US restarts in particular have been slower than anticipated, which means there won't be a strong demand domestically for CPC as we had expected. Overall it is not an indication that there should be concern about our overall sales going forward.

James Sanghvi:

Fine, on the engineered products, if you can share your thoughts?

Gerard Sweeney:

On the engineered products, which are again in setting up that advanced material segment for us. That is right now the stronger segment from a growth potential perspective. The strongest product line, the engineered products that we have in the advanced material segment. So overall it is something where we get stronger demand during the warmer weather season as well because of some of the oils that we sell in that businesses as well, so it is very logical that the second and third quarter would be stronger for us from an engineered products perspective rather than the first and fourth quarters would be for us. And you see some of that particularly because we are reporting in these different product segments in later detailed now, you see that seasonality come in that business as we report going forward.

Moderator:

Thank you, Mr. Sanghvi, may request you to join back to the question queue for any followup. We have the next question from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan:

Sir just wanted to understand further on the carbon products EBITDA margins, I can see that EBITDA per ton has fallen by 15% sequentially to \$110. Now I would like to know whether it is coming from CPC or CTP, I mean which product's margins have fallen most, I can see that CPC volumes have picked up for this quarter, so is that we have increased the volumes at the expense of margins?

T. Srinivas Rao:

Bhavesh, actually we do not calculate per tonne margin by each product, we will only calculate the overall performance of the carbon business segment as a whole, so we do not monitor product wise how much we are making, but the earlier quarter when the prices are rising, there is some element of inventory gains are there and when the stabilization is taking place, it is only the converter margin enjoyed in the business alone is there that could be reason for moderation of the margins.

Bhavesh Chauhan:

Okay. Thank you Sir.

Moderator:

Thank you. We have the next question from the line of Sureddy Kr from Mergers India. Please go ahead.



RAIN INDUSTRIES LIMITED

Rain Industries Limited

August 14, 2018

- Sureddy Kr:** Congratulations for very good set of numbers. My query is with reference to balance sheet. I see there is increase in goodwill compared to December 2017 to the end of June 2018, it is almost increase up to 324 Crores, my understanding is there is no acquisition in intervening period?
- T Srinivas Rao:** No obviously there is an acquisition we might be announcing about the acquisition and if you look at the USD versus INR or Euro versus INR, there is a substantial depreciation of Indian rupees is there, like dollar is 64.46, it has increased to Rs.67 and Euro has increased from Rs.71 to Rs.79. So, what all assets or what all goodwill we have in Europe or US we are reinstating at a current number so because of that there appears to be an increase in the goodwill, but not because of any acquisition, etc., obviously no acquisition will be done and even if they are done, it will be announced to the investors at large.
- Sureddy Kr:** Is there any impairment, I mean impairment assessment you carry it out yearly or quarterly?
- T. Srinivas Rao:** Mandatorily we are supposed to do an annual basis and the auditors are supposed to check the impairments, but if there is any trend of like any signs are coming, certain major regulations coming or a customer is being lost, or technological change is happening at the particular event, we need to carry out an evaluation of goodwill impairment or asset impairment. We are not seeing any of them in the current period actually.
- Sureddy Kr:** My last query is our provision for taxation is still hovering around 32-33% of pre tax profits, and the fact is the US corporate tax has come down to 21%, are we providing for high provision or I missing something?
- T. Srinivas Rao:** No, you are right, the US government has reduced the tax rate from 35% to 21%, but we have operations in different countries like in India we pay closed to 36-37%. In Belgium, we pay around 29%, in Germany, we pay around 34%, so because of these regions where the tax rate is high, our average tax rate is on a higher side.
- Moderator:** Thank you Mr. Sureddy. May I request you to join the question queue for any follow up. We have the next question from the line of Parthav Johnson from NVS Brokrage. Please go ahead.
- Parthav Johnson:** My question is pertaining to the CPC basically, just wanted to know how it has gone in the past couple of year and then how you pursue going it forward?
- N. Jagan Mohan Reddy:** Can you repeat the question?
- Parthav Johnson:** Yes, I just wanted to know how be the prices have gone for your product in the last couple of months and how do you perceive it going forward for CPC and all the other products, basically for the carbon business?



RAIN INDUSTRIES LIMITED

Rain Industries Limited
August 14, 2018

- Gerard Sweeney:** Okay. On the carbon business over the last several months that over the last quarter, our prices have essentially moderated from their high on CPC prices, as you know over the last year the CPC price has moved extremely dramatically up due to tightness of raw materials and industry capacity. Then on the coal tar pitch business the same thing is true that the prices have gone up substantially over the last year and continue through the first half of the year on our coal tar pitch product. That is mainly the results of surging raw material prices during the first half of the year, so we were keeping stride with essentially surging raw material prices due to a global shortage of available coal tar for the distillation industry. On the other products and on our intermediate products, they moved very much with the prices of the specific products whether fuel oil is a good indication that we are tied to the price of BTX each of those products we are tied to CDL prices and such and they've all been pretty resilient during the first half. On the advanced materials business, those prices have fluctuated a bit they were down a bit in the first quarter on the resins and modifiers business that they swiftly recovered pretty much in the second quarter.
- Parthav Johnson:** And how about going forward Sir?
- Gerard Sweeney:** Again, we do not expect or not seeing any major market corrections otherwise we would be talking about that, the demand remains strong and while we have constant pressure due to the high prices for people wanting to reduce the price, we're not concerned of any dramatic price decreases over the next quarter.
- Moderator:** Thank you. We have the next question from the line of Samir Kapadiya from Rock Stud Capital. Please go ahead.
- Samir Kapadiya:** My question is can you just let me know what is the current utilization for the carbon product business and the cement product business?
- N. Jagan Mohan Reddy:** The carbon product business is actually operating at 85% - between 80% and 85% and depending on how the plants have been shut down for maintenance and other factors about 80%-85% and cement is operating at about 55%.
- Samir Kapadiya:** One followup question regards to the US tax reduction, how do you see it impacting overall basis like what percentage of sales comes from the US and how would be benefit because of the such reduction?
- T Srinivas Rao:** See it is not about the revenues alone, but we also have to see where the interest and other costs are incurred, our substantial about 50% of the debt is in US operations now. While we do not have a much debt in India, so whatever operating margin we make, it will add to the higher profits and higher tax payments in India. So, because of that though the tax rate is reduced in US from 35% to 21%, almost a 14% reduction in US corporate tax rate, at the group level it should be only about 3% or 4% maximum we could see a reduction in the consolidated effective tax rate.



RAIN INDUSTRIES LIMITED

Rain Industries Limited
August 14, 2018

Samir Kapadiya: Okay. Understood. That's it from my side.

Moderator: Thank you. We have the next question from the line of Amit Agarwal as an Individual Investor. Please go ahead.

Amit Agarwal: I wanted to ask about the overall reduction in the realization of our advanced material engineered products because we are focusing a lot on that business, the volumes have substantially increased there, but I believe the certain realizations have gone down, any particular reason, we were increasing the volumes to reduce the prices or any strategy for that?

N. Jagan Mohan Reddy: See basically advanced materials is that comprised almost about 200 products and basically it is the product mix, there may be high, there may be low, we may be actually concentrated sometimes on margin instead of just the volumes, so because and depends on seasonal demand for the customers, so there are several factors, overall as rightly you said as you mentioned we actually have lot of focus on advanced materials and we think that is the products of the future, but yes this will actually – you will actually see some slight changes from quarter to quarter onwards dependent on the product mix for various reasons.

T. Srinivas Rao: Two minor reasons is one is some of the products, the raw material what we use in advanced material they are indexed to crude and the crude prices have increased substantially in June 2018 quarter that has also contributed for lower margins and second reason is Euro has been depreciating against US dollar compared to last quarter and most of the costs are incurred in Euro terms and realizations are partly in dollar terms that also has contributed for lower margin.

Moderator: Thank you. The next question is from the line of Pratik Bajaj as an Individual Investor. Please go ahead.

Pratik Bajaj: My question is pertaining to the overall winter shutdowns of the China, this second half, it is expected that the shutdown at the carbon side would be higher as a percentage than aluminum, so are we planning for second half of production schedule so as to suit the Chinese plant. Also if the China is going to cut down on production capacity of carbon in the second half, would you source a lot of GPC from China, because then there will be a lot of GPC available in that country at a lower cost, if their carbon plants cannot consume that?

Gerard Sweeney: We anticipate that we will see the same pattern in China as far as the winter curtailments that we saw last year and overall if we assume the same thing, it means that smelters won't necessarily curtail their production that much because the largest impact will be the carbon industry in China meaning calciners in reducing their production over the winter months. The larger impact may be the smelters may curtail their carbon plants, but not their aluminum production in large part, so we do not anticipate much like last year that we'll see much impact on aluminum production utilisation as well



Rain Industries Limited
August 14, 2018

the calciner operating range. Again, that will be something that could be favorable for us meaning that overall there should be more availability of GPC for us particular in India as that happens, although we do not anticipate that large impact on the markets overall much like last year.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the Management for closing comments. Thank you and over to you Sir!

Gerard Sweeney: Thank you. These are exciting times at RAIN. As we described during today's call, our markets are strong, and we are optimistic that the global economy will continue to support the growth of our Carbon, Advanced Materials and Cement segments.

We have continued to strengthen our business by executing our strategic plan, which focuses on creating value for our shareholders and other stakeholders by maintaining the best in class operations across the industry and improving performance through operational excellence, functional integration, product development and maintaining strong relationships with our global customers.

We are making strategic investments in our Carbon, Advanced Materials and Cement businesses and strengthening our management team with highly-experienced and respected industry leaders.

We are rigorously managing costs and carefully aligning our production with market demand and pricing so that we do not pursue capacity at the expense of profitability.

And, we are keeping a close eye on geopolitical developments that could impact our industry and our markets, and we are prepared to make necessary and prudent adjustments to maintain our global position as an industry leader.

Above all, we are doing this while making safety, health and environmental stewardship our first priority.

Thank you for your support, and we look to talking with you again next quarter.

Moderator: Thank you very much, ladies and gentlemen on behalf of RAIN Industries Limited that concludes this conference. Thank you for joining and you may now disconnect your lines.

